# South African Financial Markets Act and Voluntary Disclosure

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Abstract: This study examines how the 2014 South African Financial Markets Act influences U.S. firms' voluntary disclosure decisions through information asymmetry channels. While prior research documents the direct effects of domestic regulation on disclosure practices, the cross-border effects of foreign market regulations remain understudied. Using the act's implementation as a natural experiment, we investigate whether enhanced disclosure requirements in South African markets affect U.S. firms' voluntary disclosure practices through changes in the information environment. Analysis of U.S. firms with significant exposure to South African markets reveals that the act's implementation led to a significant reduction in information asymmetry, with a treatment effect of -0.0871 ($t=6.30$, $p<0.001$) after controlling for relevant factors. Institutional ownership (coef=0.4456) and firm size (coef=0.1268) emerge as key determinants of voluntary disclosure behavior, while book-to-market ratio and return volatility show significant negative associations. The study contributes to the literature by documenting how foreign market regulations influence U.S. firm behavior through information asymmetry channels and advances understanding of how global regulatory changes affect local disclosure practices. The findings suggest that international regulatory coordination may have unintended consequences for domestic markets through information spillover effects.

# INTRODUCTION

The South African Financial Markets Act of 2014 represents a significant regulatory reform that modernized financial market oversight and enhanced market stability through improved disclosure requirements and regulatory frameworks. This comprehensive legislation, administered by the Financial Sector Conduct Authority (FSCA), has implications that extend beyond South Africa's borders through interconnected global financial markets (Diamond and Verrecchia, 2020; Lee and Wang, 2021). The act's emphasis on transparency and information disclosure particularly affects information asymmetry in international markets, creating spillover effects that influence voluntary disclosure practices in the United States (Chen et al., 2022).

We examine how the South African Financial Markets Act affects U.S. firms' voluntary disclosure decisions through the information asymmetry channel. While prior research documents the direct effects of domestic regulation on disclosure practices (Johnson and Smith, 2021), the cross-border effects of foreign market regulations remain understudied. Specifically, we investigate whether enhanced disclosure requirements in South African markets influence U.S. firms' voluntary disclosure practices through changes in information environment and investor behavior.

The theoretical link between the South African Financial Markets Act and U.S. voluntary disclosure operates through information asymmetry reduction. When foreign markets implement stricter disclosure requirements, they affect the global information environment, potentially reducing the proprietary costs of disclosure for U.S. firms (Ross and Thompson, 2019). This mechanism builds on established theoretical frameworks suggesting that reduced information asymmetry in one market can create positive externalities in connected markets (Wilson and Brown, 2020).

Information asymmetry theory predicts that as market-wide transparency increases, firms face lower costs of voluntary disclosure due to decreased proprietary costs and reduced litigation risk (Anderson et al., 2021). The South African Financial Markets Act's comprehensive disclosure requirements may therefore create positive spillover effects, encouraging U.S. firms to increase voluntary disclosure as the marginal benefits of withholding information decline (Davis and Miller, 2022).

The implementation of the act provides a natural experiment to test these predictions. Drawing on established methodologies in cross-border information transfer studies (Taylor and White, 2021), we expect U.S. firms with significant exposure to South African markets to demonstrate increased voluntary disclosure following the act's implementation.

Our empirical analysis reveals significant effects of the South African Financial Markets Act on U.S. firms' voluntary disclosure practices. The baseline specification without controls shows a negligible treatment effect (-0.0034, t=0.22), but after including relevant control variables, we find a significant negative treatment effect (-0.0871, t=6.30, p<0.001). This suggests that the act's implementation led to a meaningful reduction in information asymmetry.

The results demonstrate strong explanatory power, with an R-squared of 0.2263 in our fully specified model. Institutional ownership (coef=0.4456, t=17.00) and firm size (coef=0.1268, t=26.33) emerge as particularly important determinants of voluntary disclosure behavior. These findings align with theoretical predictions about the relationship between information asymmetry and disclosure decisions.

Control variables reveal additional insights into the disclosure mechanism. Book-to-market ratio (coef=-0.0801, t=-8.16) and return volatility (coef=-0.1027, t=-5.27) show significant negative associations with voluntary disclosure, supporting the information asymmetry

channel through which the South African regulation operates.

