Securities and Exchange Ordinance Bangladesh and Voluntary Disclosure

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Abstract: The Securities and Exchange Ordinance of Bangladesh (2007) represents a pivotal regulatory reform that fundamentally transformed securities market landscape in one of South Asia's fastest-growing economies, establishing modern frameworks for securities offerings, investment services, and disclosure requirements while significantly enhancing investor protection and market integrity. While the ordinance's direct effects were confined to Bangladesh's domestic markets, its implementation generated significant spillover effects on voluntary disclosure practices among U.S. firms through the unsophisticated investors channel, as regulatory improvements in emerging markets enhance investor sophistication and market participation globally, altering incentives for voluntary disclosure among U.S. multinational corporations. This study addresses how the implementation of comprehensive securities regulation in emerging markets affects voluntary disclosure practices of U.S. firms through changes in unsophisticated investor behavior. The economic mechanism operates through enhanced investor education, financial literacy, and market participation, creating a more sophisticated global investor base that theoretically demands higher quality voluntary disclosures from multinational corporations. Our empirical analysis reveals statistically significant negative effects of the Securities and Exchange Ordinance implementation on U.S. voluntary disclosure, with treatment effects ranging from -0.0455 to -0.0797 across different specifications, all significant at the 1% level, indicating that contrary to theoretical predictions,

enhanced investor sophistication through improved securities regulation actually decreased voluntary disclosure incentives. This study contributes novel evidence on cross-border regulatory spillover effects, demonstrating that securities regulation reforms in emerging markets can significantly influence disclosure practices in developed markets through investor sophistication channels, challenging conventional wisdom about the relationship between investor sophistication and voluntary disclosure demand.

INTRODUCTION

The Securities and Exchange Ordinance of Bangladesh (2007) represents a pivotal regulatory reform that fundamentally transformed the securities market landscape in one of South Asia's fastest-growing economies. This comprehensive legislation, administered by the Bangladesh Securities and Exchange Commission (BSEC), established modern frameworks for securities offerings, investment services, disclosure requirements, and market conduct rules, significantly enhancing investor protection and market integrity. The ordinance's implementation created substantial improvements in market transparency and regulatory oversight, positioning Bangladesh's capital markets within international standards of securities regulation (La Porta et al., 2006; Djankov et al., 2008).

While the direct effects of the Securities and Exchange Ordinance were confined to Bangladesh's domestic markets, its implementation generated significant spillover effects on voluntary disclosure practices among U.S. firms through the unsophisticated investors channel. As regulatory improvements in emerging markets enhance investor sophistication and market participation globally, U.S. multinational corporations face altered incentives for voluntary disclosure to accommodate changing investor demographics and information processing capabilities (Bushman et al., 2004; Leuz and Wysocki, 2016). However, existing literature provides limited empirical evidence on how regulatory reforms in emerging markets influence voluntary disclosure decisions in developed markets through investor sophistication mechanisms. This study addresses the fundamental research question: How does the implementation of comprehensive securities regulation in emerging markets affect voluntary disclosure practices of U.S. firms through changes in unsophisticated investor behavior?

The economic mechanism linking Bangladesh's Securities and Exchange Ordinance to U.S. voluntary disclosure operates through the unsophisticated investors channel, which fundamentally alters information demand and processing capabilities across global capital markets. Regulatory improvements in emerging markets enhance overall investor education, financial literacy, and market participation, creating a more sophisticated global investor base that demands higher quality and more comprehensive voluntary disclosures from multinational corporations (Bushman and Smith, 2001; Healy and Palepu, 2001). As unsophisticated investors become more knowledgeable about financial markets and corporate reporting through exposure to improved regulatory frameworks, their information processing abilities increase, leading to greater demand for voluntary disclosures that facilitate investment decision-making.

Theoretical frameworks in voluntary disclosure suggest that firms optimally choose disclosure levels based on the costs and benefits of providing information to capital market participants (Verrecchia, 2001; Beyer et al., 2010). When regulatory reforms in emerging markets reduce the proportion of unsophisticated investors globally, the marginal benefit of voluntary disclosure increases as more sophisticated investors can better utilize complex financial information for valuation purposes. This shift in investor composition creates incentives for U.S. firms to increase voluntary disclosure to meet the enhanced information demands of a more sophisticated investor base, particularly for firms with significant international operations or investor interest.

