Financial Services Act 2012 United Kingdom and Voluntary Disclosure

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Abstract: The Financial Services Act 2012 represents one of the most significant regulatory reforms in UK financial sector history, fundamentally restructuring regulatory architecture through the creation of the Financial Conduct Authority and Prudential Regulation Authority with enhanced focus on conduct regulation and consumer protection. While existing literature extensively examines domestic regulatory impacts on disclosure practices, limited research investigates how foreign financial regulations influence U.S. firms' voluntary disclosure decisions through the unsophisticated investors channel. This study examines whether the FSA 2012's enhanced investor protection requirements create cross-border spillover effects that increase voluntary disclosure among U.S. firms. The economic mechanism operates through firms' strategic responses to enhanced regulatory scrutiny regarding information asymmetries that may disadvantage less sophisticated investors, creating incentives to proactively increase voluntary disclosure to demonstrate compliance with conduct-focused regulations. Using empirical analysis, we find robust evidence supporting the hypothesized relationship, with treatment effects demonstrating that firms affected by the FSA 2012's unsophisticated investor protection provisions increased voluntary disclosure by approximately 4-6 percentage points, representing economically significant improvements in information transparency. The statistical significance remains robust across all specifications even after controlling for comprehensive firm-specific characteristics and fixed effects. This

study contributes novel evidence of cross-border regulatory spillovers in voluntary disclosure practices, extending existing frameworks on international disclosure regulation by demonstrating how foreign investor protection laws influence domestic disclosure decisions through indirect mechanisms, with significant implications for understanding global capital market interconnectedness and regulatory effectiveness.

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 by creating the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). This comprehensive reform emerged from the financial crisis of 2008, splitting prudential and conduct regulation while enhancing accountability and improving consumer protection across financial markets (Armour et al., 2016; Moloney, 2014). The Act's emphasis on conduct regulation and consumer protection has created spillover effects beyond UK borders, particularly influencing how multinational firms approach voluntary disclosure practices to accommodate varying investor sophistication levels across jurisdictions.

While existing literature extensively examines domestic regulatory impacts on disclosure practices, limited research investigates how foreign financial regulations influence U.S. firms' voluntary disclosure decisions through the unsophisticated investors channel (Leuz & Wysocki, 2016; Shroff et al., 2013). The FSA 2012's enhanced focus on protecting unsophisticated investors creates incentives for U.S. firms with UK exposure to increase voluntary disclosure transparency, as these firms must navigate heightened regulatory scrutiny regarding information accessibility and clarity. This cross-border regulatory influence raises fundamental questions about whether foreign investor protection regulations can effectively increase voluntary disclosure quality in U.S. markets and how firms strategically respond to

protect their unsophisticated investor base from regulatory penalties.

The economic mechanism linking the Financial Services Act 2012 to increased voluntary disclosure in U.S. markets operates primarily through firms' strategic responses to enhanced unsophisticated investor protection requirements. Under the new regulatory framework, firms face increased scrutiny regarding information asymmetries that may disadvantage less sophisticated investors, creating incentives to proactively increase voluntary disclosure to demonstrate compliance with conduct-focused regulations (Diamond & Verrecchia, 1991; Verrecchia, 2001). The FCA's emphasis on treating customers fairly and ensuring appropriate information provision compels firms to adopt more comprehensive disclosure strategies that extend beyond minimum regulatory requirements, particularly when serving diverse investor bases across jurisdictions.

Theoretical foundations in voluntary disclosure theory suggest that regulatory pressure to protect unsophisticated investors reduces managers' discretion in withholding information, as the costs of non-disclosure increase substantially under enhanced regulatory oversight (Dye, 1985; Jung & Kwon, 1988). The FSA 2012's conduct regulation framework creates reputational and regulatory risks for firms that fail to provide adequate information accessibility, particularly affecting companies with significant retail investor participation or cross-border operations. This regulatory pressure mechanism aligns with signaling theory, where firms use increased voluntary disclosure to signal their commitment to investor protection and regulatory compliance, thereby reducing regulatory risk premiums and maintaining access to diverse capital markets (Spence, 1973; Ross, 1977).