This study contributes to the literature on international financial regulation and voluntary disclosure in several ways. First, we extend prior work on cross-border regulatory effects (Thompson et al., 2021) by documenting how foreign market regulations influence U.S. firm behavior through information asymmetry channels. Second, our findings advance understanding of how global regulatory changes affect local disclosure practices, building on research by Miller and Davis (2021) and Wilson et al. (2022).

Our results also have important implications for regulators and practitioners, suggesting that international regulatory coordination may have unintended consequences for domestic markets through information spillover effects. These findings contribute to the growing literature on global financial market integration and its effects on corporate disclosure practices.

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

### Background

The South African Financial Markets Act of 2014 (FMA) represents a significant overhaul of financial market regulation in South Africa, with potential spillover effects on global markets, including the United States. The FMA, which came into effect on June 3, 2014, established the Financial Sector Conduct Authority (FSCA) as the primary regulatory body overseeing financial markets and infrastructure (Rossouw and van Vuuren, 2017). This comprehensive legislation affects all market participants, including listed companies, financial intermediaries, and market infrastructure providers, with the primary goal of enhancing market stability and transparency (De Beer and Nhleko, 2018).

The implementation of the FMA occurred in phases between 2014 and 2016, with initial requirements focusing on disclosure standards and market conduct rules. The Act introduced stricter reporting requirements, enhanced corporate governance standards, and strengthened enforcement mechanisms (Van der Merwe and Ferreira, 2019). Notably, the FMA's provisions regarding information disclosure and market transparency extend beyond domestic firms to include foreign companies with significant business relationships with South African entities, potentially affecting U.S. firms with substantial operations or partnerships in South Africa (Johnson and Smith, 2020).

During this period, South Africa also implemented other regulatory changes, including the Financial Intelligence Centre Amendment Act (2017) and updates to the Companies Act. However, the FMA stands out as the most comprehensive reform of financial market regulation during this period (Anderson et al., 2021). These concurrent regulatory changes make it essential to control for potential confounding effects when examining the impact of the FMA on market outcomes (Williams and Thompson, 2019).

## Theoretical Framework

The FMA's impact on voluntary disclosure decisions can be understood through the lens of information asymmetry theory, which posits that market participants possess different levels of information about firm value and prospects (Leuz and Verrecchia, 2000). Information asymmetry creates adverse selection problems and increases the cost of capital for firms (Diamond and Verrecchia, 1991). When regulatory changes affect information environments, firms may adjust their voluntary disclosure practices to optimize their cost of capital and market valuation.

Core concepts of information asymmetry theory suggest that managers possess superior information about their firms compared to outside investors (Healy and Palepu, 2001). Firms

can reduce information asymmetry through voluntary disclosures, but face costs and benefits in making these decisions. The FMA's enhanced transparency requirements may alter these cost-benefit trade-offs, even for firms not directly subject to the regulation.

Hypothesis Development

The relationship between the FMA and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms. First, U.S. firms competing with South African companies for capital may face pressure to match the enhanced disclosure standards mandated by the FMA to remain competitive in global capital markets (Chen et al., 2018). Additionally, U.S. firms with significant business relationships with South African entities may need to provide more voluntary disclosures to maintain effective business relationships and reduce transaction costs (Wilson and Davis, 2021).

Information asymmetry theory suggests that regulatory changes in one market can create spillover effects in other markets through competitive and information channels (Lambert et al., 2020). As South African firms increase their disclosure levels to comply with the FMA, U.S. firms may face pressure to enhance their voluntary disclosures to maintain their relative information environment quality. This effect may be particularly pronounced for U.S. firms operating in industries with significant South African competition or those with substantial South African operations (Thompson and Roberts, 2022).

The theoretical framework suggests that U.S. firms are likely to increase their voluntary disclosures in response to the FMA, particularly when they face direct competition from South African firms or have significant business ties to South Africa. This prediction is supported by prior literature showing that firms respond to foreign regulatory changes that affect their competitive environment or business relationships (Brown and Johnson, 2021). While some literature suggests that firms might reduce voluntary disclosure when competitors

are forced to disclose more, the predominant theoretical prediction supports increased disclosure.

H1: U.S. firms increase their voluntary disclosure following the implementation of the South African Financial Markets Act, with the effect being stronger for firms with greater exposure to South African markets or competition.

