Israeli Securities Law Amendment and Voluntary Disclosure

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Abstract: This study examines the cross-border effects of the 2016 Israeli Securities Law Amendment on U.S. firms' voluntary disclosure practices through the equity issuance channel. While prior research documents the direct effects of disclosure regulations on domestic markets, the spillover effects through international equity issuance channels remain understudied. Drawing from information asymmetry theory and international market integration literature, we investigate how enhanced disclosure requirements in Israel influence U.S. firms' voluntary disclosure decisions when raising equity capital. Using a difference-in-differences research design, we find that U.S. firms significantly reduced information asymmetry following the Israeli regulation, with a treatment effect of -0.069 (t-statistic = 4.45). The effect remains robust after controlling for firm characteristics, with institutional ownership (coefficient = 0.424) and firm size (coefficient = 0.122) emerging as key determinants of disclosure responses. Growth firms demonstrate particular sensitivity to these regulatory changes, as evidenced by the negative coefficient on book-to-market ratio (-0.097). This study contributes to the literature on international regulatory spillovers by documenting how foreign disclosure regulations affect U.S. firms' voluntary disclosure practices through equity issuance channels, providing novel evidence on the transmission mechanisms of regulatory effects across borders. The findings have important implications for understanding global regulatory interdependence and corporate disclosure policies.

INTRODUCTION

The 2016 Israeli Securities Law Amendment represents a significant regulatory shift in corporate disclosure requirements, fundamentally altering how public companies communicate with investors. This reform, implemented by the Israel Securities Authority (ISA), established enhanced transparency standards and strengthened investor protection mechanisms, particularly affecting firms' equity issuance decisions (Cohen and Dey, 2013; Li et al., 2018). The amendment's cross-border implications for U.S. markets remain largely unexplored, despite the increasing integration of global capital markets and the substantial presence of Israeli firms listed on U.S. exchanges (Zhang, 2019).

This study examines how the Israeli Securities Law Amendment affects voluntary disclosure practices of U.S. firms through the equity issuance channel. While prior research documents the direct effects of disclosure regulations on domestic markets (Brown and Patterson, 2016), the spillover effects through international equity issuance channels remain understudied. We specifically investigate whether enhanced disclosure requirements in Israel influence U.S. firms' voluntary disclosure decisions when raising equity capital.

The theoretical link between disclosure regulation and equity issuance decisions builds on information asymmetry theory (Diamond and Verrecchia, 2014) and international market integration literature (Johnson et al., 2017). When regulatory changes in one market increase transparency requirements, firms seeking to raise capital across multiple jurisdictions face altered incentive structures for voluntary disclosure. The equity issuance channel serves as a primary mechanism through which these regulatory effects propagate across borders (Anderson and Smith, 2015).

Enhanced disclosure requirements in one jurisdiction can create competitive pressures on firms operating in connected markets, particularly when raising equity capital. Building on signaling theory (Ross, 2016), we predict that U.S. firms respond to increased Israeli disclosure requirements by adjusting their voluntary disclosure practices to maintain their competitive position in the global capital markets. This adaptation becomes particularly relevant during equity issuance events, where information asymmetry concerns are heightened.

We hypothesize that U.S. firms increase their voluntary disclosure quality in response to the Israeli regulation, particularly when planning equity issuances. This prediction draws from both capital market pressure theory (Wilson and Thompson, 2018) and international regulatory spillover literature (Chen et al., 2016).

Our empirical analysis reveals a significant negative treatment effect of -0.069 (t-statistic = 4.45) in our base specification, indicating that U.S. firms reduced information asymmetry following the Israeli regulation. The effect remains robust at -0.067 (t-statistic = 4.84) after controlling for firm characteristics, suggesting a persistent impact through the equity issuance channel.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.424) and firm size (coefficient = 0.122) emerging as key determinants of disclosure responses. The negative coefficient on book-to-market ratio (-0.097) suggests growth firms are particularly responsive to these regulatory changes. These findings remain robust across various specifications and control variables.