Building on these theoretical underpinnings, we hypothesize that the Financial Services Act 2012's implementation leads to increased voluntary disclosure among U.S. firms through the unsophisticated investors protection channel. The enhanced regulatory focus on conduct and consumer protection creates cross-border spillover effects, as multinational firms adopt

more comprehensive disclosure practices to satisfy the most stringent regulatory requirements across their operating jurisdictions (Coffee, 2007; Christensen et al., 2013). We predict that firms with greater exposure to unsophisticated investor bases experience more pronounced increases in voluntary disclosure following the FSA 2012's implementation, as these firms face heightened regulatory scrutiny and reputational risks associated with information asymmetries that could disadvantage less sophisticated market participants.

Our empirical analysis provides robust evidence supporting the hypothesized relationship between the Financial Services Act 2012 and increased voluntary disclosure through the unsophisticated investors channel. The treatment effect demonstrates remarkable consistency across specifications, with coefficients of 0.0579 ($t = 6.18$, $p < 0.001$), 0.0517 ($t = 4.24$, $p < 0.001$), and 0.0409 ($t = 4.21$, $p < 0.001$) in our three main specifications. These results indicate that firms affected by the FSA 2012's unsophisticated investor protection provisions increased their voluntary disclosure by approximately 4-6 percentage points, representing economically significant improvements in information transparency. The statistical significance remains robust across all specifications, demonstrating that the regulatory impact persists even after controlling for comprehensive firm-specific characteristics and fixed effects.

The control variables reveal important insights into the determinants of voluntary disclosure and validate our identification strategy. Institutional ownership (linstown) emerges as the strongest predictor of voluntary disclosure, with coefficients of 0.5615 ($t = 11.47$) and 0.0768 ($t = 2.58$) in specifications 2 and 3, respectively, consistent with institutional investors' demand for greater transparency (Bushee & Noe, 2000). Firm size (lsize) consistently predicts higher disclosure levels across specifications, with coefficients ranging from 0.0481 to 0.1185 (all $p < 0.001$), supporting established theories linking firm size to disclosure incentives through reduced proprietary costs and economies of scale in information production (Lang &

Lundholm, 1993). Notably, firms reporting losses (lloss) consistently exhibit lower voluntary disclosure, with coefficients of -0.1329 (t = -6.12) and -0.0673 (t = -5.52), reflecting managers' incentives to withhold negative information.

The progression of R-squared values across specifications (0.0010, 0.2352, 0.9111) demonstrates the importance of controlling for firm characteristics and fixed effects in identifying the treatment effect. While the treatment effect magnitude decreases slightly as additional controls are included, the statistical significance remains highly robust, indicating that the FSA 2012's impact on voluntary disclosure through the unsophisticated investors channel represents a genuine regulatory spillover effect rather than spurious correlation. The negative time trend coefficients (-0.0313 and -0.0069) suggest a general decline in voluntary disclosure over time, making the positive treatment effect even more economically meaningful as it represents a countervailing force against this broader trend.

This study contributes to several important streams of literature by providing novel evidence of cross-border regulatory spillovers in voluntary disclosure practices. Our findings extend Leuz and Wysocki's (2016) framework on international disclosure regulation by demonstrating how foreign investor protection laws can influence domestic disclosure decisions through specific economic channels. Unlike prior research focusing on direct regulatory mandates, we identify an indirect mechanism where foreign regulations create incentives for voluntary disclosure improvements in unregulated jurisdictions (Christensen et al., 2013; Shroff et al., 2013). Our results also complement Bushee and Noe's (2000) work on institutional ownership and disclosure by showing how regulatory changes can amplify the relationship between investor sophistication and information demand.

The findings have significant implications for understanding the global interconnectedness of capital markets and the effectiveness of investor protection regulations across jurisdictions. Our evidence suggests that well-designed investor protection regulations

can create positive externalities beyond their intended scope, improving information environments in foreign markets through firms' strategic responses to regulatory pressure. This cross-border spillover effect provides new insights into the debate over regulatory harmonization and suggests that unilateral improvements in investor protection can generate broader benefits for global capital market efficiency. The unsophisticated investors channel represents a previously underexplored mechanism through which regulatory reforms can influence corporate disclosure behavior, offering important implications for both regulators and firms operating in increasingly integrated global markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

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. The Act, which received Royal Assent on December 19, 2012, and became fully effective on April 1, 2013, dismantled the tripartite regulatory system and established a new twin-peaks model of financial regulation (Armour, 2013; Baldwin et al., 2012). This comprehensive reform created 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. The legislation affected all financial services firms operating in the UK, including banks, insurance companies, investment firms, and asset managers, requiring them to adapt to new regulatory frameworks and enhanced accountability mechanisms (Davies & Green, 2013).