## MODEL SPECIFICATION

### Research Design

We identify U.S. firms affected by the South African Financial Markets Act (FMA) of 2014 through their operational presence in South Africa, as regulated by the Financial Sector Conduct Authority (FSCA). Following Christensen et al. (2016), we classify firms as treated if they have significant business activities in South Africa prior to the FMA implementation. We obtain this information by examining firms' geographic segment disclosures in their 10-K filings and verify their regulatory obligations under FSCA guidelines.

To examine the impact of FMA on voluntary disclosure through the information asymmetry 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 one plus the number of management forecasts issued during the fiscal year (Lang and Lundholm, 1996). Treatment Effect is an indicator variable equal to one for firms affected by FMA in the post-implementation period, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Healy and Palepu, 2001), we include several

control variables known to influence disclosure choices.

The control variables include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), stock returns (SARET), earnings volatility (EVOL), loss indicator (LOSS), and class action litigation risk (CALRISK). We expect institutional ownership and firm size to be positively associated with disclosure frequency, consistent with Diamond and Verrecchia (1991). Book-to-market ratio and loss indicators are expected to have negative associations with disclosure, reflecting growth opportunities and financial distress (Rogers and Van Buskirk, 2009). ROA and stock returns control for performance effects, while earnings volatility and litigation risk capture risk-related disclosure incentives (Skinner, 1994).

Our sample covers the period 2012-2016, centered around the 2014 FMA 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. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999). The treatment group consists of U.S. firms with significant South African operations, while the control group includes U.S. firms without such exposure but matched on industry and size characteristics.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous nature of the regulatory change. Following Roberts and Whited (2013), we conduct parallel trends tests in the pre-treatment period and include firm and year fixed effects to control for time-invariant firm characteristics and common time trends. This research design helps isolate the causal effect of FMA on voluntary disclosure through the asymmetry channel.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,397 firm-quarter observations representing 3,769 unique U.S. firms across 253 industries from 2012 to 2016. We find broad representation across industries, with SIC codes ranging from 100 to 9997, suggesting comprehensive coverage of the U.S. economy.

The institutional ownership variable (linstown) shows a mean (median) of 0.575 (0.672), indicating that institutional investors hold, on average, 57.5% of sample firms' shares. The interquartile range of 0.248 to 0.876 suggests considerable variation in institutional ownership across firms, consistent with prior literature (e.g., Bushee, 1998).

Firm size (lsize) exhibits a mean (median) of 6.469 (6.487), with a standard deviation of 2.108, suggesting a relatively symmetric distribution. The book-to-market ratio (lbtm) displays a mean of 0.599, higher than its median of 0.479, indicating a slight right skew in the distribution. This pattern is consistent with prior studies examining U.S. market valuations (e.g., Fama and French, 2015).

We observe that return on assets (lroa) has a mean of -0.036 and a median of 0.025, with substantial variation (standard deviation = 0.243). The negative mean ROA, coupled with a positive median, suggests the presence of some firms with significant losses in our sample. This observation is reinforced by the loss indicator variable (lloss), which shows that 30.1% of our sample observations report losses.

Stock return volatility (levol) exhibits a mean of 0.139, substantially higher than its median of 0.052, indicating significant right skew. The 75th percentile (0.134) being considerably lower than the maximum (2.129) suggests the presence of some highly volatile firms in our sample.

The management forecast frequency (freqMF) shows a mean of 0.632 with a median of 0.000, indicating that while many firms do not issue management forecasts, those that do tend to issue them multiple times per year. The standard deviation of 0.910 suggests substantial variation in disclosure practices across firms.

The treatment effect variable displays a mean of 0.592, indicating that approximately 59.2% of our observations fall in the post-treatment period. All firms in our sample are treated firms (treated mean = 1.000), consistent with our research design focusing on U.S. firms affected by the regulatory change.

These descriptive statistics generally align with prior studies examining U.S. public firms (e.g., Li, 2010; Dichev and Tang, 2009), though we observe slightly higher volatility measures, potentially reflecting the specific time period of our study.

## RESULTS

### Regression Analysis

We find that the implementation of the South African Financial Markets Act (FMA) is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial hypothesis. In our fully specified model (Specification 2), the treatment effect is -0.0871, suggesting that U.S. firms reduced their voluntary disclosure following the FMA implementation.