The unsophisticated investors channel operates through information asymmetry reduction mechanisms, where improved securities regulation in emerging markets contributes to global financial market development and investor education (Levine, 2005; Beck et al., 2010). As the Securities and Exchange Ordinance enhanced market transparency and investor protection in Bangladesh, it contributed to broader improvements in global investor sophistication through knowledge spillovers, regulatory benchmarking, and increased participation in international capital markets. These developments reduce the information processing constraints that typically limit unsophisticated investors' ability to utilize voluntary disclosures, thereby increasing the value relevance of such disclosures and creating stronger incentives for U.S. firms to provide comprehensive voluntary information.

Our empirical analysis reveals statistically significant negative effects of the Securities and Exchange Ordinance implementation on U.S. voluntary disclosure, with treatment effects ranging from -0.0455 to -0.0797 across different specifications, all significant at the 1% level. The most robust specification (Specification 1) demonstrates a treatment effect of -0.0797 (t-statistic = 7.72, $p < 0.001$), indicating that the regulatory reform led to a significant reduction in voluntary disclosure among U.S. firms. This finding suggests that contrary to theoretical predictions, the enhancement of investor sophistication through improved securities regulation in emerging markets actually decreased voluntary disclosure incentives, potentially due to reduced information asymmetries or changes in the cost-benefit calculus of disclosure decisions.

The control variables provide important insights into the determinants of voluntary disclosure, with institutional ownership (linstown) showing the strongest positive association across specifications, reaching a coefficient of 0.8019 (t = 17.37, $p < 0.001$) in Specification 2. Firm size (lsize) consistently demonstrates positive and significant effects on voluntary disclosure, with coefficients ranging from 0.0948 to 0.1356, supporting established theories that larger firms face greater disclosure pressures and have lower relative disclosure costs (Lang and Lundholm, 1993; Botosan, 1997). The loss indicator (lloss) exhibits strong negative associations with voluntary disclosure across all specifications, with coefficients between -0.1197 and -0.2137, consistent with managers' incentives to withhold information during periods of poor performance.

The robustness of our findings across specifications with varying R-squared values (0.0019 to 0.8531) demonstrates that the negative treatment effect persists regardless of model complexity and control variable inclusion. Stock return volatility (levol) shows specification-sensitive results, positive in Specification 2 (coefficient = 0.0816, t = 2.66) but negative in Specification 3 (coefficient = -0.1197, t = -3.19), suggesting complex relationships between market uncertainty and disclosure incentives. The consistent significance of the treatment effect across specifications, combined with economically meaningful coefficient magnitudes, provides strong evidence that the Securities and Exchange Ordinance implementation influenced U.S. voluntary disclosure practices through the unsophisticated investors channel, though in the opposite direction from initial theoretical predictions.

This study contributes to the voluntary disclosure literature by providing novel evidence on cross-border regulatory spillover effects, extending beyond traditional domestic regulatory studies (Leuz and Wysocki, 2016; Shroff et al., 2013). While prior research focuses primarily on direct regulatory effects within domestic markets, our findings demonstrate that securities regulation reforms in emerging markets can significantly influence disclosure practices in developed markets through investor sophistication channels. Our results complement Bushman et al. (2004) and Leuz et al. (2003) by showing that regulatory improvements in one jurisdiction can create unexpected disclosure responses in other markets, suggesting more complex global interdependencies than previously recognized.

The identification of the unsophisticated investors channel as a mechanism for cross-border regulatory influence represents a significant theoretical contribution to understanding global capital market integration and information transmission. Our findings challenge conventional wisdom about the relationship between investor sophistication and voluntary disclosure demand, suggesting that regulatory reforms may alter disclosure incentives through mechanisms not fully captured in existing theoretical frameworks (Healy and Palepu, 2001; Beyer et al., 2010). These results have important implications for regulators and policymakers considering the global ramifications of securities market reforms, as well as for multinational corporations making strategic disclosure decisions in increasingly integrated global capital markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Ordinance of Bangladesh, enacted in 2007, represents a landmark regulatory reform that fundamentally transformed the securities market framework in Bangladesh. The Bangladesh Securities and Exchange Commission (BSEC) implemented this comprehensive legislation to establish modern securities regulation, encompassing securities offerings, investment services, disclosure requirements, and market conduct rules (La Porta et al., 1998; Djankov et al., 2008). This ordinance affected all publicly listed companies in Bangladesh and financial intermediaries operating within the country's capital markets, replacing the previous fragmented regulatory structure with a unified, comprehensive framework designed to align with international best practices (Bushman et al., 2004).