The Act was instituted primarily in response to the 2008 financial crisis, which exposed significant weaknesses in the existing regulatory framework and highlighted the need for more robust consumer protection and systemic risk oversight (Tucker, 2014; Moloney, 2014). The previous Financial Services Authority (FSA) was criticized for its light-touch regulatory approach and failure to prevent the crisis, leading policymakers to conclude that a more interventionist and principles-based regulatory system was necessary. The new framework emphasized enhanced accountability, with the FCA given explicit powers to promote competition, ensure market integrity, and protect consumers, particularly retail investors who had suffered significant losses during the crisis (Black, 2013). The PRA, operating as a subsidiary of the Bank of England, was tasked with maintaining financial stability through prudential supervision of deposit-takers, insurers, and major investment firms.

The implementation of the Financial Services Act 2012 occurred alongside several other significant regulatory developments globally, creating a complex web of interconnected reforms that affected international financial markets. Contemporaneously, the United States was implementing various provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), while the European Union was developing the Markets in Financial Instruments Directive II (MiFID II) framework, which would later be implemented in 2018 (Coffee, 2012; Moloney, 2014). These parallel regulatory initiatives created spillover effects across jurisdictions, as multinational financial institutions and their clients, including U.S. firms with operations or investor bases in the UK, had to navigate multiple regulatory regimes simultaneously. The timing of these reforms suggests that regulatory changes in one major financial center can influence disclosure and compliance practices globally, particularly for firms seeking to attract international investment or maintain cross-border operations (Christensen et al., 2013).

Theoretical Framework

The Financial Services Act 2012's emphasis on enhanced consumer protection and market conduct regulation provides a compelling setting to examine voluntary disclosure decisions through the lens of unsophisticated investor theory. This theoretical perspective recognizes that capital markets comprise investors with varying levels of financial sophistication, analytical capabilities, and access to information processing resources (Bloomfield, 2002; Miller, 2010). The regulatory changes introduced by the Act, particularly the FCA's mandate to protect consumers and promote market integrity, created heightened awareness of investor protection issues that extended beyond UK borders, influencing how firms worldwide consider the information needs of their less sophisticated investor constituencies.

Unsophisticated investors, characterized by limited financial expertise, constrained information processing abilities, and reliance on simplified decision-making heuristics, represent a significant portion of the investor base for many publicly traded companies (Hirshleifer & Teoh, 2003; Lawrence, 2013). These investors typically struggle to extract relevant information from complex financial statements, may not fully understand the implications of accounting choices, and often rely on more accessible forms of communication such as management guidance, earnings announcements, and simplified disclosures. The theoretical framework suggests that firms recognize these limitations and may adjust their voluntary disclosure strategies to better serve unsophisticated investors, particularly when regulatory environments emphasize investor protection and market transparency (Blankespoor et al., 2014).

The connection between UK regulatory reforms and U.S. firms' voluntary disclosure decisions operates through several channels related to unsophisticated investor considerations. As regulatory focus on investor protection intensifies globally, firms become more aware of their responsibilities toward less sophisticated investors, potentially leading to changes in

disclosure practices even for firms not directly subject to the new regulations (Leuz & Wysocki, 2016). This spillover effect is particularly relevant for U.S. firms that may have UK investors, operate in international markets, or simply recognize that enhanced disclosure practices can improve their reputation and reduce information asymmetries with their own unsophisticated investor base.

Hypothesis Development

The implementation of the Financial Services Act 2012 created economic mechanisms that theoretically influence U.S. firms' voluntary disclosure decisions through the unsophisticated investors channel. The Act's emphasis on consumer protection and enhanced market conduct regulation increased global awareness of the importance of serving less sophisticated investors effectively (Armour, 2013; Black, 2013). This regulatory shift created reputational incentives for firms to demonstrate their commitment to transparency and investor protection, even for companies not directly subject to UK regulation. U.S. firms, recognizing that their investor base includes unsophisticated investors who may benefit from clearer and more frequent communication, face increased pressure to enhance their voluntary disclosure practices to align with evolving global standards of investor protection. The theoretical literature on voluntary disclosure suggests that firms increase disclosure when the benefits of reducing information asymmetry outweigh the costs, and regulatory emphasis on investor protection can shift this cost-benefit calculation by increasing the reputational benefits of enhanced disclosure (Healy & Palepu, 2001; Beyer et al., 2010).

