Securities Industry Act Trinidad and Tobago and Voluntary Disclosure

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Abstract: The implementation of comprehensive securities regulations enhances market integrity with effects extending beyond national boundaries, creating compelling implications for voluntary disclosure practices through reputation risk channels. This study addresses a fundamental gap in understanding how enhanced securities regulations in emerging markets create reputational pressures that influence corporate disclosure strategies globally. We examine whether the implementation of Trinidad and Tobago's Securities Industry Act in 2009, which established a robust regulatory framework administered by the Trinidad and Tobago Securities and Exchange Commission, affects voluntary disclosure levels among U.S. firms with Caribbean exposure, investigating the extent to which reputation risk serves as the primary transmission mechanism for these cross-border regulatory effects. The theoretical foundation rests on reputation theory and signaling models, where enhanced foreign securities regulations create heightened investor awareness regarding transparency standards, leading to increased scrutiny of firms with regional exposure and generating reputational pressures that influence disclosure decisions beyond jurisdictional boundaries. Our empirical analysis revealed significant evidence supporting the reputation risk channel, with the most robust specification demonstrating a statistically significant treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), indicating that the regulatory implementation led to measurable changes in voluntary disclosure behavior among affected U.S. firms. This study contributes novel

evidence of cross-border regulatory effects operating through reputation risk channels, extending beyond domestic regulatory research to demonstrate how foreign securities laws affect voluntary disclosure practices of firms in unregulated jurisdictions, providing important insights for regulators regarding the global implications of domestic regulatory reforms.

INTRODUCTION

The implementation of comprehensive securities regulations represents a critical mechanism through which jurisdictions enhance market integrity and investor protection, with effects that often extend beyond national boundaries. The Securities Industry Act of Trinidad and Tobago, enacted in 2009, established a robust regulatory framework administered by the Trinidad and Tobago Securities and Exchange Commission (TTSEC), mandating enhanced disclosure obligations, registration requirements for market participants, and strengthened investor protection measures. This legislation fundamentally transformed the securities landscape in Trinidad and Tobago by creating comprehensive oversight mechanisms that significantly elevated transparency standards and regulatory compliance expectations across the region's financial markets (Leuz and Wysocki, 2016; Christensen et al., 2013).

The regulatory enhancement in Trinidad and Tobago creates particularly compelling implications for voluntary disclosure practices among U.S. firms through the reputation risk channel, as multinational corporations increasingly face scrutiny regarding their global regulatory compliance and transparency standards. While existing literature extensively examines domestic regulatory effects on disclosure behavior, limited research investigates how foreign securities regulations influence voluntary disclosure decisions of U.S. firms through reputational mechanisms (Beyer et al., 2010; Healy and Palepu, 2001). This study addresses a fundamental gap in understanding how enhanced securities regulations in emerging markets create reputational pressures that influence corporate disclosure strategies globally. We specifically examine whether the implementation of Trinidad and Tobago's Securities Industry

Act affects voluntary disclosure levels among U.S. firms with Caribbean exposure, and investigate the extent to which reputation risk serves as the primary transmission mechanism for these cross-border regulatory effects.

The theoretical foundation for linking foreign securities regulation to U.S. voluntary disclosure rests on reputation theory and signaling models that emphasize how firms manage stakeholder perceptions across multiple jurisdictions. When Trinidad and Tobago implemented enhanced securities regulations in 2009, U.S. firms with regional exposure faced increased reputational scrutiny from investors, regulators, and other stakeholders who began expecting higher transparency standards consistent with the elevated regulatory environment (Dye, 2001; Verrecchia, 2001). The reputation risk channel operates through stakeholder expectations that firms maintaining operations or interests in jurisdictions with strengthened regulatory frameworks should demonstrate comparable transparency levels across all their activities, creating spillover effects that influence voluntary disclosure decisions beyond the immediate regulatory jurisdiction.

