Singapore Securitiesand Futures Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2015 Singapore Securities and Futures Act Amendment affects U.S. firms' voluntary disclosure practices through changes in litigation risk exposure. While prior research focuses on domestic regulatory effects on corporate disclosure, the cross-border implications of foreign regulatory reforms remain understudied. Drawing on voluntary disclosure theory and utilizing difference-in-differences methodology, we investigate how regulatory changes in one jurisdiction influence disclosure practices in another through the litigation risk channel. Analysis of U.S. firm-level data reveals that the Singapore amendment led to a significant reduction in voluntary disclosure levels among U.S. firms, with a baseline treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The relationship remains robust across various specifications, explaining approximately 22.51% of the variation in voluntary disclosure practices. This study contributes to the literature on international regulatory spillovers by identifying litigation risk as a novel transmission mechanism for cross-border regulatory impacts. The findings suggest that policymakers should consider international spillover effects when implementing regulatory reforms, particularly in interconnected financial markets.

INTRODUCTION

The 2015 Singapore Securities and Futures Act Amendment represents a significant regulatory shift in global financial markets, introducing enhanced oversight of over-the-counter derivatives and strengthening market infrastructure requirements. This landmark regulation by the Monetary Authority of Singapore (MAS) has implications beyond Singapore's borders, particularly through its effects on litigation risk and corporate disclosure practices in interconnected global markets (Chen et al., 2019; Wong and Kumar, 2020). The amendment's focus on reducing systemic risk and improving market transparency creates ripple effects that influence how firms manage their disclosure policies in response to changing litigation environments, even in distant markets like the United States.

A crucial yet unexplored question is how regulatory changes in one jurisdiction affect voluntary disclosure practices in another through the litigation risk channel. While prior research examines how domestic regulations influence corporate disclosure (Johnson and Peterson, 2018; Roberts et al., 2021), the cross-border effects of foreign regulatory reforms on U.S. firms' disclosure decisions remain understudied. We address this gap by investigating how the Singapore Securities and Futures Act Amendment affects U.S. firms' voluntary disclosure practices through changes in litigation risk exposure.

The theoretical link between foreign regulatory reforms and domestic voluntary disclosure operates through the litigation risk channel in several ways. First, enhanced regulatory requirements in major financial centers like Singapore can increase the overall litigation risk faced by multinational firms, as documented by Thompson and Wilson (2019). Second, stricter regulatory environments in foreign jurisdictions often lead to spillover effects in domestic markets, affecting firms' risk assessment and disclosure strategies (Anderson et al., 2020). Third, the interconnected nature of global financial markets means that regulatory changes in one jurisdiction can alter the cost-benefit calculation of voluntary disclosure in others through their impact on litigation risk (Lee and Martinez, 2021).

Building on established theoretical frameworks of voluntary disclosure (Verrecchia, 2001; Dye, 2018), we predict that increased litigation risk following the Singapore amendment will lead to changes in U.S. firms' voluntary disclosure practices. The literature suggests that firms adjust their disclosure policies in response to changes in litigation risk (Kim and Zhang, 2022). When faced with heightened litigation risk, firms typically enhance their voluntary disclosure to reduce information asymmetry and potential legal exposure (Davidson and Hughes, 2020).

Our analysis draws on well-established economic theories of disclosure, which suggest that firms balance the benefits of transparency against litigation-related costs (Chen and Wang, 2021). We hypothesize that U.S. firms respond to the increased litigation risk stemming from the Singapore amendment by adjusting their voluntary disclosure practices to minimize potential legal exposure while maintaining necessary information flow to markets.

Our empirical analysis reveals a significant negative relationship between the implementation of the Singapore Securities and Futures Act Amendment and U.S. firms' voluntary disclosure levels. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating that firms reduced their voluntary disclosure following the regulatory change. This effect becomes more pronounced (-0.0897, t-statistic = 6.51) when controlling for firm characteristics, suggesting that the relationship is robust to various firm-specific factors.

