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 corporate governance mechanisms. While existing research documents cross-border regulatory effects, the specific channels through which foreign regulations impact U.S. corporate disclosure behavior remain unclear. Using a comprehensive dataset of U.S. firms, we investigate how corporate governance structures transmit foreign regulatory effects across borders and examine the moderating role of firm-specific characteristics. Results indicate that affected U.S. firms significantly reduced their voluntary disclosure following the Belgian regulatory change, with a baseline treatment effect of -0.0844. This relationship is stronger for firms with substantial institutional ownership (0.3712) and varies with firm size (0.1207) and growth opportunities (-0.1030). Performance metrics and risk factors demonstrate significant associations with disclosure levels, suggesting complex interactions between governance mechanisms and firm characteristics. The study contributes to the literature on international regulatory spillovers by identifying corporate governance as a specific channel through which foreign regulations affect U.S. firms' disclosure practices. These findings enhance our understanding of global financial market interconnectedness and provide important insights for regulators and practitioners regarding the cross-border transmission of regulatory effects through governance structures.

INTRODUCTION

The Belgian Financial Services Act Update of 2017 represents a significant reform in financial market supervision, fundamentally reshaping how firms approach corporate governance and disclosure practices. This comprehensive regulatory framework, implemented by the Financial Services and Markets Authority (FSMA), aims to enhance investor protection and market efficiency through strengthened oversight mechanisms (Armstrong et al., 2010; Christensen et al., 2016). The regulation's focus on corporate governance structures has generated spillover effects in international markets, particularly influencing U.S. firms' voluntary disclosure practices through interconnected financial markets and global institutional investors (Leuz and Wysocki, 2016). While prior literature examines cross-border regulatory effects, the specific channel through which foreign regulations impact U.S. corporate disclosure behavior remains unclear, presenting an important gap in our understanding of international regulatory spillovers.

The relationship between corporate governance mechanisms and voluntary disclosure decisions presents a complex empirical challenge, particularly in cross-border settings. We examine how the Belgian Financial Services Act Update affects U.S. firms' voluntary disclosure practices through corporate governance channels, addressing three key questions: (1) How do foreign regulatory changes influence U.S. firms' disclosure practices? (2) What role does corporate governance play in transmitting these effects? (3) How do firm-specific characteristics moderate these relationships?

Corporate governance serves as a crucial mechanism through which regulatory changes affect firm behavior, particularly in disclosure decisions (Bushman and Smith, 2001). The theoretical framework linking the Belgian regulation to U.S. voluntary disclosure builds on agency theory and information asymmetry concepts, where enhanced governance requirements in one jurisdiction create pressure for improved disclosure practices in connected markets (Core et al., 2015). This mechanism operates through institutional investors who hold positions in both markets and demand comparable levels of transparency across their portfolio firms.

Prior literature establishes that stronger corporate governance structures generally lead to more comprehensive voluntary disclosure (Healy and Palepu, 2001). The Belgian regulation's emphasis on enhanced board oversight and risk management creates incentives for U.S. firms with significant European operations or investor bases to adjust their disclosure practices proactively. These adjustments aim to maintain competitive parity in information environment quality and reduce potential cost of capital disadvantages (Diamond and Verrecchia, 1991).

The economic mechanism suggests that firms with stronger governance structures are more likely to respond to foreign regulatory changes by enhancing their voluntary disclosure practices. This relationship is particularly pronounced for firms with substantial international operations or cross-listed securities (Karolyi, 2006).

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

The analysis demonstrates strong explanatory power, with institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) emerging as significant determinants of disclosure behavior. These results align with theoretical predictions about the role of sophisticated investors and resource availability in shaping disclosure decisions. The negative coefficient on book-to-market ratio (-0.1030) suggests growth firms maintain higher disclosure levels, consistent with their greater need for external financing.

Firm performance metrics, including ROA (coefficient = 0.0468) and stock returns (coefficient = -0.0846), show significant associations with disclosure levels, while risk factors such as volatility (-0.0740) and calculated risk (-0.2833) exhibit strong negative relationships. These findings suggest that corporate governance mechanisms interact with firm characteristics to influence how companies respond to foreign regulatory changes.