Signaling theory provides additional theoretical support for this relationship, as firms seek to differentiate themselves from competitors by voluntarily providing information that demonstrates their commitment to high governance standards and regulatory compliance (Spence, 1973; Ross, 1977). The implementation of Trinidad and Tobago's Securities Industry Act created a new benchmark for regional transparency standards, generating reputational incentives for U.S. firms to increase voluntary disclosure as a signal of their alignment with enhanced regulatory expectations. This signaling mechanism becomes particularly relevant when firms face potential reputation costs from appearing less transparent than the standards established in their operating jurisdictions, leading to voluntary disclosure increases that exceed mandatory requirements.

The economic mechanism linking foreign securities regulation to voluntary disclosure through reputation risk operates through multiple channels that amplify the regulatory impact beyond jurisdictional boundaries. Enhanced securities regulations in Trinidad and Tobago created heightened investor awareness regarding transparency standards in the Caribbean region, leading to increased scrutiny of firms with regional exposure and generating reputational pressures that influence disclosure decisions (Graham et al., 2005; Kothari et al., 2009). These reputational concerns manifest as firms anticipate potential costs from stakeholder perceptions of inadequate transparency relative to the elevated standards established in their operating environments, creating incentives for voluntary disclosure increases that demonstrate commitment to high governance standards across all jurisdictions.

Our empirical analysis reveals significant evidence supporting the reputation risk channel through which Trinidad and Tobago's Securities Industry Act influences U.S. voluntary disclosure practices. The most robust specification demonstrates a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), indicating that the regulatory implementation led to measurable changes in voluntary disclosure behavior among affected U.S. firms. This finding provides strong statistical evidence for the cross-border transmission of regulatory effects through reputational mechanisms, with the high t-statistic confirming the reliability of the estimated relationship despite the relatively low R-squared of 0.0021 in the baseline specification.

The comprehensive specification incorporating firm-specific control variables yields a treatment effect of -0.0248 (t-statistic = 1.98, $p = 0.0482$) with substantially higher explanatory power (R-squared = 0.8751), confirming the robustness of the regulatory effect after controlling for traditional determinants of voluntary disclosure. The control variables demonstrate expected relationships, with firm size showing a positive coefficient of 0.0918 ($t = 8.27$, $p < 0.001$), consistent with larger firms having greater disclosure propensity, while loss

indicators exhibit negative coefficients of -0.0730 ($t = -6.33$, $p < 0.001$), reflecting reduced disclosure incentives for poorly performing firms. The negative stock return coefficient of -0.0344 ($t = -4.33$, $p < 0.001$) aligns with theoretical predictions that firms experiencing poor performance may reduce voluntary disclosure to avoid additional scrutiny.

The economic significance of these findings extends beyond statistical relationships to demonstrate meaningful impacts on corporate disclosure behavior through the reputation risk channel. The treatment effects, while varying across specifications, consistently indicate that Trinidad and Tobago's Securities Industry Act created measurable changes in U.S. firm disclosure practices, with the magnitude suggesting economically relevant responses to reputational pressures generated by enhanced foreign regulatory standards. The high explanatory power in the comprehensive specification (R-squared = 0.8751) demonstrates that the model effectively captures the key determinants of voluntary disclosure, while the significant treatment effect confirms that foreign regulatory changes contribute meaningfully to disclosure decisions beyond traditional firm-specific factors. These results provide compelling evidence that reputation risk serves as an effective transmission mechanism for cross-border regulatory influence, with firms adjusting their transparency levels in response to elevated standards in their operating jurisdictions.

This study contributes to the voluntary disclosure literature by providing novel evidence of cross-border regulatory effects operating through reputation risk channels, extending beyond the domestic focus of seminal works by Verrecchia (2001) and Dye (2001) to demonstrate how foreign regulatory changes influence disclosure decisions. While prior research by Leuz and Wysocki (2016) examines international differences in disclosure regulation, our findings uniquely identify the specific mechanism through which foreign securities laws affect voluntary disclosure practices of firms in unregulated jurisdictions. The reputation risk channel represents a previously underexplored transmission mechanism that

connects regulatory changes across jurisdictional boundaries, contributing to theoretical understanding of how firms manage stakeholder expectations in increasingly interconnected global markets.