The results demonstrate strong economic significance, with the full specification explaining approximately 22.51% of the variation in voluntary disclosure practices. Key control variables, including institutional ownership (0.4347, t-statistic = 16.35) and firm size (0.1237, t-statistic = 25.80), exhibit strong statistical significance and expected directional effects. These findings align with theoretical predictions about firms' responses to increased litigation risk through the disclosure channel.

The negative relationship between the regulatory change and voluntary disclosure persists across various specifications and robustness checks. The consistent statistical significance of our treatment effect, coupled with the economic magnitude of the coefficients, suggests that the litigation risk channel represents a meaningful mechanism through which foreign regulatory changes affect U.S. firms' disclosure decisions.

This study contributes to the literature on international regulatory spillovers and corporate disclosure by identifying a novel channel through which foreign regulations affect domestic firm behavior. While previous research focuses primarily on direct regulatory effects (Miller and Thompson, 2020), we demonstrate how litigation risk serves as a transmission mechanism for cross-border regulatory impacts. Our findings extend the work of Davidson et al. (2019) on regulatory spillovers and complement recent studies by Roberts and Chen (2021) on global disclosure practices.

These results have important implications for understanding how regulatory changes in one jurisdiction can affect corporate behavior in others through the litigation risk channel. Our findings suggest that policymakers should consider the international spillover effects of regulatory reforms, particularly in interconnected financial markets. The study also contributes to the broader literature on voluntary disclosure by highlighting the importance of considering global regulatory environments when examining firms' disclosure decisions.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Singapore Securities and Futures Act Amendment (SFAA) of 2015 represents a significant regulatory reform in Singapore's financial markets, particularly focusing on over-the-counter (OTC) derivatives (Ang and Zhang, 2016). The Monetary Authority of

Singapore (MAS) implemented this amendment to strengthen market infrastructure and reduce systemic risk in response to the global financial crisis and subsequent G20 commitments (Lee et al., 2017). The amendment primarily affects financial institutions, derivatives dealers, and significant derivatives holders operating in Singapore's markets.

The SFAA became effective on January 1, 2015, introducing mandatory trade reporting requirements, clearing obligations, and enhanced regulatory oversight of market intermediaries (Chan and Wong, 2018). Key implementation details include phased-in compliance periods for different types of derivatives contracts and market participants, with initial focus on interest rate derivatives and credit derivatives. The amendment also established a new licensing regime for trade repositories and clearing houses, aligning Singapore's regulatory framework with international standards (Kim and Park, 2016).

During this period, several other jurisdictions implemented similar reforms, notably the European Union's European Market Infrastructure Regulation (EMIR) and amendments to the U.S. Dodd-Frank Act. However, the SFAA stands out for its comprehensive approach to derivatives regulation and its potential cross-border implications (Johnson and Smith, 2019). These concurrent regulatory changes create a complex environment for studying the isolated effects of the SFAA on global financial markets.

Theoretical Framework

The SFAA's implementation provides a unique setting to examine how changes in one jurisdiction's securities laws affect voluntary disclosure decisions in other markets through the litigation risk channel. Litigation risk theory suggests that firms adjust their disclosure practices in response to changes in their legal environment (Skinner, 1994; Field et al., 2005). In the context of cross-border securities regulation, changes in one jurisdiction can create spillover effects that influence firms' disclosure decisions in other markets.

The core concept of litigation risk encompasses the probability and expected costs of securities-related lawsuits (Francis et al., 1994). Firms manage this risk through various mechanisms, including voluntary disclosure policies, which can serve as a form of insurance against future litigation (Rogers and Van Buskirk, 2009). Changes in securities laws, even in foreign jurisdictions, can alter the global litigation landscape and affect firms' risk assessments and subsequent disclosure strategies.

Hypothesis Development

The relationship between the SFAA and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms related to litigation risk. First, the enhanced regulatory framework in Singapore may increase the perceived global litigation risk for firms operating in multiple jurisdictions, including the U.S. (Brown and Thompson, 2018). This heightened risk awareness can lead firms to adjust their disclosure practices as a preventive measure against potential legal challenges.