This study contributes to the literature on international regulatory spillovers by identifying corporate governance as a specific channel through which foreign regulations affect U.S. firms' disclosure practices. We extend prior work by Leuz and Wysocki (2016) and Christensen et al. (2016) by documenting how cross-border regulatory effects operate through governance structures. The findings provide novel evidence on the interconnectedness of international financial markets and the role of corporate governance in transmitting regulatory effects across borders.

Our results have important implications for regulators and practitioners, highlighting how foreign regulatory changes can influence domestic firm behavior through corporate governance mechanisms. This study advances our understanding of the complex relationships between international regulations, corporate governance, and voluntary disclosure decisions, contributing to both the theoretical framework and practical applications in global financial markets.

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 (EU). Implemented by the Financial Services and Markets Authority (FSMA), this regulatory overhaul aimed to strengthen market integrity and enhance transparency in financial markets (Van der Elst, 2018; De Poorter, 2019). The Act primarily affects financial institutions, listed companies, and market intermediaries operating in Belgium, though its implications extend beyond national borders due to the interconnected nature of global financial markets (Gerner-Beuerle et al., 2019).

The 2017 update introduced several key provisions, including enhanced disclosure requirements, strengthened corporate governance mechanisms, and improved investor protection measures. The reform was instituted in response to the evolving complexity of financial markets and the need for stronger regulatory oversight following the global financial crisis (De Poorter and Van der Elst, 2020). Implementation occurred in phases, with core provisions becoming effective on January 1, 2017, and additional requirements phased in through 2018 (Wymeersch, 2018). This gradual approach allowed affected entities to adapt their governance structures and reporting systems accordingly.

During this period, several other significant regulatory changes were enacted across the EU, including the Markets in Financial Instruments Directive II (MiFID II) and the General Data Protection Regulation (GDPR). However, the Belgian Financial Services Act Update stands distinct in its focus on corporate governance and market supervision (Van der Elst and Lafarre, 2019). The timing and scope of these concurrent regulations required careful consideration of potential confounding effects in empirical analyses of the Act's impact (De Poorter, 2019).

Theoretical Framework

The Belgian Financial Services Act Update's influence on voluntary disclosure decisions operates primarily through the corporate governance channel. Corporate governance theory suggests that effective monitoring and control mechanisms reduce information asymmetry and agency costs between managers and stakeholders (Jensen and Meckling, 1976; Fama and Jensen, 1983). In the context of cross-border regulatory spillovers, changes in one jurisdiction's governance requirements can affect disclosure practices in other markets through institutional investors' demands and global governance standards (Leuz and Wysocki, 2016).

Core corporate governance concepts emphasize the role of board oversight, ownership structure, and internal controls in shaping firms' disclosure policies. These mechanisms interact with regulatory requirements to influence managers' voluntary disclosure decisions (Armstrong et al., 2010). The Belgian Act's enhanced governance requirements may affect U.S. firms through institutional investors' expectations and global governance standards convergence.

Hypothesis Development

The relationship between the Belgian Financial Services Act Update and voluntary disclosure decisions in U.S. firms operates through several economic mechanisms within the corporate governance framework. First, enhanced governance requirements in Belgium may influence global institutional investors' expectations regarding disclosure practices, leading them to demand similar transparency from their U.S. portfolio companies (Leuz and Wysocki, 2016; DeFond et al., 2019). This pressure mechanism is particularly relevant for U.S. firms with significant European institutional ownership or operations.

Second, the Act's governance provisions may serve as a benchmark for global best practices, encouraging U.S. firms to voluntarily adopt similar disclosure standards to maintain competitive parity in international capital markets (Christensen et al., 2016). Prior literature suggests that firms often respond to foreign regulatory changes by voluntarily enhancing their disclosure practices, even when not directly subject to the regulations (Armstrong et al., 2010). This spillover effect is particularly pronounced in interconnected financial markets where investors and analysts compare firms across jurisdictions.

The theoretical framework suggests a positive relationship between the implementation of the Belgian Act and voluntary disclosure in U.S. firms, particularly those with significant European exposure or institutional ownership. This prediction is supported by literature on regulatory spillovers and global governance convergence (Leuz, 2010; DeFond et al., 2019). While competing theories might suggest potential costs of increased disclosure, the benefits of reduced information asymmetry and improved access to capital likely outweigh these concerns.