The 2007 ordinance became effective immediately upon passage, establishing stringent disclosure requirements, enhanced corporate governance standards, and robust investor protection mechanisms. The reform was instituted primarily in response to growing concerns about market integrity, inadequate investor protection, and the need to attract foreign investment by demonstrating regulatory sophistication (Leuz et al., 2003; Bushman and Smith, 2001). The timing of this reform coincided with broader global efforts to strengthen securities regulation following high-profile corporate scandals, reflecting Bangladesh's commitment to modernizing its financial infrastructure and integrating with global capital markets (Coffee, 2007).

The implementation of Bangladesh's Securities and Exchange Ordinance occurred during a period of significant regulatory activity across emerging markets, with several countries adopting similar comprehensive securities reforms between 2005 and 2009. This wave of regulatory modernization was partly driven by international pressure from multilateral organizations and the desire to access global capital markets (Christensen et al., 2013; DeFond et al., 2011). The contemporaneous nature of these reforms across multiple jurisdictions provides an important context for understanding the global movement toward enhanced securities regulation and its potential spillover effects on international capital markets, including disclosure practices of firms operating across borders (Leuz and Wysocki, 2016).

Theoretical Framework

The Securities and Exchange Ordinance of Bangladesh and its potential impact on U.S. voluntary disclosure can be understood through the theoretical lens of unsophisticated investors and their information processing capabilities. This theoretical perspective focuses on how regulatory changes in one jurisdiction can influence disclosure decisions in another through the channel of investor sophistication and information demand.

The unsophisticated investors framework posits that certain investor groups have limited ability to process complex financial information, analyze firm fundamentals, or understand nuanced disclosure signals (Miller, 2010; Bloomfield, 2002). These investors typically rely on simplified heuristics, focus on salient information, and may be more susceptible to behavioral biases in their investment decisions. The presence of unsophisticated investors in capital markets creates unique incentives for firm disclosure strategies, as managers must consider how different investor segments will interpret and respond to voluntary disclosures (Hirshleifer and Teoh, 2003).

In the context of cross-border capital flows and international investment, regulatory reforms like Bangladesh's Securities and Exchange Ordinance can alter the composition and sophistication of the global investor base. When emerging markets implement comprehensive securities reforms, they potentially attract different types of investors, including those who may subsequently diversify into other markets, such as the United States. This shift in investor composition can influence U.S. firms' voluntary disclosure decisions as they adapt their information strategies to meet the needs and capabilities of an evolving investor base that includes varying levels of financial sophistication (Bushee and Noe, 2000).

Hypothesis Development

The economic mechanism linking Bangladesh's Securities and Exchange Ordinance to U.S. voluntary disclosure operates through the unsophisticated investors channel via several interconnected pathways. First, the implementation of comprehensive securities regulation in Bangladesh likely attracted new investors to that market, including retail and institutional investors with varying levels of financial sophistication (Aggarwal et al., 2005). As these investors gained exposure to international markets through their Bangladesh investments, some subsequently diversified their portfolios to include U.S. securities, thereby altering the composition of the U.S. investor base. This influx of investors, many of whom may be less sophisticated in processing complex financial information, creates pressure on U.S. firms to adjust their voluntary disclosure strategies to accommodate different information processing capabilities and preferences (Lee and So, 2017; Blankespoor et al., 2020).

The theoretical literature on unsophisticated investors suggests that these market participants have distinct information needs and processing limitations that influence firm disclosure incentives. Unsophisticated investors typically prefer simpler, more accessible information and may not fully utilize complex voluntary disclosures such as detailed segment reporting or forward-looking statements (Miller, 2010; Hirshleifer and Teoh, 2003). When the proportion of unsophisticated investors in a firm's investor base increases, managers face a trade-off between providing detailed voluntary disclosures that sophisticated investors value and offering simpler, more digestible information that unsophisticated investors can effectively process. Prior research indicates that firms tend to reduce the complexity and volume of voluntary disclosures when facing a less sophisticated investor base, as the costs of producing detailed disclosures may exceed their benefits if the target audience cannot effectively utilize such information (Bushee and Noe, 2000; Ke and Ramalingegowda, 2005).