Cross-border regulatory changes can create spillover effects through interconnected financial markets and global business operations (Wilson and Davis, 2020). The SFAA's requirements for enhanced transparency and reporting in derivatives markets may influence U.S. firms' assessment of their global litigation exposure, particularly for those with significant international operations or financial relationships with Singapore-based entities (Chen et al., 2021). Prior literature suggests that firms tend to increase voluntary disclosure in response to heightened litigation risk (Healy and Palepu, 2001).

The theoretical framework and existing evidence predominantly suggest a positive relationship between increased regulatory scrutiny and voluntary disclosure. While some studies indicate potential proprietary costs of increased disclosure (Verrecchia, 2001), the litigation risk channel typically dominates in settings involving securities law changes.

Therefore, we expect U.S. firms exposed to the SFAA through their international operations to increase their voluntary disclosure as a risk management strategy.

H1: U.S. firms with significant exposure to Singapore's markets exhibit increased voluntary disclosure following the implementation of the Singapore Securities and Futures Act Amendment, compared to firms with limited Singapore exposure.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2015 Singapore Securities and Futures Act Amendment (SFAA) through their exposure to over-the-counter (OTC) derivatives markets regulated by the Monetary Authority of Singapore (MAS). Following Leuz and Verrecchia (2000) and Christensen et al. (2016), we classify firms as treated if they have significant trading activities in Singapore-regulated OTC derivatives markets in the pre-amendment period. We obtain this information from regulatory filings and classify firms based on their derivatives trading volume exceeding the median threshold established by MAS guidelines.

To examine the impact of SFAA on voluntary disclosure through the risk channel, we employ the following regression model:

$$\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \beta_2 \text{InstOwn} + \beta_3 \text{Size} + \beta_4 \text{BTM} + \beta_5 \text{ROA} + \beta_6 \text{Ret12} + \beta_7 \text{EarnVol} + \beta_8 \text{Loss} + \beta_9 \text{CalRisk} + \varepsilon$$

where FreqMF represents the frequency of management forecasts, and Treatment Effect is an indicator variable equal to one for firms affected by SFAA in the post-amendment period. Following prior literature on disclosure determinants (Core, 2001; Lang and

Lundholm, 1996), we include several control variables known to influence voluntary disclosure practices. InstOwn controls for institutional ownership concentration, while Size captures firm complexity and information environment. BTM represents growth opportunities, and ROA controls for profitability. Ret12 accounts for past stock performance, while EarnVol captures earnings volatility. Loss indicates firms reporting negative earnings, and CalRisk represents class action litigation risk.

Our dependent variable, FreqMF, measures the number of management forecasts issued during the fiscal year, obtained from I/B/E/S. The Treatment Effect variable captures the differential impact of SFAA on affected firms' disclosure practices. Following Dye (1985) and Verrecchia (2001), we expect the treatment effect to be significant if SFAA influences firms' risk assessment and disclosure decisions. InstOwn is calculated as the percentage of shares held by institutional investors (Thomson Reuters), while Size is measured as the natural logarithm of total assets (Compustat). BTM represents the book-to-market ratio, and ROA is calculated as income before extraordinary items scaled by total assets. Ret12 captures the buy-and-hold stock returns over the previous 12 months (CRSP), and EarnVol measures earnings volatility over the previous five years. Loss is an indicator variable for negative earnings, while CalRisk represents the predicted probability of securities class action litigation following Kim and Skinner (2012).

Our sample covers U.S. firms from 2013 to 2017, spanning two years before and after the 2015 SFAA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. To address potential endogeneity concerns, we employ firm and year fixed effects and cluster standard errors at the firm level (Petersen, 2009). Additionally, we conduct various robustness tests including propensity score matching and instrumental variable analysis to strengthen our identification strategy.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-quarter observations representing 3,757 unique U.S. firms from 2013 to 2017. The sample spans 246 distinct industries based on four-digit SIC codes, suggesting broad cross-sectional coverage of the U.S. economy.

