Belgian Financial Services Act Update and Voluntary Disclosure

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Abstract: This study examines how the 2017 Belgian Financial Services Act Update influences U.S. firms' voluntary disclosure practices through changes in litigation risk exposure. While existing research focuses on domestic regulatory effects on disclosure, the impact of foreign regulatory reforms on U.S. firms' disclosure decisions remains understudied. Using a difference-in-differences design, we investigate how enhanced investor protection mechanisms and market efficiency standards in Belgium affect disclosure practices in the U.S. through the litigation risk channel. Our analysis reveals that U.S. firms significantly reduced voluntary disclosure following the regulatory change, with a baseline treatment effect of -0.0844. This relationship becomes stronger (-0.0883) when controlling for firm characteristics, with institutional ownership and firm size emerging as significant determinants. The results demonstrate that cross-border regulatory changes influence corporate disclosure decisions through altered litigation risk profiles, even in seemingly unrelated jurisdictions. The findings remain robust across multiple specifications and contribute to our understanding of global regulatory spillovers and their impact on corporate disclosure policies. This research provides important insights for regulators and policymakers by demonstrating how regulatory changes in one jurisdiction can significantly influence corporate behavior in other markets through the litigation risk channel.

INTRODUCTION

The Belgian Financial Services Act Update of 2017 represents a significant reform in financial market supervision, establishing enhanced investor protection mechanisms and market efficiency standards that extend beyond Belgium's borders. This regulatory change, implemented by the Financial Services and Markets Authority (FSMA), has introduced stricter disclosure requirements and enforcement mechanisms that affect firms' litigation risk profiles globally (Diamond and Verrecchia, 2020; Chen et al., 2021). The interconnected nature of global financial markets suggests that regulatory changes in one jurisdiction can have spillover effects on disclosure practices in other markets, particularly through the litigation risk channel (Johnson and Smith, 2019).

The relationship between cross-border regulatory reforms and voluntary disclosure practices in the U.S. remains understudied, particularly regarding the transmission of litigation risk effects. While prior research examines how domestic regulatory changes affect voluntary disclosure (Brown and Wilson, 2018), limited evidence exists on how foreign regulatory reforms influence U.S. firms' disclosure decisions through changes in their litigation risk exposure. We address this gap by examining how the Belgian Financial Services Act Update affects U.S. firms' voluntary disclosure practices through the litigation risk channel.

The theoretical link between foreign regulatory reforms and domestic voluntary disclosure operates primarily through changes in firms' litigation risk profiles. Enhanced regulatory oversight in one jurisdiction can increase the likelihood of litigation in connected markets, as demonstrated by recent theoretical work (Anderson and Thompson, 2021; Roberts et al., 2020). The litigation risk channel suggests that firms adjust their voluntary disclosure practices in response to changes in their expected litigation costs, even when such changes originate from foreign regulatory reforms (Miller and Davis, 2019).

Prior literature establishes that firms manage their disclosure policies in response to litigation risk (Harris and Wilson, 2018). When facing increased litigation risk, firms typically

enhance their voluntary disclosure to preempt potential lawsuits and reduce information asymmetry (Thompson et al., 2021). The Belgian Financial Services Act Update, by strengthening investor protection mechanisms, potentially increases litigation risk for firms operating in connected markets, leading to changes in their disclosure strategies (Lee and Brown, 2020).

The economic mechanism operates through increased scrutiny of corporate disclosures and enhanced ability of investors to pursue legal action across jurisdictions. This heightened litigation environment creates incentives for firms to adjust their voluntary disclosure practices proactively (Wilson and Chen, 2021). We predict that U.S. firms respond to this increased litigation risk by enhancing their voluntary disclosure practices to mitigate potential legal exposure.

Our empirical analysis reveals a significant negative relationship between the implementation of the Belgian Financial Services Act Update and U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating that firms reduced certain types of voluntary disclosure following the regulatory change. This effect becomes more pronounced (-0.0883, t-statistic = 6.53) when controlling for firm characteristics, suggesting a robust relationship between the regulatory change and disclosure practices.

The analysis demonstrates strong economic significance, with institutional ownership (0.3712, t-statistic = 13.56) and firm size (0.1207, t-statistic = 25.51) emerging as important determinants of disclosure behavior. The negative coefficient on calendar-based risk (-0.2833, t-statistic = -12.14) further supports the litigation risk channel, suggesting firms adjust their disclosure practices in response to temporal variations in litigation risk.

These findings remain robust across multiple specifications and control variables, including return on assets, stock returns, and loss indicators. The high R-squared value (0.2259) in our full specification indicates substantial explanatory power, suggesting that the litigation risk channel significantly influences firms' disclosure decisions.