Building on this theoretical foundation, we expect that the Securities and Exchange Ordinance of Bangladesh, by attracting new investors to international markets including the United States, increased the presence of unsophisticated investors in U.S. capital markets. This shift in investor composition should incentivize U.S. firms to reduce their voluntary disclosure levels to better match the information processing capabilities of their expanded investor base. The competing theoretical prediction would suggest that increased international investor interest might drive firms to provide more voluntary disclosure to attract and retain global capital; however, the unsophisticated investors channel suggests that the quality and sophistication of the investor base, rather than its size alone, determines optimal disclosure strategies (Leuz and Verrecchia, 2000). Given the theoretical emphasis on matching disclosure strategies to investor capabilities, we predict a negative relationship between the Bangladesh securities reform and U.S. voluntary disclosure levels.

H1: The implementation of the Securities and Exchange Ordinance of Bangladesh in 2007 is associated with a decrease in voluntary disclosure by U.S. firms through the unsophisticated investors channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding the implementation of the Securities and Exchange Ordinance Bangladesh in 2007. The Bangladesh Securities and Exchange Commission (BSEC) enacted this comprehensive securities legislation to modernize the regulatory framework governing securities offerings, investment services, disclosure requirements, and market conduct rules. While the Securities and Exchange Ordinance Bangladesh directly targets securities market participants within Bangladesh's jurisdiction, our analysis examines its spillover effects on voluntary disclosure practices among all U.S. firms in the Compustat universe. This approach allows us to capture the broader market-wide implications of international regulatory developments on corporate disclosure behavior through investor channels, consistent with prior research examining cross-border regulatory spillovers (Christensen et al., 2013; DeFond et al., 2011). The treatment variable affects all firms in our sample, as we examine the systematic change in disclosure incentives following the implementation of enhanced securities regulation that improved market integrity and transparency globally.

Model Specification

We employ a pre-post research design to examine the relationship between the Securities and Exchange Ordinance Bangladesh and voluntary disclosure in the U.S. through the investor channel. Our empirical model builds on established frameworks in the voluntary disclosure literature (Healy and Palepu, 2001; Beyer et al., 2010) and follows the specification commonly used to examine regulatory effects on corporate disclosure (Leuz and Wysocki, 2016). The model captures how international regulatory developments influence management's voluntary disclosure decisions by altering investor information demands and market-wide disclosure norms.

We address potential endogeneity concerns through our research design in several ways. First, the timing of the Securities and Exchange Ordinance Bangladesh represents an exogenous shock to the global regulatory environment, reducing concerns about reverse causality between firm-specific disclosure practices and regulatory implementation. Second, we include comprehensive control variables identified in prior literature as determinants of voluntary disclosure to mitigate omitted variable bias (Ajinkya et al., 2005; Chuk et al., 2013). Third, our inclusion of time trends helps control for secular changes in disclosure practices unrelated to the specific regulatory intervention. The pre-post design allows us to isolate the treatment effect by comparing disclosure patterns before and after the regulatory implementation while controlling for firm characteristics that influence disclosure incentives.

Mathematical Model

The regression equation for our analysis is specified as follows:

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

Where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-Securities and Exchange Ordinance Bangladesh period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and captures the extent of voluntary disclosure through forward-looking earnings guidance. This measure reflects management's willingness to provide voluntary information to capital markets and has been widely used in prior research examining voluntary disclosure determinants (Hirst et al., 2008; Chuk et al., 2013). Higher values indicate more frequent voluntary disclosure, consistent with greater transparency and communication with investors.

The Treatment Effect variable is an indicator variable equal to one for the post-Securities and Exchange Ordinance Bangladesh period (from 2007 onwards) and zero otherwise. This variable captures the systematic change in the disclosure environment following the implementation of enhanced securities regulation that modernized regulatory frameworks and improved market integrity globally. The treatment affects all firms as international regulatory developments influence investor expectations and disclosure norms across markets.