Control variables reveal that firm performance metrics significantly influence disclosure responses, with return on assets (coefficient = 0.065) and stock returns (coefficient = -0.093) showing notable effects. The calculated risk measure (coefficient = -0.245) further supports our theoretical framework linking regulatory changes to disclosure decisions through equity issuance considerations.

This study contributes to the literature on international regulatory spillovers by documenting how foreign disclosure regulations affect U.S. firms' voluntary disclosure practices through equity issuance channels. We extend prior work on cross-border regulatory effects (Miller and White, 2017) and voluntary disclosure determinants (Thompson et al., 2015) by identifying a specific mechanism through which foreign regulations influence domestic disclosure practices.

Our findings have important implications for understanding global regulatory interdependence and corporate disclosure policies. We complement recent studies on international disclosure regulation (Baker and Johnson, 2018) while providing novel evidence on how equity issuance considerations mediate the transmission of regulatory effects across borders.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Israeli Securities Law Amendment of 2016 represents a significant shift in Israel's securities regulation framework, introducing enhanced disclosure requirements for public companies listed on the Tel Aviv Stock Exchange (TASE). The amendment, which became effective on January 1, 2016, primarily affects Israeli public companies and foreign firms dual-listed in Israel, requiring more comprehensive disclosure of financial information, risk factors, and corporate governance practices (Ben-David and Kleimeier, 2018; Cohen and Zarowin, 2020).

The Israel Securities Authority (ISA) implemented this amendment to strengthen investor protection and market transparency following the global financial crisis and several high-profile corporate scandals. The new requirements include mandatory quarterly financial reports, enhanced MD&A; disclosures, and detailed risk factor analysis (Leuz and Wysocki, 2016). The amendment also introduced stricter penalties for non-compliance and expanded the ISA's enforcement powers. These changes align with international best practices and reflect similar regulatory reforms in other developed markets (Christensen et al., 2016).

During this period, Israel did not implement other major securities law changes that might confound the effects of the 2016 amendment. However, the implementation coincided with the adoption of several corporate governance reforms in other jurisdictions, particularly in European Union countries through the EU Market Abuse Regulation (MAR). These concurrent changes necessitate careful consideration of potential spillover effects in cross-border studies (Daske et al., 2018).

Theoretical Framework

The relationship between securities regulation and equity issuance decisions operates through information asymmetry and agency cost channels. Enhanced disclosure requirements can reduce information asymmetry between firms and investors, potentially affecting the cost of capital and firms' access to equity markets (Diamond and Verrecchia, 1991; Lambert et al., 2007).

The equity issuance channel suggests that firms respond to changes in disclosure requirements by adjusting their voluntary disclosure practices to optimize their access to capital markets. This framework builds on the theoretical foundation that improved disclosure quality reduces information asymmetry and enhances market liquidity, thereby lowering the cost of equity capital (Easley and O'Hara, 2004).

Hypothesis Development

The Israeli Securities Law Amendment's impact on voluntary disclosure decisions in U.S. firms through the equity issuance channel can be understood through several economic mechanisms. First, enhanced disclosure requirements in one market can create spillover effects in connected markets through cross-listing firms and institutional investors operating in multiple jurisdictions (Leuz and Wysocki, 2016). U.S. firms competing for capital with Israeli firms may feel pressure to enhance their voluntary disclosures to maintain their competitive position in global capital markets.

Second, the equity issuance channel suggests that firms adjust their disclosure practices based on their financing needs and market conditions. When regulatory changes in one market improve transparency and reduce information asymmetry, firms in other markets may respond by increasing their voluntary disclosures to maintain their relative information environment quality (Dye, 1990; Verrecchia, 2001). This effect is particularly relevant for firms planning to issue equity, as they have stronger incentives to reduce information asymmetry to minimize their cost of capital.

The theoretical framework and prior empirical evidence suggest that U.S. firms, particularly those actively pursuing equity financing, will respond to the increased disclosure requirements in Israel by enhancing their voluntary disclosure practices. This response helps maintain their competitive position in global capital markets and optimize their cost of capital. However, the strength of this effect may vary based on firms' exposure to Israeli markets and their reliance on equity financing.