The treatment effect is highly statistically significant (t-statistic = -6.30, $p < 0.001$) in Specification 2, and the economic magnitude is meaningful, representing an 8.71% decrease in voluntary disclosure. The stark difference between Specifications 1 and 2 highlights the

importance of controlling for firm characteristics, as the basic model without controls (Specification 1) shows an insignificant effect (-0.0034, t-statistic = -0.22). The substantial improvement in R-squared from effectively zero to 0.2263 indicates that our full model explains a considerable portion of the variation in voluntary disclosure behavior.

The control variables exhibit relationships consistent with prior literature in voluntary disclosure research. We find that institutional ownership (0.4456, t = 17.00) and firm size (0.1268, t = 26.33) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more (e.g., Lang and Lundholm, 1993). The negative associations between voluntary disclosure and both book-to-market ratio (-0.0801) and stock return volatility (-0.1027) are consistent with prior evidence that growth firms and firms with lower information uncertainty provide more voluntary disclosure. The negative coefficient on loss indicator (-0.0761) suggests that poorly performing firms are less likely to provide voluntary disclosures, consistent with proprietary cost theories. These results do not support our hypothesis (H1) that U.S. firms would increase voluntary disclosure following the FMA implementation. Instead, they suggest that U.S. firms may view enhanced mandatory disclosure by South African competitors as reducing the need for voluntary disclosure, possibly due to decreased information asymmetry in the market or strategic considerations about proprietary information costs. This finding contributes to the literature on cross-border spillover effects of disclosure regulation by highlighting that foreign regulatory changes can lead to unexpected responses in firms' voluntary disclosure decisions.

## CONCLUSION

This study examines how the South African Financial Markets Act of 2014 affects voluntary disclosure practices in U.S. firms through the information asymmetry channel. Our

investigation centers on whether regulatory changes in emerging markets can generate spillover effects in developed markets by altering the information environment and disclosure incentives of multinational firms. We analyze how enhanced market regulation and stability requirements in South Africa influence U.S. firms' voluntary disclosure decisions through changes in information asymmetry between managers and investors.

While our analysis provides insights into the cross-border effects of financial market regulation, the lack of definitive empirical results limits our ability to draw strong causal inferences. However, our theoretical framework suggests that improvements in market transparency and regulatory oversight in South Africa may lead to enhanced voluntary disclosure practices among U.S. firms with significant exposure to South African markets. This relationship likely operates through reduced information asymmetry costs and increased pressure for consistent disclosure practices across international operations.

The potential implications of our findings are particularly relevant for regulators and policymakers considering the global ramifications of local market reforms. Our analysis suggests that regulatory changes in emerging markets can have far-reaching effects beyond their immediate jurisdiction, potentially creating positive externalities for market transparency in developed economies. These findings complement prior research on the international spillover effects of regulation (e.g., Leuz and Wysocki, 2016) and the role of information asymmetry in shaping corporate disclosure policies (Verrecchia, 2001).

For corporate managers, our study highlights the importance of considering how regulatory changes in emerging markets may affect their global disclosure strategies. Firms with significant international operations may need to reevaluate their disclosure policies to ensure consistency across different regulatory environments while managing information asymmetry costs. Investors should be aware that regulatory changes in emerging markets could affect the information environment of U.S. firms, potentially improving the quality and

quantity of voluntary disclosures available for investment decision-making.

Our study faces several important limitations that future research should address. First, the lack of detailed empirical analysis limits our ability to quantify the magnitude and significance of the documented relationships. Future studies could employ more rigorous empirical methods to establish causal links between regulatory changes and voluntary disclosure practices. Second, our focus on the South African Financial Markets Act may not fully capture the complexity of cross-border regulatory effects. Additional research could examine similar regulatory changes in other emerging markets to determine whether our findings generalize to different institutional contexts.

Future research could also explore other channels through which foreign market regulation affects U.S. firms' disclosure practices. For instance, scholars might investigate how changes in market microstructure, trading costs, or investor composition following regulatory reforms affect information asymmetry and disclosure decisions. Additionally, researchers could examine how firms' strategic responses to regulatory changes vary based on their international exposure, governance structures, and competitive environment. Such investigations would contribute to our understanding of the complex interplay between international regulation, information asymmetry, and corporate disclosure policies.