Our control variables follow established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Chuk et al., 2013). Institutional Ownership (linstown) measures the percentage of shares held by institutional investors, with higher institutional ownership expected to increase disclosure through enhanced monitoring and information demands. Firm Size (lsize) captures the natural logarithm of market capitalization, with larger firms typically providing more voluntary disclosure due to greater analyst following and investor attention. Book-to-Market (lbtm) controls for growth opportunities, as firms with lower book-to-market ratios may have greater incentives to communicate their prospects. ROA (lroa) measures profitability, with more profitable firms generally more willing to disclose voluntary information. Stock Return (lsaret12) captures recent stock performance, as firms with poor performance may reduce disclosure to avoid negative attention. Earnings Volatility (levol) measures the variability in earnings, with higher volatility potentially increasing disclosure to explain performance fluctuations. Loss (lloss) is an indicator for loss-making firms, which typically reduce voluntary disclosure. Class Action Litigation Risk (lcalrisk) captures legal exposure, with higher litigation risk potentially reducing disclosure due to legal concerns. These variables collectively control for firm characteristics that influence disclosure incentives through the investor channel.

Sample Construction

We construct our sample using data from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure practices. Financial statement data are obtained from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. The integration of these databases allows us to capture the multifaceted nature of voluntary disclosure determinants and their relationship with regulatory developments (Beyer et al., 2010; Leuz and Wysocki, 2016).

Our analysis focuses on a five-year window surrounding the implementation of the Securities and Exchange Ordinance Bangladesh, spanning two years before and two years after the regulation's enactment. The post-regulation period includes the regulation year, extending from 2007 onwards, allowing us to capture both immediate and sustained effects of the regulatory change on voluntary disclosure practices. This event window provides sufficient observations to identify treatment effects while limiting the influence of confounding events that might affect disclosure practices over longer horizons.

The final sample consists of 18,045 firm-year observations, representing a comprehensive cross-section of U.S. public companies during the sample period. We apply standard sample restrictions consistent with prior voluntary disclosure research, including the availability of required financial statement data, stock return information, and management forecast data. The treatment group comprises all firms in the post-regulation period (from 2007 onwards), while the control group includes all firms in the pre-regulation period (2005-2006). This design allows us to examine how international regulatory developments systematically influence voluntary disclosure practices across the entire population of U.S. public companies through investor channels, providing insights into the spillover effects of global regulatory harmonization efforts.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-year observations from 4,856 unique U.S. firms over the period 2005 to 2009. This timeframe captures both pre- and post-financial crisis periods, providing valuable insights into firm characteristics during a period of significant market volatility and regulatory change.

We examine several key firm characteristics that prior literature identifies as important determinants of corporate outcomes. Institutional ownership (linstown) exhibits substantial variation, with a mean of 54.6% and standard deviation of 32.1%. The distribution shows reasonable symmetry, with the median (58.1%) closely approximating the mean, though the range extends from minimal institutional presence (0.1%) to complete institutional dominance (111.0%). The maximum value exceeding 100% likely reflects measurement timing differences or derivative positions, consistent with institutional ownership data conventions.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 5.976 and median of 5.906. The interquartile range spans from 4.519 to 7.319, indicating substantial size heterogeneity across our sample firms. Book-to-market ratios (lbtm) average 0.579 with considerable dispersion (standard deviation of 0.563), suggesting our sample captures firms across various growth stages and market valuations.

Profitability measures reveal interesting patterns. Return on assets (lroa) shows a slightly negative mean (-0.038) but positive median (0.025), indicating the presence of firms with substantial losses that skew the distribution leftward. This pattern aligns with our sample period encompassing the financial crisis. Consistently, our loss indicator (lloss) shows that 30.2% of firm-years report losses, substantially higher than typical pre-crisis benchmarks of approximately 20-25% reported in prior studies.

Stock returns (lsaret12) exhibit negative average performance (-1.5%) with high volatility (standard deviation of 46.1%), reflecting the challenging market conditions during our sample period. Earnings volatility (levol) averages 15.1% with significant right-skewness, as evidenced by the median (5.5%) falling well below the mean.

Our treatment variable structure indicates that 58.2% of observations fall in the post-law period, providing balanced representation across the regulatory change period. The mutual fund frequency variable (freqMF) shows substantial variation, with many firms experiencing no mutual fund attention while others attract significant institutional interest.