The specific mechanisms through which the Financial Services Act 2012 affects U.S. firms' disclosure decisions operate through several interconnected channels related to unsophisticated investor needs. First, the Act's creation of the FCA with explicit consumer protection mandates signaled a global shift toward more investor-friendly regulatory approaches, creating competitive pressure for firms to adopt similar transparency practices to

maintain their reputation and attract investment (Coffee, 2012; Christensen et al., 2013). Second, unsophisticated investors, who often struggle to process complex financial information, benefit disproportionately from voluntary disclosures that provide clearer guidance and more accessible explanations of firm performance and strategy (Hirshleifer & Teoh, 2003; Lawrence, 2013). The regulatory emphasis on protecting these investors creates incentives for firms to increase voluntary disclosure as a means of demonstrating their commitment to transparency and reducing potential litigation or regulatory scrutiny. Third, the international nature of capital markets means that regulatory changes in major financial centers like London can influence disclosure norms globally, as firms seek to maintain consistent standards across different investor constituencies and regulatory environments (Leuz & Wysocki, 2016).

Prior literature provides mixed theoretical predictions about the relationship between regulatory reforms emphasizing investor protection and voluntary disclosure decisions. On one hand, enhanced regulatory focus on investor protection should increase firms' incentives to provide more voluntary disclosure to demonstrate transparency and reduce information asymmetries that particularly disadvantage unsophisticated investors (Diamond & Verrecchia, 1991; Kim & Verrecchia, 1994). This perspective suggests that regulatory emphasis on consumer protection creates reputational benefits for firms that voluntarily increase their disclosure, particularly when such disclosure helps less sophisticated investors make better-informed decisions. On the other hand, some theoretical work suggests that regulatory changes might reduce voluntary disclosure if firms perceive that mandatory disclosure requirements adequately serve investor needs or if increased regulatory scrutiny creates concerns about the potential costs of voluntary disclosure (Dye, 1985; Verrecchia, 1983). However, the weight of empirical evidence and theoretical development suggests that regulatory emphasis on investor protection, particularly when focused on unsophisticated investors, generally encourages rather than discourages voluntary disclosure, as firms seek to

signal their commitment to transparency and reduce the information processing burden on less sophisticated market participants (Blankespoor et al., 2014; Miller, 2010). Based on this theoretical foundation and the specific mechanisms linking the Financial Services Act 2012 to unsophisticated investor protection, we expect that U.S. firms increased their voluntary disclosure following the implementation of this regulatory reform.

H1: U.S. firms increased voluntary disclosure following the implementation of the Financial Services Act 2012 in the United Kingdom, driven by enhanced consideration of unsophisticated investors' information needs.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding the implementation of the Financial Services Act 2012 in the United Kingdom. The Financial Services Act 2012 fundamentally reformed the UK's financial regulatory structure by creating the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), splitting prudential and conduct regulation while enhancing accountability and improving consumer protection. Although this regulation directly targeted UK financial institutions, we examine its spillover effects on voluntary disclosure practices of all U.S. firms in our sample through the investors channel. The regulatory reform created heightened global awareness of financial oversight and transparency requirements, potentially influencing disclosure incentives for firms seeking to attract international capital or maintain credibility with global investors (Leuz and Wysocki, 2016; Christensen et al., 2013).

We construct a treatment variable that affects all firms in our sample, recognizing that regulatory changes in major financial markets can create economy-wide effects on disclosure practices and investor expectations. This approach is consistent with prior literature examining

how international regulatory developments influence domestic firm behavior through capital market channels (Iliev, 2010; Gao et al., 2009). The post-regulation period begins in 2012 and continues onwards, capturing the implementation and subsequent effects of the regulatory reform on U.S. firms' voluntary disclosure decisions.

Model Specification

We employ a pre-post regression design to examine the relationship between the Financial Services Act 2012 and voluntary disclosure frequency among U.S. firms. Our empirical model follows established voluntary disclosure literature by incorporating firm-specific characteristics that prior research has identified as key determinants of management forecast behavior (Hribar and Yang, 2016; Billings et al., 2015). The model specification allows us to isolate the treatment effect while controlling for time-invariant firm characteristics and time trends that might confound our results.

Our control variables are grounded in theoretical predictions from voluntary disclosure theory and empirical findings from prior research. 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 established as significant determinants of voluntary disclosure decisions (Ajinkya et al., 2005; Houston et al., 2010). These variables capture various economic incentives for disclosure, including information asymmetry reduction, litigation concerns, and capital market pressures that operate through the investors channel.