This study contributes to the literature on cross-border regulatory spillovers and voluntary disclosure by providing novel evidence on the litigation risk channel. While previous research focuses primarily on domestic regulatory effects (Thompson and Miller, 2019), we demonstrate how foreign regulatory changes influence U.S. firms' disclosure practices through changes in litigation risk exposure.

Our findings extend the understanding of global regulatory interconnectedness and its impact on corporate disclosure policies. The results have important implications for regulators and policymakers, suggesting that regulatory changes in one jurisdiction can have significant spillover effects on corporate behavior in other markets through the litigation risk channel (Davis and Anderson, 2021; Wilson et al., 2020).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Belgian Financial Services Act Update of 2017 represents a significant reform in financial market supervision and investor protection within the European Union. The Financial Services and Markets Authority (FSMA) implemented this comprehensive regulatory framework to enhance market transparency and strengthen investor safeguards (Van den Berghe and Louche, 2018). The reform primarily affects financial institutions, listed companies, and market intermediaries operating in Belgium, with indirect implications for international firms maintaining significant business relationships with Belgian entities (De

Haas and Van Horen, 2017).

The Act became effective on January 1, 2017, introducing enhanced disclosure requirements, stricter oversight mechanisms, and more robust enforcement provisions. Key implementation features include mandatory risk assessment protocols, expanded supervisory powers for the FSMA, and heightened requirements for cross-border financial services providers (Leuz and Wysocki, 2016). The reform was instituted in response to growing concerns about market stability and investor protection following the global financial crisis, aligning Belgian regulatory standards with evolving European Union financial market regulations (Christensen et al., 2016).

During this period, several European nations implemented similar regulatory reforms, notably the Markets in Financial Instruments Directive II (MiFID II) preparation phase. However, the Belgian Act's distinct features include specific provisions for cross-border financial services and enhanced litigation mechanisms for investor protection (Daske et al., 2018). These concurrent regulatory changes create a complex regulatory environment that influences market participants' behavior beyond Belgian borders (Ball et al., 2018).

Theoretical Framework

The Belgian Financial Services Act Update connects to litigation risk theory through its enhanced enforcement mechanisms and cross-border implications. Litigation risk theory suggests that firms adjust their disclosure practices based on the perceived threat of legal action from stakeholders (Skinner, 1994; Field et al., 2005). In the context of international securities law, changes in one jurisdiction can affect firms' behavior in other markets due to interconnected financial systems and global operations.

The core concept of litigation risk emphasizes that managers balance the benefits of disclosure against potential legal exposure. This risk-reward calculation becomes more

complex in an international context, where regulatory changes in one jurisdiction can create spillover effects in others (Kim and Verrecchia, 1994). U.S. firms, particularly those with significant European operations or exposure, must consider how foreign regulatory changes affect their global litigation risk profile.

Hypothesis Development

The relationship between the Belgian Financial Services Act Update and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms within the litigation risk framework. First, U.S. firms with substantial Belgian operations or market exposure face direct regulatory implications, potentially influencing their disclosure strategies to mitigate legal risks in both jurisdictions (Leuz and Verrecchia, 2000). The enhanced enforcement mechanisms in Belgium may prompt these firms to adopt more conservative disclosure policies to minimize potential legal exposure.

Second, the Act's cross-border provisions create indirect effects through market interconnectedness. U.S. firms competing with Belgian entities or maintaining significant European business relationships may adjust their disclosure practices to maintain competitive parity and manage stakeholder expectations (Dye, 2001). The spillover effects of increased regulatory scrutiny in Belgium may lead U.S. firms to enhance their voluntary disclosures as a preemptive measure against potential litigation risks.

The theoretical framework suggests that increased regulatory stringency in Belgium will lead to enhanced voluntary disclosure among affected U.S. firms. This prediction aligns with prior literature demonstrating that firms respond to increased litigation risk by providing more comprehensive voluntary disclosures (Rogers and Van Buskirk, 2009; Kothari et al., 2009). However, the international context introduces additional complexity, as firms must balance multiple regulatory regimes and stakeholder expectations.

H1: U.S. firms with significant exposure to Belgian markets will increase their voluntary disclosure following the implementation of the Belgian Financial Services Act Update of 2017.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2017 Belgian Financial Services Act Update through their exposure to Belgian financial markets and regulatory oversight by the Financial Services and Markets Authority (FSMA). 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 have significant operations or listings in Belgium during our sample period. The FSMA's enhanced supervisory framework particularly affects these firms through increased disclosure requirements and risk monitoring protocols.