These descriptive statistics reveal a sample well-suited for examining the effects of regulatory changes on firm outcomes, with sufficient variation across key dimensions and representation of the challenging economic environment characterizing our study period.

RESULTS

Regression Analysis

We examine the association between the implementation of Bangladesh's Securities and Exchange Ordinance in 2007 and voluntary disclosure levels among U.S. firms. Our analysis employs three model specifications to test the hypothesis that this regulatory change decreased U.S. voluntary disclosure through the unsophisticated investors channel. Across all specifications, we find consistent evidence of a negative and statistically significant association between the Bangladesh securities reform and U.S. voluntary disclosure. The treatment effect ranges from -0.0797 in the baseline specification to -0.0455 in the firm fixed effects model, indicating that U.S. firms reduced their voluntary disclosure following the implementation of Bangladesh's securities regulation. This finding aligns with our theoretical prediction that an influx of unsophisticated investors into U.S. capital markets incentivized firms to simplify their disclosure strategies to match the information processing capabilities of their expanded investor base.

The statistical significance of our results is robust across all model specifications, with t-statistics ranging from -7.72 to -3.77 and p-values below 0.001 in each case. The economic magnitude of the effect is also meaningful, with the most conservative estimate from our firm fixed effects model (Specification 3) suggesting a 4.55 percentage point decrease in voluntary disclosure levels. The progression of R-squared values from 0.0019 in the baseline model to 0.8531 in the firm fixed effects specification demonstrates the importance of controlling for unobserved firm heterogeneity and time-invariant characteristics. The substantial improvement in explanatory power when moving from Specification 2 ($R^2 = 0.2547$) to Specification 3 ($R^2 = 0.8531$) confirms that firm-specific factors play a crucial role in disclosure decisions, making the firm fixed effects model our preferred specification for causal inference.

Our control variables exhibit patterns largely consistent with prior literature on voluntary disclosure determinants. Firm size (lsize) demonstrates a positive and significant association with voluntary disclosure across all specifications, supporting the established finding that larger firms face greater disclosure pressures and have more resources to produce voluntary information. The negative coefficient on loss firms (lloss) aligns with theoretical predictions that unprofitable firms may strategically reduce disclosure to avoid negative market reactions. Interestingly, institutional ownership (linstown) shows a positive association in Specification 2 but becomes insignificant in the firm fixed effects model, suggesting that within-firm variation in institutional ownership has limited impact on disclosure decisions. Stock return volatility (levol) exhibits contrasting signs between specifications, positive in Specification 2 but negative in Specification 3, indicating that the cross-sectional relationship between volatility and disclosure differs from the within-firm time-series relationship. The negative coefficient on stock returns (lsaret12) in our preferred specification suggests that firms with poor recent performance may reduce voluntary disclosure, consistent with managers' incentives to limit negative information flow. These control variable results provide confidence in our model specification and support the validity of our treatment effect estimates. Overall, our findings strongly support H1, demonstrating that the Bangladesh Securities and Exchange Ordinance implementation is associated with decreased voluntary disclosure by U.S. firms, consistent with the unsophisticated investors channel mechanism we propose.

CONCLUSION

This study examines whether the implementation of the Securities and Exchange Ordinance in Bangladesh in 2007 influenced voluntary disclosure practices among U.S. firms through the investors channel. We investigate how regulatory changes in an emerging market can create spillover effects that impact disclosure behavior in developed markets, particularly when institutional investors with global portfolios adjust their information demands in response to enhanced regulatory frameworks abroad. Our empirical analysis employs a difference-in-differences research design to identify the causal effect of Bangladesh's securities law modernization on voluntary disclosure levels of U.S. firms with varying degrees of exposure to international investor bases.

Our findings reveal a statistically significant negative relationship between the implementation of Bangladesh's Securities and Exchange Ordinance and voluntary disclosure levels among U.S. firms. Across all three specifications, we document consistent evidence that firms reduced their voluntary disclosure following the regulatory change, with treatment effects ranging from -0.0455 to -0.0797, all significant at the 1% level. The most conservative estimate from our fully saturated model (Specification 3) indicates a 4.55 percentage point decrease in voluntary disclosure, representing an economically meaningful reduction given the baseline levels of voluntary disclosure in our sample. The robustness of these results across different model specifications, including controls for firm characteristics such as institutional ownership, size, book-to-market ratio, profitability, stock returns, volatility, and loss status, strengthens our confidence in the causal interpretation of these findings. These results suggest that enhanced regulatory frameworks in emerging markets may reduce the relative information advantage that voluntary disclosure provides to U.S. firms, as institutional investors gain access to more standardized and reliable information from their global investment opportunities.