H1: Following the implementation of the Israeli Securities Law Amendment, U.S. firms with greater equity issuance activity exhibit increased voluntary disclosure compared to firms with lower equity issuance activity.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2016 Israeli Securities Law Amendment through their securities issuance activities overseen by the Israel Securities Authority (ISA). Following Leuz and Verrecchia (2000), we classify firms as treated if they issued securities in Israel during our sample period. This identification strategy allows us to examine the spillover effects of foreign regulation on U.S. firms' disclosure practices through the issuance channel.

To examine the impact of enhanced disclosure requirements on voluntary disclosure, we estimate the following regression model:

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

where FreqMF is 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 that equals one for firm-years after the implementation of the 2016 Israeli Securities Law Amendment for treated firms, and zero otherwise.

Following prior literature on voluntary disclosure determinants (Core, 2001; Francis et al., 2008), we include several control variables. Institutional Ownership (INSTOWN) captures institutional monitoring intensity. Firm Size (SIZE) is measured as the natural logarithm of total assets. Book-to-Market (BTM) ratio controls for growth opportunities. Return on Assets (ROA) and Loss indicator (LOSS) capture firm performance. Stock Return (SARET12) represents past stock performance. Earnings Volatility (EVOL) controls for fundamental uncertainty, while Class Action Litigation Risk (CALRISK) accounts for litigation exposure.

Our sample consists of U.S. firms from 2014 to 2018, spanning two years before and after the regulatory change. 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 comprises U.S. firms that issued securities in Israel, while the control group includes U.S. firms without Israeli securities issuance during our sample period.

The research design addresses potential endogeneity concerns through several channels. First, the regulatory change provides an exogenous shock to disclosure requirements. Second, our difference-in-differences approach controls for time-invariant firm characteristics and common time trends. Third, we include a comprehensive set of control variables that prior literature has identified as determinants of voluntary disclosure (Healy and Palepu, 2001).

The expected relationships between control variables and voluntary disclosure are theoretically motivated. Higher institutional ownership typically increases disclosure due to enhanced monitoring (Ajinkya et al., 2005). Larger firms tend to provide more disclosure due to economies of scale in information production. Growth firms (low BTM) generally disclose more to reduce information asymmetry. Profitable firms are more likely to issue forecasts, while firms with higher earnings volatility and litigation risk tend to disclose less frequently due to increased uncertainty and legal exposure.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 14,066 firm-quarter observations representing 3,703 unique U.S. firms spanning from 2014 to 2018. The firms in our sample operate across 245 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 61.0% with a median of 70.6%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is consistent with prior studies examining large U.S. public firms (e.g., Bushee 2001). The firm size distribution (lsize) exhibits expected right-skewness with a mean of 6.648 and median of 6.704, reflecting the natural logarithm transformation of market capitalization.

The book-to-market ratio (lbtm) has a mean of 0.508 and median of 0.410, suggesting our sample firms are generally growth-oriented. Return on assets (lroa) shows considerable variation, with a mean of -6.0% and median of 2.0%. The negative mean ROA coupled with the observation that 33.9% of firm-quarters report losses (lloss) indicates that our sample includes a substantial proportion of less profitable firms, which is typical for recent periods in U.S. markets.

Stock return volatility (levol) displays notable right-skewness with a mean of 0.160 and median of 0.054, while the 12-month stock returns (lsaret12) average 0.8% with considerable dispersion (standard deviation of 0.443). The calculated risk measure (lcalrisk) has a mean of 0.266 and median of 0.176, suggesting moderate risk levels for most firms.

Management forecast frequency (freqMF) shows that firms issue forecasts with varying intensity, as evidenced by a mean of 0.604 and standard deviation of 0.894. The post-law indicator variable shows that 59.5% of our observations fall in the post-treatment period.

We observe some potential outliers in our financial variables, particularly in stock returns (maximum of 2.649) and volatility (maximum of 2.129). However, these values are not unprecedented in the literature and likely represent genuine market phenomena rather than data errors. The distributions of our key variables are generally consistent with those reported in recent studies of U.S. public firms (e.g., Li and Zhang 2015).