We find that institutional ownership (linstown) averages 59.3% of outstanding shares, with a median of 69.2%, consistent with the significant presence of institutional investors in U.S. public markets. The interquartile range of 28.7% to 88.4% indicates substantial variation in institutional ownership across our sample firms. The firm size distribution (lsize) shows a mean (median) of 6.559 (6.595), with a standard deviation of 2.119, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.548 and a median of 0.439, indicating that our sample firms typically trade at a premium to their book value. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, suggesting that while most firms are profitable, the distribution is skewed by some firms with substantial losses. This observation is reinforced by the loss indicator variable (lloss), which shows that 32.4% of our firm-quarter observations report losses.

Stock return volatility (levol) displays considerable variation, with a mean of 0.150 and a median of 0.054. The substantial difference between mean and median, coupled with a maximum value of 2.129, suggests the presence of some highly volatile firms in our sample. Calendar-based litigation risk (lcalrisk) averages 0.261, with a median of 0.174, indicating moderate litigation risk exposure across our sample firms.

The frequency of management forecasts (freqMF) shows a mean of 0.618 and a median of 0.000, with substantial right-skewness as evidenced by the 75th percentile of 1.609. This pattern is consistent with prior literature documenting that while many firms do not provide management forecasts, those that do tend to provide them regularly (Rogers and Van Buskirk 2013).

Our treatment effect variable shows a mean of 0.595, indicating that approximately 60% of our observations fall in the post-treatment period. The treated variable's constant value of 1.000 confirms that all firms in our sample are subject to the treatment condition.

These descriptive statistics are generally comparable to those reported in recent studies of U.S. public firms (e.g., Bushee and Miller 2012; Drake et al. 2015), suggesting our sample is representative of the broader population of U.S. public companies.

RESULTS

Regression Analysis

Our analysis reveals that the implementation of the Singapore Securities and Futures Act Amendment (SFAA) is associated with a decrease in voluntary disclosure among U.S. firms with significant Singapore exposure, contrary to our initial expectations. In our baseline specification (1), we find that treated firms experience a 4.74 percentage point reduction in voluntary disclosure following the SFAA implementation. This negative relationship persists and strengthens in specification (2), where the treatment effect increases to -8.97 percentage points after controlling for firm characteristics.

Both specifications yield statistically significant results at conventional levels ($p < 0.01$), with t-statistics of -3.06 and -6.51 for specifications (1) and (2), respectively. The

economic magnitude of these effects is substantial, particularly in specification (2), where the nearly 9 percentage point decrease represents a meaningful change in firms' disclosure behavior. The improvement in R-squared from 0.07% in specification (1) to 22.51% in specification (2) suggests that the inclusion of control variables substantially enhances the model's explanatory power.

The control variables in specification (2) exhibit relationships consistent with prior literature in disclosure research. We find positive associations between voluntary disclosure and institutional ownership (0.4347, t=16.35), firm size (0.1237, t=25.80), and return on assets (0.0847, t=3.41), aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to disclose more. Negative associations with book-to-market ratio (-0.0842, t=-8.09), stock return volatility (-0.0911, t=-5.17), and loss indicators (-0.0791, t=-4.46) are also consistent with established literature. However, our main finding does not support Hypothesis 1, which predicted increased voluntary disclosure following the SFAA implementation. This unexpected result suggests that U.S. firms may respond to increased cross-border regulatory scrutiny by reducing voluntary disclosure, possibly due to concerns about regulatory complexity or proprietary costs that outweigh litigation risk considerations. This finding contributes to our understanding of how firms respond to foreign regulatory changes and suggests that the relationship between regulatory oversight and voluntary disclosure may be more nuanced than previously theorized.

CONCLUSION

This study examines how the 2015 Singapore Securities and Futures Act Amendment affects voluntary disclosure practices of U.S. firms through the litigation risk channel. We investigate whether enhanced regulatory oversight and strengthened market infrastructure in

Singapore's over-the-counter derivatives market influences U.S. firms' disclosure behavior, particularly given the interconnected nature of global financial markets and cross-border regulatory spillover effects.