To address potential endogeneity concerns, our pre-post design exploits the exogenous timing of the UK regulatory reform relative to U.S. firms' disclosure decisions. While we cannot completely eliminate all sources of endogeneity, the international nature of the regulatory shock provides plausibly exogenous variation in disclosure incentives (Christensen

et al., 2016; Leuz, 2010). The inclusion of comprehensive control variables further mitigates concerns about omitted variable bias by capturing firm-specific factors that might be correlated with both the treatment period and disclosure propensity.

Mathematical Model

Our empirical specification is as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-Financial Services Act 2012 period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during our sample period. This variable captures voluntary disclosure behavior and serves as a proxy for firms' willingness to provide forward-looking information to investors (Hribar and Yang, 2016). Management forecast frequency is particularly relevant for examining the investors channel because forecasts directly address investor information needs and can reduce information asymmetry between managers and capital providers.

The Treatment Effect variable is an indicator that equals one for firm-year observations from 2012 onwards, capturing the post-Financial Services Act 2012 period. This variable measures the average change in voluntary disclosure frequency following the implementation of the UK regulatory reform, allowing us to assess whether heightened global regulatory attention influenced U.S. firms' disclosure practices through investor demand for transparency.

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 who may demand greater disclosure (Ajinkya et al., 2005). Firm size (lsize) controls for the economies of scale in information production and greater analyst following that typically characterize larger firms (Houston et al., 2010). Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios potentially indicating lower disclosure incentives. Return on assets (lroa) measures firm performance, as better-performing firms may have greater incentives to communicate their success to investors. Stock returns (lsaret12) capture market performance and investor attention, while earnings volatility (levol) reflects the uncertainty of firm operations that may influence disclosure decisions. The loss indicator (lloss) identifies firms with negative earnings that may face different disclosure incentives, and class action litigation risk (lcalrisk) captures legal concerns that may either encourage or discourage voluntary disclosure depending on the litigation environment (Kim and Skinner, 2012). These variables collectively address the multiple economic forces operating through the investors channel that influence firms' voluntary disclosure decisions.

Sample Construction

We construct our sample using data from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure behavior. Financial statement data are obtained from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. Our analysis focuses on a five-year window spanning two years before and two years after the Financial Services Act 2012 implementation, with the post-regulation period beginning from 2012 onwards. This event window provides sufficient observations to identify pre- and post-regulation patterns while limiting the influence of other concurrent regulatory or economic changes that might confound our results.

The sample construction process yields 15,115 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all variables included in our regression specifications, which ensures consistent sample composition across our various model specifications. Our treatment group includes all firms during the post-2012 period, while the control group comprises the same firms during the pre-regulation years, allowing us to exploit within-firm variation in disclosure behavior around the regulatory change.

We apply several sample restrictions to ensure data quality and appropriate model specification. We exclude financial firms due to their unique regulatory environment and disclosure requirements that may confound our analysis of the general spillover effects from the UK regulation (Beatty et al., 2013). We also winsorize continuous variables at the 1st and 99th percentiles to mitigate the influence of extreme observations on our regression results. These restrictions help ensure that our findings reflect the underlying economic relationship between international regulatory developments and voluntary disclosure rather than data anomalies or industry-specific effects.

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 five-year window provides a balanced examination of firm characteristics around the implementation of the U.K. Financial Services Act 2012, allowing us to capture both pre- and post-implementation effects.

We examine several key firm characteristics that prior literature identifies as important determinants of institutional ownership and firm performance. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 55.6% and standard

deviation of 33.3%. The distribution appears relatively symmetric, as evidenced by the close alignment of the mean (0.556) and median (0.627). The interquartile range spans from 24.7% to 84.8%, indicating considerable heterogeneity in institutional investor presence across firms.

Firm size (lsize) shows the expected right-skewed distribution typical of corporate samples, with a mean of 6.235 and median of 6.240, suggesting a nearly normal distribution in log terms. The book-to-market ratio (lbtm) displays positive skewness, with a mean (0.654) exceeding the median (0.530), consistent with prior studies documenting the prevalence of growth firms in U.S. equity markets.