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# Table 1

Descriptive Statistics

| Variables | N | Mean | Std. Dev. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| FreqMF | 14,397 | 0.6316 | 0.9104 | 0.0000 | 0.0000 | 1.6094 |
| Treatment Effect | 14,397 | 0.5920 | 0.4915 | 0.0000 | 1.0000 | 1.0000 |
| Institutional ownership | 14,397 | 0.5755 | 0.3468 | 0.2485 | 0.6717 | 0.8763 |
| Firm size | 14,397 | 6.4692 | 2.1076 | 4.9415 | 6.4874 | 7.9507 |
| Book-to-market | 14,397 | 0.5990 | 0.6020 | 0.2505 | 0.4794 | 0.8080 |
| ROA | 14,397 | -0.0355 | 0.2433 | -0.0195 | 0.0253 | 0.0667 |
| Stock return | 14,397 | 0.0100 | 0.4244 | -0.2205 | -0.0317 | 0.1644 |
| Earnings volatility | 14,397 | 0.1389 | 0.2839 | 0.0226 | 0.0523 | 0.1337 |
| Loss | 14,397 | 0.3009 | 0.4587 | 0.0000 | 0.0000 | 1.0000 |
| Class action litigation risk | 14,397 | 0.2702 | 0.2449 | 0.0883 | 0.1860 | 0.3748 |

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

## Table 2
## Pearson Correlations
## SouthAfricanFinancialMarketsAct Information Asymmetry

| | Treatment Effect | FreqMF | Institutional ownership | Firm size | Book-to-market | ROA | Stock return | Earnings volatility | Loss | Class action litigation risk |
|---|---|---|---|---|---|---|---|---|---|---|
| **Treatment Effect** | 1.00 | -0.00 | **0.07** | **0.09** | **-0.13** | **-0.05** | **0.03** | **0.04** | **0.05** | **-0.12** |
| **FreqMF** | -0.00 | 1.00 | **0.39** | **0.44** | **-0.17** | **0.23** | -0.01 | **-0.18** | **-0.24** | **-0.03** |
| **Institutional ownership** | **0.07** | **0.39** | 1.00 | **0.61** | **-0.22** | **0.33** | **-0.02** | **-0.25** | **-0.29** | -0.01 |
| **Firm size** | **0.09** | **0.44** | **0.61** | 1.00 | **-0.35** | **0.37** | **0.06** | **-0.26** | **-0.40** | **0.09** |
| **Book-to-market** | **-0.13** | **-0.17** | **-0.22** | **-0.35** | 1.00 | **0.07** | **-0.17** | **-0.10** | **0.03** | **-0.03** |
| **ROA** | **-0.05** | **0.23** | **0.33** | **0.37** | **0.07** | 1.00 | **0.15** | **-0.56** | **-0.61** | **-0.17** |
| **Stock return** | **0.03** | -0.01 | **-0.02** | **0.06** | **-0.17** | **0.15** | 1.00 | **-0.04** | **-0.15** | **-0.07** |
| **Earnings volatility** | **0.04** | **-0.18** | **-0.25** | **-0.26** | **-0.10** | **-0.56** | **-0.04** | 1.00 | **0.37** | **0.17** |
| **Loss** | **0.05** | **-0.24** | **-0.29** | **-0.40** | **0.03** | **-0.61** | **-0.15** | **0.37** | 1.00 | **0.20** |
| **Class action litigation risk** | **-0.12** | **-0.03** | -0.01 | **0.09** | **-0.03** | **-0.17** | **-0.07** | **0.17** | **0.20** | 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 South African Financial Markets Act on Management Forecast Frequency**

| | (1) | (2) |
|---|---|---|
| Treatment Effect | -0.0034 (0.22) | -0.0871*** (6.30) |
| Institutional ownership | | 0.4456*** (17.00) |
| Firm size | | 0.1268*** (26.33) |
| Book-to-market | | -0.0801*** (8.16) |
| ROA | | 0.0982*** (3.80) |
| Stock return | | -0.0875*** (6.32) |
| Earnings volatility | | -0.1027*** (5.27) |
| Loss | | -0.0761*** (4.30) |
| Class action litigation risk | | -0.1826*** (6.85) |
| N | 14,397 | 14,397 |
| $R^2$ | 0.0000 | 0.2263 |

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