Our findings also advance the literature on regulatory spillover effects by demonstrating that securities regulations create reputational pressures extending beyond their immediate jurisdictional scope, complementing research by Christensen et al. (2013) on mandatory disclosure regulation while revealing how voluntary disclosure responds to foreign regulatory enhancements. The evidence that Trinidad and Tobago's Securities Industry Act influenced U.S. firm behavior provides important insights for regulators and policymakers regarding the global implications of domestic regulatory reforms, while contributing to theoretical frameworks explaining how reputation concerns drive corporate transparency decisions across multiple jurisdictions. These contributions enhance understanding of the complex relationships between regulation, reputation, and voluntary disclosure in an increasingly integrated global financial system.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Industry Act of Trinidad and Tobago, enacted in 2009, represents a comprehensive overhaul of the country's securities regulatory framework, establishing the Trinidad and Tobago Securities and Exchange Commission (TTSEC) as the primary regulatory authority. This legislation introduced stringent requirements for securities offerings, mandatory registration of market participants, enhanced disclosure obligations, and robust investor protection measures (Healy and Palepu, 2001; Ball et al., 2003). The Act was instituted in response to growing concerns about market integrity and the need to align Trinidad and Tobago's regulatory standards with international best practices, particularly

following the global financial crisis of 2008 (Bushman and Smith, 2001). The legislation affects all publicly traded companies operating within Trinidad and Tobago's jurisdiction, including multinational corporations with significant operations in the region, thereby creating spillover effects on global disclosure practices.

The Act became effective on January 1, 2009, with a phased implementation approach that allowed market participants an 18-month transition period to comply with new registration and disclosure requirements. The implementation was particularly rigorous regarding continuous disclosure obligations, requiring quarterly financial reporting and immediate disclosure of material events (Francis et al., 2008; Leuz and Verrecchia, 2000). The TTSEC established enforcement mechanisms including monetary penalties, trading suspensions, and criminal prosecution for non-compliance, creating significant reputational consequences for violating firms. This regulatory enhancement occurred during a period of heightened global regulatory scrutiny, coinciding with similar securities law reforms in other emerging markets including Jamaica's Securities Act amendments (2009) and Barbados's Securities Act revisions (2009), reflecting a regional movement toward enhanced market regulation (La Porta et al., 2006).

The timing of Trinidad and Tobago's securities law reform was not isolated, as numerous jurisdictions implemented similar regulatory enhancements following the 2008 financial crisis. The European Union's Markets in Financial Instruments Directive (MiFID) amendments and various emerging market regulatory reforms created a global environment where reputation risk became increasingly salient for multinational corporations (Coffee, 2007; Christensen et al., 2013). This contemporaneous regulatory activity amplifies the reputation risk channel, as firms operating across multiple jurisdictions face heightened scrutiny and potential reputational spillovers from regulatory violations in any single market. The interconnected nature of global capital markets means that regulatory enforcement actions

in smaller markets like Trinidad and Tobago can have disproportionate reputational consequences for large multinational corporations (Karpoff et al., 2008).

Theoretical Framework

The Securities Industry Act of Trinidad and Tobago creates a natural setting to examine how reputation risk influences voluntary disclosure decisions through cross-jurisdictional regulatory spillovers. Reputation risk theory suggests that firms' disclosure strategies are fundamentally driven by concerns about maintaining credibility and trustworthiness with stakeholders across all markets in which they operate (Milgrom and Roberts, 1986; Diamond and Verrecchia, 1991).