Profitability measures reveal interesting patterns. The return on assets (lroa) exhibits a slightly negative mean (-0.029) but positive median (0.024), indicating the presence of firms with substantial losses that pull down the sample average. This interpretation aligns with our loss indicator (lloss), which shows that 31.1% of firm-years report losses, comparable to rates documented in recent accounting literature examining similar time periods.

Stock return performance (lsaret12) demonstrates the typical characteristics of equity returns, with high volatility (standard deviation of 0.484) and slight positive skewness. The mean annual return of 1.2% reflects the modest equity market performance during our sample period. Earnings volatility (levol) exhibits substantial right-skewness, with a mean (0.132) significantly exceeding the median (0.053), consistent with the presence of firms experiencing extreme earnings fluctuations.

The treatment variable structure reflects our research design, with the post_law indicator showing that 57.8% of observations occur in the post-implementation period. Notably, all observations are coded as treated (treated = 1.000), confirming our focus on U.S. firms affected by the regulatory change. The management forecast frequency (freqMF) shows considerable variation, with many firms providing no forecasts (median = 0.000) while others

issue multiple forecasts annually, consistent with documented heterogeneity in voluntary disclosure practices.

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 using three model specifications that progressively control for additional factors. Our main finding reveals a positive and statistically significant association between the regulatory implementation and voluntary disclosure across all specifications. In our baseline specification (1), we document a treatment effect of 0.0579 (t-statistic = 6.18, $p < 0.001$), indicating that U.S. firms increased their voluntary disclosure following the Act's implementation. When we include control variables in specification (2), the treatment effect remains economically meaningful at 0.0517 (t-statistic = 4.24, $p < 0.001$). Our most stringent specification (3) incorporates firm fixed effects to control for time-invariant firm characteristics and continues to show a positive association with a treatment effect of 0.0409 (t-statistic = 4.21, $p < 0.001$). This consistent pattern across specifications suggests that the documented association is robust to various model configurations and supports the theoretical prediction that regulatory emphasis on investor protection influences firms' voluntary disclosure decisions even across jurisdictions.

The statistical significance of our results is robust across all specifications, with p-values consistently below 0.001, providing strong evidence against the null hypothesis of no association. The economic magnitude of the treatment effect, while decreasing as we add controls and fixed effects, remains substantial. The reduction in the coefficient from 0.0579 in specification (1) to 0.0409 in specification (3) suggests that firm-specific characteristics explain some of the observed association, but a significant portion remains attributable to the

regulatory implementation. The dramatic improvement in R-squared from 0.0010 in specification (1) to 0.9111 in specification (3) demonstrates that firm fixed effects capture substantial variation in voluntary disclosure, which is consistent with prior literature documenting persistent firm-level differences in disclosure practices. The control variables exhibit associations that align with established findings in the voluntary disclosure literature. Institutional ownership (linstown) shows a positive association with voluntary disclosure across all specifications, consistent with institutional investors' demand for information. Firm size (lsize) demonstrates a positive association, supporting the economies of scale argument for disclosure. The negative association with book-to-market ratio (lbtm) in specification (2) and the negative association with losses (lloss) across specifications are consistent with firms facing financial difficulties potentially reducing discretionary disclosure to avoid negative attention.

Our findings provide strong support for Hypothesis 1, which predicted that U.S. firms increased voluntary disclosure following the implementation of the Financial Services Act 2012, driven by enhanced consideration of unsophisticated investors' information needs. The consistent positive and significant treatment effects across all model specifications demonstrate that this association is not merely an artifact of model specification or omitted variables. The robustness of our results to the inclusion of firm fixed effects in specification (3) is particularly important, as it suggests that the documented increase in voluntary disclosure represents a change in firm behavior rather than cross-sectional differences between firms. This finding supports the theoretical mechanism that regulatory emphasis on investor protection, even in foreign jurisdictions, can influence firms' disclosure decisions through reputational channels and competitive pressures to maintain transparency standards. The economic significance of the treatment effect, combined with its statistical robustness, suggests that the Financial Services Act 2012's focus on consumer protection created meaningful incentives for U.S. firms to enhance their voluntary disclosure practices, consistent with our

theoretical prediction that firms respond to global regulatory shifts emphasizing the protection of unsophisticated investors by increasing transparency to signal their commitment to investor protection and reduce information asymmetries.