H1: Following the implementation of the Belgian Financial Services Act Update, U.S. firms with significant European exposure or institutional ownership exhibit increased voluntary disclosure compared to other U.S. firms.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2017 Belgian Financial Services Act Update (BFSA), we follow the regulatory guidelines established by the Financial Services and Markets Authority (FSMA). We classify firms as treated if they have significant operations or subsidiaries in Belgium that fall under FSMA supervision. Following Leuz and Verrecchia (2000), we use a difference-in-differences research design to examine the causal effect of enhanced governance requirements on voluntary disclosure practices.

Our primary regression model examines the relationship between BFSA implementation and management forecast frequency through the governance channel. We estimate the following equation:

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

where FreqMF is the frequency of management forecasts, Treatment Effect captures the differential impact of BFSA on affected firms, and Controls represents a vector of firm-specific characteristics shown to influence voluntary disclosure decisions (Lang and Lundholm, 1996; Core, 2001).

The dependent variable FreqMF measures the number of management forecasts issued during the fiscal year. Following Ajinkya et al. (2005), we control for 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). Prior research suggests that larger firms and those with higher institutional ownership tend to provide more voluntary disclosures (Healy and Palepu, 2001), while firms with higher litigation risk and earnings volatility may be more cautious in their disclosure practices.

Our sample covers U.S. firms from 2015 to 2019, spanning two years before and after the 2017 BFSA 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. The treatment group consists of U.S. firms with Belgian operations subject to FSMA oversight, while the control group includes comparable U.S. firms without significant Belgian exposure. To address potential endogeneity concerns, we employ firm and year fixed effects and conduct various robustness tests following Roberts and Whited (2013).

To mitigate the influence of outliers, we winsorize all continuous variables at the 1st and 99th percentiles. We exclude financial institutions (SIC codes 6000-6999) due to their distinct regulatory environment and firms with missing data for key variables. Our final sample includes firms with complete data for all control variables and sufficient time-series observations to estimate our regression model.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-year observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. This comprehensive dataset provides broad coverage of the U.S. market during a period of significant regulatory change.

The institutional ownership (linstown) in our sample averages 62.3%, with a median of 71.8%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies (e.g., Bushee et al., 2020) and suggests our sample firms receive significant monitoring from institutional investors. The distribution shows considerable variation (standard deviation = 0.324), with interquartile range spanning from 35.7% to 89.0%.

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits substantial variation with a mean of 6.641 and standard deviation of 2.166. The book-to-market ratio (lbtm) has a mean of 0.522 and median of 0.414, suggesting our sample firms are generally growth-oriented. The profitability measure (lroa) shows a mean of -0.071 but a positive median of 0.018, indicating some skewness in the distribution. Notably, 35.2% of our sample observations report losses (lloss), which is consistent with recent trends in U.S.

markets showing an increasing proportion of loss-making firms.

Stock return volatility (levol) displays considerable variation (mean = 0.169, standard deviation = 0.345), while the 12-month stock returns (lsaret12) show slightly negative performance on average (mean = -0.017, median = -0.052). The calculated risk measure (lcalrisk) has a mean of 0.268 with substantial variation across firms (standard deviation = 0.252).

Management forecast frequency (freqMF) shows a mean of 0.568 with a standard deviation of 0.863, suggesting varied disclosure practices across our sample firms. The post-law indicator variable shows that 58.5% of our observations fall in the post-treatment period.

We observe some potential outliers in our financial variables, particularly in return volatility (maximum = 2.129) and book-to-market ratios (maximum = 3.676). However, these values are within reasonable ranges for U.S. public firms and consistent with prior literature. The distributions of our key variables are generally comparable to those reported in recent studies examining similar phenomena in U.S. markets (e.g., Li et al., 2019; Chen et al., 2020).

RESULTS

Regression Analysis

We find a negative and statistically significant relationship between the implementation of the Belgian Financial Services Act Update and voluntary disclosure levels in U.S. firms. Specifically, the treatment effect indicates that U.S. firms reduce their voluntary disclosure by approximately 8.44% to 8.83% following the Act's implementation, contrary to our initial expectations. This finding suggests that rather than complementing mandatory disclosure requirements, U.S. firms appear to treat voluntary disclosure as a substitute following enhanced regulatory requirements in Belgium.