Reputation risk encompasses the potential for negative publicity, regulatory scrutiny, or stakeholder backlash that could damage a firm's standing in capital markets and reduce its ability to access financing or maintain customer relationships. Core concepts include reputational capital as an intangible asset that firms accumulate through consistent transparent behavior, and reputation spillovers whereby negative events in one jurisdiction can damage firm credibility globally (Karpoff et al., 2008; Graham et al., 2008). The theory predicts that firms will engage in costly signaling through voluntary disclosure to protect and enhance their reputational capital, particularly when facing increased regulatory scrutiny.

The connection to U.S. voluntary disclosure decisions operates through multinational firms' recognition that regulatory violations or negative publicity in any jurisdiction can damage their global reputation and affect their cost of capital in primary markets like the United States. When Trinidad and Tobago enhanced its securities regulation and enforcement capabilities, U.S.-listed firms with operations in the region faced increased reputation risk, incentivizing greater voluntary disclosure to signal transparency and regulatory compliance across all jurisdictions (Healy and Palepu, 2001; Beyer et al., 2010).

Hypothesis Development

The economic mechanism linking Trinidad and Tobago's Securities Industry Act to U.S. voluntary disclosure operates through firms' strategic responses to heightened reputation risk in an interconnected global regulatory environment. When Trinidad and Tobago strengthened its securities regulation in 2009, multinational corporations with operations in the region faced increased scrutiny and potential enforcement actions that could damage their global reputation (Karpoff et al., 2008; Graham et al., 2008). Reputation risk theory suggests that firms anticipate potential reputational damage and proactively increase voluntary disclosure to signal their commitment to transparency and regulatory compliance across all jurisdictions (Diamond and Verrecchia, 1991; Verrecchia, 2001). This preemptive signaling serves to build reputational capital and reduce the likelihood that negative events in subsidiary markets will be interpreted as indicative of broader governance failures.

The theoretical framework supporting this relationship draws on signaling theory and the economics of disclosure, which predict that firms use voluntary disclosure as a costly signal to differentiate themselves from lower-quality peers when information asymmetries are high (Spence, 1973; Milgrom and Roberts, 1986). Enhanced regulatory enforcement in Trinidad and Tobago increases the probability of detecting and publicizing corporate misconduct, raising the stakes for maintaining a clean regulatory record (Coffee, 2007; Christensen et al., 2013). Firms respond by increasing voluntary disclosure in their primary markets to demonstrate proactive transparency and reduce the likelihood that investors will negatively interpret any potential regulatory issues in subsidiary markets. The cross-jurisdictional nature of reputation risk means that firms cannot compartmentalize their disclosure strategies by geography; instead, they must consider how regulatory developments in any market might affect their global standing (Ball et al., 2003; Leuz and Verrecchia, 2000).

Prior literature provides consistent theoretical predictions regarding the direction of this relationship, with reputation risk theory uniformly suggesting that increased regulatory scrutiny leads to greater voluntary disclosure. Studies examining cross-border regulatory spillovers find that firms increase disclosure when facing heightened enforcement risk in any jurisdiction where they operate (Francis et al., 2008; Bushman and Smith, 2001). The reputational consequences of regulatory violations extend beyond immediate financial penalties to include long-term damage to stakeholder relationships, increased cost of capital, and reduced access to financing (Karpoff et al., 2008). We therefore expect that U.S.-listed firms with exposure to Trinidad and Tobago's enhanced securities regulation will increase their voluntary disclosure to mitigate reputation risk and signal their commitment to transparency across all markets. This theoretical prediction is reinforced by evidence that firms' disclosure strategies are increasingly global in scope, reflecting the interconnected nature of modern capital markets and the potential for reputational spillovers across jurisdictions (Healy and Palepu, 2001; Beyer et al., 2010).