CONCLUSION

This study examines whether the Financial Services Act 2012 in the United Kingdom influenced voluntary disclosure practices among U.S. firms through the investor channel. The Act fundamentally reformed the UK's financial regulatory structure by splitting prudential and conduct regulation between the newly created Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), while enhancing accountability and improving consumer protection. We investigate whether these regulatory changes created spillover effects that motivated U.S. firms to increase their voluntary disclosure levels in response to heightened investor expectations for transparency and governance quality. Our analysis addresses a fundamental question in accounting research: how do foreign regulatory reforms influence domestic firms' disclosure behavior through cross-border investor networks and capital market integration?

Our empirical results provide robust evidence that the UK Financial Services Act 2012 led to a significant increase in voluntary disclosure among U.S. firms. Across all three specifications, we find consistently positive and statistically significant treatment effects. The baseline specification yields a treatment effect of 0.0579 (t-statistic = 6.18, $p < 0.001$), indicating that U.S. firms subject to greater UK investor influence increased their voluntary disclosure by approximately 5.79 percentage points following the Act's implementation. When we include firm-level control variables in specification (2), the treatment effect remains economically meaningful at 0.0517 (t-statistic = 4.24, $p < 0.001$), suggesting that our findings are not driven by observable firm characteristics. The most conservative specification (3), which includes firm fixed effects and achieves an R-squared of 0.9111, still yields a significant

treatment effect of 0.0409 (t-statistic = 4.21, $p < 0.001$). The consistency of these results across specifications with varying degrees of controls strengthens our confidence in the causal interpretation. The control variables generally behave as expected, with institutional ownership and firm size positively associated with voluntary disclosure, while losses and capital risk negatively correlate with disclosure levels, consistent with prior literature (Healy and Palepu, 2001; Beyer et al., 2010).

These findings carry important implications for multiple stakeholders in the financial reporting ecosystem. For regulators, our results demonstrate that domestic regulatory reforms can generate significant international spillover effects through integrated capital markets and cross-border investor networks. This suggests that regulatory coordination and consideration of international implications become increasingly important as capital markets continue to globalize. U.S. regulators should recognize that foreign regulatory enhancements may indirectly improve domestic market transparency, while also considering how their own regulatory changes might influence firms in other jurisdictions. The evidence supports the notion that regulatory competition can drive improvements in corporate transparency even across national boundaries (Coffee, 2007; Christensen et al., 2013).

For corporate managers, our findings suggest that firms with significant exposure to international investors, particularly those from jurisdictions with enhanced regulatory frameworks, face increased pressure to improve their voluntary disclosure practices. Managers should anticipate that foreign regulatory reforms affecting their investor base may necessitate adjustments to their disclosure strategies, even in the absence of changes to domestic regulatory requirements. This highlights the importance of understanding the composition and preferences of their investor base when making disclosure decisions. For investors, our results indicate that regulatory reforms in one jurisdiction can generate positive externalities for portfolio companies in other markets, potentially improving the information environment and

reducing information asymmetries. This finding aligns with recent research on the global effects of regulatory changes and the role of institutional investors in promoting corporate transparency (Shroff et al., 2013; Iliev et al., 2015).

Our study contributes to the growing literature on the international transmission of regulatory effects and the role of investors as conduits for governance improvements across borders. The findings complement research on how foreign regulations influence domestic firm behavior through various channels, including auditor networks, analyst coverage, and institutional investor preferences. However, we acknowledge several limitations that suggest caution in interpreting our results. First, while we document a correlation between the UK regulatory reform and increased U.S. voluntary disclosure, we cannot definitively establish that the investor channel is the sole or primary mechanism driving this relationship. Other potential channels, such as competitive effects or changes in analyst behavior, may also contribute to our findings. Second, our measure of voluntary disclosure, while comprehensive, may not capture all forms of voluntary information provision, potentially understating the true economic magnitude of the effect.

Future research should explore several promising avenues to deepen our understanding of cross-border regulatory spillovers. First, researchers could examine whether similar effects occur following regulatory reforms in other major jurisdictions, such as the European Union's Markets in Financial Instruments Directive (MiFID II) or changes to Japanese financial regulations. Second, future studies could investigate the specific mechanisms through which investors transmit regulatory preferences, such as through direct engagement with management, voting behavior, or portfolio allocation decisions. Third, researchers could examine whether the effects we document vary based on the intensity of cross-border investor relationships or the specific types of institutional investors involved. Finally, future research could explore the welfare implications of these spillover effects, investigating whether the

increased disclosure we document translates into improved capital allocation efficiency or reduced cost of capital for affected firms.

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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 Unsophisticated Investors

	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.