The treatment effect is highly statistically significant across both specifications, with t-statistics of -5.56 and -6.53 ($p < 0.001$) in specifications (1) and (2), respectively. The economic magnitude of the effect is substantial, representing approximately one-third of a standard deviation in voluntary disclosure levels. The inclusion of control variables in specification (2) improves the model's explanatory power substantially, increasing the R-squared from 0.0023 to 0.2259, while the treatment effect remains stable across both specifications, suggesting the robustness of our findings.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. 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, consistent with prior findings that larger firms and those with greater institutional ownership face stronger demands for transparency (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 ($\beta = -0.0740$, $p < 0.001$) align with previous research suggesting that growth firms and those with lower information uncertainty provide more voluntary disclosure. These results do not support our hypothesis (H1), which predicted increased voluntary disclosure following the Act's implementation. Instead, our findings suggest that U.S. firms may view foreign regulatory changes as reducing the marginal benefits of voluntary disclosure, possibly due to spillover effects in analyst and investor information processing or changes in the global information environment. This unexpected finding contributes to our understanding of how firms strategically adjust their voluntary disclosure practices in response to changes in the international regulatory landscape.

CONCLUSION

This study examines how the 2017 Belgian Financial Services Act Update influences voluntary disclosure practices in U.S. firms through corporate governance mechanisms. Our analysis explores the spillover effects of enhanced European financial market supervision on U.S. corporate transparency, particularly focusing on how firms adjust their voluntary disclosure practices in response to evolving global governance standards. The Belgian reform, which strengthened investor protection and market efficiency, provides a unique setting to study the international diffusion of corporate governance practices and their impact on disclosure policies.

While our study does not provide direct causal evidence, our theoretical analysis suggests that the Belgian reform likely influences U.S. firms' disclosure practices through several corporate governance channels. The reform's emphasis on enhanced market supervision and investor protection appears to create pressure on U.S. firms to demonstrate comparable levels of transparency, particularly those with significant European operations or those competing for European investor capital. This finding aligns with prior literature documenting the spillover effects of foreign regulatory changes on U.S. corporate behavior (e.g., Leuz and Wysocki, 2016).

The corporate governance channel appears to be particularly relevant for firms with strong board oversight and institutional ownership. Our analysis suggests that firms with more independent boards and higher institutional ownership are more likely to enhance their voluntary disclosure practices in response to the Belgian reform, consistent with the monitoring role of corporate governance documented in prior literature (Armstrong et al., 2010).

These findings have important implications for regulators, managers, and investors. For regulators, our study suggests that national regulatory changes can have significant international spillover effects, highlighting the importance of considering global implications when designing financial market reforms. The results also indicate that corporate governance mechanisms serve as important conduits for the transmission of regulatory effects across borders, supporting arguments for international regulatory coordination.

For managers and investors, our findings suggest that evolving global governance standards may necessitate adjustments to corporate disclosure policies, even in the absence of direct regulatory requirements. Firms may need to evaluate their disclosure practices in light of international developments to remain competitive in global capital markets. This is particularly relevant for firms seeking to attract or maintain international investors who may expect disclosure practices aligned with stricter European standards.

Our study has several limitations that suggest promising avenues for future research. First, the lack of detailed empirical analysis limits our ability to establish causal relationships between the Belgian reform and changes in U.S. firms' disclosure practices. Future research could employ quasi-experimental designs to better identify these effects. Second, our focus on voluntary disclosure may not capture all channels through which the reform influences U.S. firms. Additional research could examine other outcomes such as investment decisions, financing choices, or risk management practices.

Future studies might also explore how different corporate governance structures moderate the international transmission of regulatory effects. For instance, researchers could investigate whether certain board characteristics or ownership structures make firms more responsive to foreign regulatory changes. Additionally, examining the role of cross-listed firms or global institutional investors in facilitating the diffusion of governance practices could provide valuable insights into the mechanisms through which international regulatory spillovers occur.

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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 Corporate Governance

	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.