The implications of our findings extend across multiple stakeholder groups and contribute to the growing literature on international regulatory spillovers and disclosure economics. For regulators, our results highlight the interconnected nature of global capital markets and suggest that regulatory improvements in one jurisdiction can have unintended consequences for disclosure practices in other markets. The Securities and Exchange Commission and other regulatory bodies should consider these cross-border effects when evaluating the overall impact of international regulatory harmonization efforts (Christensen et al., 2013). Our findings also complement prior research on the competitive effects of disclosure regulation and suggest that the benefits of enhanced investor protection may extend beyond domestic markets (Shroff et al., 2013). For corporate managers, our results indicate that the strategic value of voluntary disclosure may diminish as global regulatory standards converge and institutional investors gain access to higher-quality information from international investments. This suggests that managers may need to reconsider their disclosure strategies and focus on providing more differentiated or forward-looking information to maintain their competitive advantage in attracting institutional capital.

From an investor perspective, our findings suggest that regulatory improvements in emerging markets may reduce information asymmetries globally, potentially leading to more efficient capital allocation across international portfolios. Institutional investors appear to adjust their information demands and reliance on voluntary disclosure when regulatory frameworks in their investment opportunity set improve, consistent with theories of optimal information acquisition in portfolio management (Kacperczyk et al., 2014). This behavior aligns with the growing literature on the role of institutional investors in corporate governance and disclosure practices across international markets.

Our study has several important limitations that should be acknowledged. First, while we establish a causal relationship between Bangladesh's regulatory change and U.S. voluntary disclosure through our difference-in-differences design, we cannot directly observe the specific mechanisms through which institutional investors transmit these effects. Future research could benefit from more granular data on institutional investor portfolio compositions and their information acquisition strategies across different regulatory environments. Second, our analysis focuses on a single regulatory event in one emerging market, which may limit the generalizability of our findings to other regulatory contexts or jurisdictions. Third, we measure voluntary disclosure using established proxies that may not capture all dimensions of voluntary information provision, particularly qualitative disclosures or forward-looking statements that may be more responsive to competitive pressures.

Several promising avenues for future research emerge from our findings. First, researchers could examine whether similar spillover effects occur following regulatory changes in other emerging markets or whether the magnitude of these effects varies with the economic significance of the regulatory jurisdiction. Second, future studies could investigate the specific channels through which institutional investors transmit regulatory spillover effects, potentially using proprietary data on investor information acquisition or communication with portfolio firms. Third, examining the long-term consequences of these disclosure adjustments on firm performance, cost of capital, and investment efficiency would provide valuable insights into the welfare implications of international regulatory spillovers. Finally, researchers could explore whether the negative spillover effects we document are temporary or represent a permanent shift in the equilibrium level of voluntary disclosure as global regulatory standards continue to converge.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481
Time Trend	18,045	1.9447	1.4164	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Securities and Exchange Ordinance Bangladesh Unsophisticated Investors

	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**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	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 Securities and Exchange Ordinance Bangladesh on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0797*** (7.72)	-0.0634*** (4.89)	-0.0455*** (3.77)
Institutional ownership		0.8019*** (17.37)	-0.0587 (0.93)
Firm size		0.0948*** (10.65)	0.1356*** (10.91)
Book-to-market		-0.0328** (2.29)	-0.0204 (1.51)
ROA		0.1178*** (3.68)	0.0275 (0.97)
Stock return		-0.0423*** (3.47)	-0.0376*** (4.06)
Earnings volatility		0.0816*** (2.66)	-0.1197*** (3.19)
Loss		-0.2137*** (10.74)	-0.1197*** (8.31)
Class action litigation risk		-0.0311 (1.04)	-0.0227 (1.16)
Time Trend		-0.0227*** (3.86)	-0.0016 (0.28)
Firm fixed effects	No	No	Yes
N	18,045	18,045	18,045
R^2	0.0019	0.2547	0.8531

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