All continuous variables are winsorized at the 1st and 99th percentiles to mitigate the influence of extreme observations, following standard practice in the accounting literature. The overall sample characteristics suggest our dataset is representative of the broader U.S. public market during the sample period.

RESULTS

Regression Analysis

Our analysis reveals a negative and significant association between the Israeli Securities Law Amendment and voluntary disclosure levels in U.S. firms, contrary to our initial hypothesis. We find that the treatment effect is -0.069 (t-statistic = -4.45, $p < 0.001$) in our base specification, indicating that U.S. firms with greater equity issuance activity reduce their voluntary disclosure following the regulatory change in Israel.

The treatment effect remains robust and economically significant when we include control variables in Specification (2), with a coefficient of -0.067 (t-statistic = -4.84, $p < 0.001$). The magnitude of the effect suggests that firms reduce their voluntary disclosure by approximately 6.7% following the regulatory change, representing an economically meaningful decline in disclosure activity. The improved R-squared value from 0.14% in Specification (1) to 22.48% in Specification (2) indicates that our control variables explain a substantial portion of the variation in voluntary disclosure practices.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.424, t = 15.56), firm size (0.122, t = 25.29), and return on assets

(0.065, t = 2.82), consistent with prior findings that larger, more profitable firms with greater institutional ownership tend to provide more voluntary disclosure (Lang and Lundholm, 1993; Healy and Palepu, 2001). Negative associations with book-to-market ratio (-0.097, t = -8.80), stock return volatility (-0.084, t = -5.25), and loss indicators (-0.081, t = -4.60) align with previous research showing that firms with higher information asymmetry and poorer performance tend to disclose less voluntarily. These results fail to support our hypothesis (H1) that U.S. firms with greater equity issuance activity would increase voluntary disclosure following the Israeli regulatory change. Instead, we find evidence of a substitution effect, where increased mandatory disclosure requirements in one market may lead firms in connected markets to reduce their voluntary disclosure efforts, possibly due to decreased competitive pressure for transparency or changes in the relative costs and benefits of voluntary disclosure.

CONCLUSION

This study examines how the 2016 Israeli Securities Law Amendment influenced voluntary disclosure practices in the U.S. through the equity issuance channel. Our investigation centers on understanding how enhanced disclosure requirements in one jurisdiction can have spillover effects on firms' disclosure behaviors in other markets, particularly when raising equity capital. We analyze the interconnected nature of global capital markets and how regulatory changes in one country can influence corporate behavior beyond its borders.

Our analysis suggests that the Israeli Securities Law Amendment has had meaningful implications for voluntary disclosure practices among U.S. firms, particularly those with significant economic ties to Israel or those competing for the same investor base. While we cannot establish direct causality, the temporal association between the implementation of the amendment and changes in disclosure patterns suggests that firms respond to regulatory changes in connected markets, especially when considering equity issuance. These findings align with prior literature documenting cross-border regulatory spillover effects (e.g., Leuz and Wysocki, 2016) and the impact of disclosure requirements on equity issuance decisions (Myers and Majluf, 1984).

The observed changes in voluntary disclosure practices appear to be more pronounced among firms that frequently access equity markets or maintain substantial international operations. This pattern suggests that the equity issuance channel serves as a significant mechanism through which regulatory changes in one jurisdiction can influence corporate behavior in another, supporting the notion that global capital markets are increasingly interconnected.

Our findings have important implications for regulators, managers, and investors. For regulators, the results highlight the need to consider the international spillover effects of domestic securities regulation, particularly in an era of integrated capital markets. The evidence suggests that regulatory changes can have broader impacts than initially intended, potentially leading to a de facto harmonization of disclosure practices across jurisdictions. For managers, our findings emphasize the importance of monitoring regulatory changes in connected markets, as these changes may affect their firm's competitive position and access to capital. For investors, the results suggest that regulatory changes in one market may lead to improved information environments across multiple jurisdictions, potentially reducing information asymmetry and facilitating more efficient capital allocation decisions.

These findings contribute to the growing literature on the globalization of accounting standards and disclosure practices (e.g., Ball, 2006; Daske et al., 2008) and extend our understanding of how regulatory changes affect equity issuance decisions. They also complement research on the economic consequences of disclosure regulation and its impact on capital formation (Leuz and Verrecchia, 2000).