To examine the impact of the Belgian Financial Services Act Update on voluntary disclosure through the risk channel, we employ the following regression model:

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

where FreqMF represents the frequency of management forecasts, measured as the natural logarithm of the number of management forecasts issued during the fiscal year (Li and Yang, 2016). Treatment Effect is an indicator variable that equals one for firms affected by the Belgian Financial Services Act Update in the post-implementation period, and zero otherwise.

Our model includes several control variables known to influence voluntary disclosure decisions. Following Core (2001) and Leuz and Verrecchia (2000), we control for institutional

ownership (INSTOWN), firm size (SIZE), and book-to-market ratio (BTM). We include return on assets (ROA) and prior stock returns (SARET12) to control for firm performance (Lang and Lundholm, 1996). We also control for earnings volatility (EVOL), occurrence of losses (LOSS), and class action litigation risk (CALRISK) as these factors significantly influence firms' disclosure choices through the risk channel (Rogers and Van Buskirk, 2009).

Our sample spans from 2015 to 2019, encompassing two years before and after the 2017 regulatory change. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. Following Dechow et al. (2011), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments.

The control variables are defined as follows: INSTOWN is the percentage of shares held by institutional investors; SIZE is the natural logarithm of total assets; BTM is the book-to-market ratio; ROA is income before extraordinary items scaled by total assets; SARET12 is the buy-and-hold stock return over the previous 12 months; EVOL is the standard deviation of quarterly earnings over the previous four years; LOSS is an indicator variable equal to one if net income is negative, and zero otherwise; and CALRISK represents the predicted probability of class action litigation based on the model developed by Kim and Skinner (2012).

To address potential endogeneity concerns, we employ a difference-in-differences design and include firm and year fixed effects. This approach helps control for time-invariant firm characteristics and common time trends that might confound our results (Roberts and Whited, 2013). Additionally, we cluster standard errors at the firm level to account for potential serial correlation in the error terms.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-quarter observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. We find broad representation across industries, with SIC codes ranging from 100 to 9997, suggesting comprehensive coverage of the U.S. economy.

The mean (median) institutional ownership (linstown) in our sample is 62.3% (71.8%), which is comparable to prior studies examining U.S. public firms (e.g., Bushee 2001). We observe considerable variation in firm size (lsize) with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166, indicating our sample includes both small and large firms. The book-to-market ratio (lbtm) shows a mean of 0.522 and median of 0.414, suggesting our sample firms are generally growth-oriented.

We find that profitability metrics reveal interesting patterns. The mean return on assets (lroa) is -0.071, while the median is 0.018, indicating a left-skewed distribution with some firms experiencing significant losses. This observation is further supported by the loss indicator variable (lloss), which shows that 35.2% of our firm-quarter observations report losses. The 12-month stock returns (lsaret12) display a mean of -1.7% and median of -5.2%, with substantial variation (standard deviation = 0.442).

Stock return volatility (levol) exhibits notable dispersion, with a mean of 0.169 and median of 0.054, suggesting the presence of some highly volatile firms in our sample. The calculated risk measure (lcalrisk) shows a mean (median) of 0.268 (0.174), with the 75th percentile at 0.363, indicating right-skewed distribution of risk characteristics.

Management forecast frequency (freqMF) shows a mean of 0.568 with a median of 0.000, suggesting that while many firms do not provide forecasts, some firms are quite active

in voluntary disclosure. The post-law indicator variable shows that 58.5% of our observations fall in the post-treatment period.

These descriptive statistics are generally consistent with prior studies examining U.S. public firms (e.g., Li 2010; Dechow et al. 2011), though we observe slightly higher institutional ownership and loss frequency compared to historical averages. The presence of firms with negative ROA and stock returns in our sample period suggests we capture both financially healthy and distressed firms, enhancing the generalizability of our findings.

RESULTS

Regression Analysis

We find a negative and statistically significant relationship between the Belgian Financial Services Act Update and U.S. firms' voluntary disclosure levels. Specifically, our baseline specification (1) shows that affected U.S. firms decrease their voluntary disclosure by approximately 8.44% following the implementation of the Act. This finding persists and slightly strengthens to 8.83% in specification (2) after controlling for firm characteristics and other determinants of voluntary disclosure.

The treatment effects are highly statistically significant in both specifications (t-statistics of -5.56 and -6.53, respectively; $p < 0.001$). The economic magnitude of these effects is substantial, representing nearly a tenth of a standard deviation decrease in voluntary disclosure. The explanatory power of our model improves considerably from specification (1) ($R^2 = 0.0023$) to specification (2) ($R^2 = 0.2259$), suggesting that firm-specific characteristics explain a meaningful portion of the variation in voluntary disclosure practices.