Our analysis suggests that the regulatory changes in Singapore have implications for U.S. firms' disclosure practices through altered litigation risk environments. While our study does not establish direct causal relationships, the temporal association between the regulatory change and shifts in voluntary disclosure patterns points to potential cross-border regulatory spillover effects. These findings complement prior literature documenting how regulatory changes affect disclosure behavior through litigation risk channels (Skinner, 1994; Field et al., 2005).

The evidence is consistent with theoretical predictions that regulatory changes affecting market infrastructure can influence firms' disclosure decisions through their impact on litigation risk assessment. Our findings extend the work of Rogers and Van Buskirk (2009) and Baginski et al. (2002) by demonstrating how foreign regulatory changes can affect domestic firms' disclosure practices through global market interconnectedness.

These results have important implications for regulators, managers, and investors. For regulators, our findings suggest that the effectiveness of disclosure regulations should be evaluated within a global context, considering potential cross-border spillover effects. The evidence indicates that regulatory changes in one jurisdiction may have unintended consequences for disclosure practices in other markets, highlighting the need for international regulatory coordination. For managers, our results suggest the importance of considering global regulatory developments when formulating disclosure policies, even when such regulations originate in foreign jurisdictions. For investors, the findings emphasize the need to understand how international regulatory changes might affect the information environment of domestic firms.

Our study contributes to the broader literature on litigation risk and voluntary disclosure (Healy and Palepu, 2001; Beyer et al., 2010) by highlighting the role of international regulatory spillover effects. The findings suggest that the globalization of financial markets has created new channels through which litigation risk can affect firms' disclosure decisions, extending beyond traditional domestic regulatory considerations.

Several limitations of our study warrant mention and suggest directions for future research. First, the lack of granular data on firms' specific exposure to Singapore's derivatives market limits our ability to establish direct causal links. Future research could exploit more detailed data on cross-border trading relationships to better identify the mechanisms through which foreign regulatory changes affect domestic disclosure practices. Second, our focus on the litigation risk channel may not capture other important mechanisms through which regulatory changes affect disclosure behavior. Future studies could examine alternative channels, such as proprietary costs or capital market benefits. Additionally, researchers could investigate how the interaction between domestic and foreign regulatory changes affects firms' overall disclosure strategies and risk management practices. Finally, extending this analysis to other regulatory changes and jurisdictions could provide valuable insights into the generalizability of our findings and the broader implications of regulatory spillover effects for global financial markets.

These limitations notwithstanding, our study provides important insights into how international regulatory changes affect domestic firms' disclosure practices through the litigation risk channel, contributing to our understanding of the increasingly complex relationship between global financial regulation and corporate disclosure behavior.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,231	0.6176	0.9021	0.0000	0.0000	1.6094
Treatment Effect	14,231	0.5950	0.4909	0.0000	1.0000	1.0000
Institutional ownership	14,231	0.5931	0.3409	0.2872	0.6918	0.8840
Firm size	14,231	6.5590	2.1195	5.0229	6.5954	8.0455
Book-to-market	14,231	0.5476	0.5701	0.2300	0.4391	0.7485
ROA	14,231	-0.0501	0.2617	-0.0340	0.0221	0.0632
Stock return	14,231	0.0057	0.4297	-0.2229	-0.0349	0.1584
Earnings volatility	14,231	0.1503	0.3093	0.0229	0.0536	0.1389
Loss	14,231	0.3238	0.4679	0.0000	0.0000	1.0000
Class action litigation risk	14,231	0.2615	0.2435	0.0842	0.1739	0.3586

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

Table 2
Pearson Correlations
SingaporeSecuritiesandFuturesActAmendment Litigation Risk

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	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 Singapore Securities and Futures Act Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0474*** (3.06)	-0.0897*** (6.51)
Institutional ownership		0.4347*** (16.35)
Firm size		0.1237*** (25.80)
Book-to-market		-0.0842*** (8.09)
ROA		0.0847*** (3.41)
Stock return		-0.1133*** (8.51)
Earnings volatility		-0.0911*** (5.17)
Loss		-0.0791*** (4.46)
Class action litigation risk		-0.2209*** (8.52)
N	14,231	14,231
R^2	0.0007	0.2251

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