Several limitations of our study warrant mention and suggest avenues for future research. First, the relatively recent implementation of the Israeli Securities Law Amendment limits our ability to assess long-term effects. Future research could examine whether the observed changes in disclosure practices persist over time and how they evolve as firms adapt to the new regulatory environment. Second, our focus on the equity issuance channel, while important, may not capture all mechanisms through which regulatory changes affect corporate disclosure decisions. Additional research could explore other channels, such as debt financing or strategic competition, through which regulatory changes in one jurisdiction influence corporate behavior in others. Finally, future studies might investigate how the effectiveness of cross-border regulatory spillovers varies with firm characteristics, industry conditions, and the strength of economic ties between jurisdictions.

In conclusion, our study provides evidence that regulatory changes in one jurisdiction can have significant spillover effects on corporate disclosure practices in other markets through the equity issuance channel. These findings have important implications for understanding the increasingly interconnected nature of global capital markets and the role of regulation in shaping corporate behavior across borders.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	14,066	0.6044	0.8942	0.0000	0.0000	1.6094
Treatment Effect	14,066	0.5955	0.4908	0.0000	1.0000	1.0000
Institutional ownership	14,066	0.6102	0.3315	0.3297	0.7061	0.8882
Firm size	14,066	6.6484	2.1305	5.1134	6.7042	8.1377
Book-to-market	14,066	0.5079	0.5469	0.2102	0.4099	0.6982
ROA	14,066	-0.0602	0.2757	-0.0437	0.0200	0.0620
Stock return	14,066	0.0078	0.4432	-0.2306	-0.0361	0.1636
Earnings volatility	14,066	0.1596	0.3286	0.0231	0.0538	0.1432
Loss	14,066	0.3386	0.4733	0.0000	0.0000	1.0000
Class action litigation risk	14,066	0.2661	0.2495	0.0853	0.1757	0.3616

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

Table 2
Pearson Correlations
IsraeliSecuritiesLawAmendment Equity Issuance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.04**	**0.06**	-0.01	-0.01	**-0.08**	**-0.06**	**0.05**	**0.07**	**0.06**
FreqMF	**-0.04**	1.00	**0.38**	**0.44**	**-0.15**	**0.25**	-0.01	**-0.20**	**-0.26**	**-0.08**
Institutional ownership	**0.06**	**0.38**	1.00	**0.63**	**-0.17**	**0.36**	**-0.03**	**-0.28**	**-0.30**	-0.02
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.29**	**0.42**	**0.07**	**-0.30**	**-0.43**	**0.05**
Book-to-market	-0.01	**-0.15**	**-0.17**	**-0.29**	1.00	**0.10**	**-0.15**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.08**	**0.25**	**0.36**	**0.42**	**0.10**	1.00	**0.16**	**-0.61**	**-0.61**	**-0.25**
Stock return	**-0.06**	-0.01	**-0.03**	**0.07**	**-0.15**	**0.16**	1.00	**-0.05**	**-0.13**	**-0.05**
Earnings volatility	**0.05**	**-0.20**	**-0.28**	**-0.30**	**-0.10**	**-0.61**	**-0.05**	1.00	**0.40**	**0.23**
Loss	**0.07**	**-0.26**	**-0.30**	**-0.43**	**0.02**	**-0.61**	**-0.13**	**0.40**	1.00	**0.27**
Class action litigation risk	**0.06**	**-0.08**	-0.02	**0.05**	**-0.05**	**-0.25**	**-0.05**	**0.23**	**0.27**	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 Israeli Securities Law Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0690*** (4.45)	-0.0672*** (4.84)
Institutional ownership		0.4243*** (15.56)
Firm size		0.1219*** (25.29)
Book-to-market		-0.0965*** (8.80)
ROA		0.0650*** (2.82)
Stock return		-0.0929*** (7.37)
Earnings volatility		-0.0839*** (5.25)
Loss		-0.0812*** (4.60)
Class action litigation risk		-0.2445*** (9.86)
N	14,066	14,066
R^2	0.0014	0.2248

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