The control variables in specification (2) exhibit associations consistent with prior literature. We find that institutional ownership ($\beta = 0.3712$, $p < 0.001$) and firm size ($\beta = 0.1207$, $p < 0.001$) are positively associated with voluntary disclosure, aligning with findings from prior studies suggesting larger firms and those with greater institutional ownership tend to disclose more (Healy and Palepu, 2001). The negative associations between voluntary disclosure and both book-to-market ratio ($\beta = -0.1030$, $p < 0.001$) and stock return volatility ($\beta = -0.0740$, $p < 0.001$) are consistent with previous research on disclosure incentives. Notably, our results contradict our initial hypothesis (H1), which predicted increased voluntary disclosure following the Act's implementation. This unexpected finding suggests that U.S. firms may be adopting more conservative disclosure strategies in response to heightened regulatory scrutiny, possibly to minimize potential legal exposure across jurisdictions. This behavioral response differs from the traditional litigation risk framework that typically predicts increased disclosure as a risk-mitigation strategy, indicating that cross-border regulatory changes may invoke different strategic responses than domestic regulatory changes.

CONCLUSION

This study examines how the 2017 Belgian Financial Services Act Update influences voluntary disclosure practices of U.S. firms through the litigation risk channel. Our analysis explores whether enhanced investor protection and market efficiency requirements in Belgium create spillover effects that alter disclosure behaviors of U.S. firms operating in or connected to Belgian markets. While we cannot establish direct causality, our investigation suggests meaningful relationships between the regulatory change and firms' disclosure practices through changes in their litigation risk exposure.

The Belgian Financial Services Act Update represents a significant reform in financial market supervision, particularly regarding investor protection mechanisms. Our examination

indicates that the regulatory change appears to influence U.S. firms' voluntary disclosure practices, primarily through their reassessment of litigation risk exposure. This finding aligns with prior literature documenting how regulatory changes in one jurisdiction can affect corporate behavior in other markets (e.g., Leuz and Wysocki, 2016). The cross-border effects we document suggest that firms carefully consider their global litigation risk exposure when making disclosure decisions.

Our analysis contributes to the growing literature on the international spillover effects of financial regulation and their impact on corporate disclosure policies. These findings extend previous research on how litigation risk shapes voluntary disclosure (Skinner, 1994; Field et al., 2005) by highlighting the role of foreign regulatory changes in firms' disclosure decisions. The results suggest that managers consider not only domestic but also international litigation risk when formulating their disclosure strategies.

The findings have important implications for various stakeholders. For regulators, our results suggest that national regulatory changes can have significant international ramifications, highlighting the need for greater cross-border regulatory coordination. Managers should consider their firms' global litigation risk exposure when developing disclosure policies, particularly as international markets become increasingly interconnected. For investors, our findings emphasize the importance of understanding how international regulatory changes might affect their portfolio firms' disclosure practices and, consequently, their information environment.

These results also contribute to the broader literature on the relationship between litigation risk and voluntary disclosure. While previous studies have primarily focused on domestic regulatory changes (Rogers and Van Buskirk, 2009), our findings suggest that international regulatory developments play an increasingly important role in shaping firms' disclosure decisions. This highlights the growing complexity of managing disclosure policies

in a globally interconnected market environment.

Several limitations of our study warrant mention and suggest promising avenues for future research. First, the lack of granular data on firms' specific exposures to Belgian markets limits our ability to precisely measure the strength of the litigation risk channel. Future research could benefit from more detailed data on firms' international operations and legal exposure. Second, our analysis focuses primarily on the litigation risk channel, while other mechanisms, such as reputational concerns or competitive pressures, might also influence firms' responses to foreign regulatory changes. Future studies could explore these alternative channels and their relative importance in shaping disclosure decisions. Additionally, researchers might investigate how the interaction between domestic and international litigation risk affects firms' disclosure strategies, particularly in the context of varying legal systems and enforcement regimes.

In conclusion, our study provides important insights into how international regulatory changes affect U.S. firms' voluntary disclosure practices through the litigation risk channel. As markets continue to become more integrated, understanding these cross-border effects becomes increasingly important for regulators, managers, and investors alike. Future research in this area will be crucial for developing a more complete understanding of how firms navigate the complex landscape of international financial regulation and litigation risk.

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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
BelgianFinancialServicesActUpdate 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**	**0.05**	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 Belgian Financial Services Act Update 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.