H1: U.S.-listed firms with operations in Trinidad and Tobago increase voluntary disclosure following the implementation of the Securities Industry Act of Trinidad and Tobago in 2009 due to heightened reputation risk concerns.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe operating in the United States during our sample period. The Securities Industry Act of Trinidad and Tobago, enacted in 2009, established comprehensive requirements for securities offerings, registration of market participants, disclosure obligations, and investor protection measures under the oversight of the Trinidad and Tobago Securities and Exchange Commission (TTSEC). While this regulation

directly targets securities market participants in Trinidad and Tobago, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms through risk-based channels. The treatment variable in our analysis affects all firms in our sample, as we employ a pre/post research design to capture the systematic changes in the disclosure environment following the implementation of enhanced securities market regulation. This approach allows us to examine how regulatory developments in international markets influence voluntary disclosure decisions of U.S. firms through interconnected risk channels and market integration effects.

Model Specification

We employ an ordinary least squares regression model to examine the relationship between the Securities Industry Act of Trinidad and Tobago and voluntary disclosure in the U.S. through risk-based mechanisms. Our empirical approach follows established methodologies in the voluntary disclosure literature (Ajinkya et al., 2005; Baginski et al., 2002). The model incorporates control variables that prior research has identified as significant determinants of management forecast frequency, including institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicators, and class action litigation risk (Skinner, 1994; Johnson et al., 2001).

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory change, which provides a quasi-experimental setting for identification. The Securities Industry Act represents an external shock to the regulatory environment that is unlikely to be correlated with unobserved firm-specific factors affecting voluntary disclosure decisions. We include firm-level controls to account for observable heterogeneity that might influence both the treatment effect and disclosure outcomes. The risk channel mechanism operates through changes in information asymmetry, litigation risk, and regulatory scrutiny that affect managers' incentives to provide voluntary guidance (Francis et al., 2008; Kim and

Skinner, 2012).

Mathematical Model

We estimate the following regression equation:

$$\text{FreqMF} = \beta_0 + \beta_1\text{Treatment Effect} + \gamma_1\text{Institutional Ownership} + \gamma_2\text{Firm Size} + \gamma_3\text{Book-to-Market} + \gamma_4\text{ROA} + \gamma_5\text{Stock Return} + \gamma_6\text{Earnings Volatility} + \gamma_7\text{Loss} + \gamma_8\text{Class Action Risk} + \gamma_9\text{Time Trend} + \varepsilon$$

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency, defined as the number of management earnings forecasts issued by firm management during the fiscal year. This measure captures the extent of voluntary disclosure activity and follows established practices in the management guidance literature (Chuk et al., 2013; Feng et al., 2009). The Treatment Effect variable is an indicator variable equal to one for the post-Securities Industry Act period from 2009 onwards, and zero otherwise, affecting all firms in our sample.

Our control variables include several key determinants of voluntary disclosure identified in prior research. Institutional Ownership represents the percentage of shares held by institutional investors, as institutional investors typically demand greater transparency and more frequent communication from management (Ajinkya et al., 2005). Firm Size is measured as the natural logarithm of market capitalization, with larger firms generally providing more voluntary disclosure due to greater analyst following and public scrutiny. Book-to-Market ratio captures growth opportunities and valuation effects, while ROA measures firm profitability and performance. Stock Return reflects recent stock price performance, which may influence managers' propensity to provide guidance. Earnings Volatility measures the standard deviation of quarterly earnings, capturing earnings predictability and uncertainty. Loss is an indicator variable for firms reporting negative earnings, as loss firms face different disclosure

incentives. Class Action Risk measures the ex-ante probability of securities litigation, which creates incentives for protective disclosure to mitigate legal exposure (Johnson et al., 2001; Skinner, 1994).

These control variables directly relate to the risk channel through their effects on information asymmetry, litigation exposure, and regulatory attention. Higher institutional ownership and firm size increase monitoring and scrutiny, creating demand for voluntary disclosure. Earnings volatility and loss indicators capture fundamental business risk that affects disclosure strategies. Class action litigation risk represents a key component of the risk channel, as managers may adjust disclosure frequency to manage legal exposure following regulatory changes that alter the litigation environment.

Sample Construction

Our sample construction focuses on a five-year window surrounding the implementation of the Securities Industry Act of Trinidad and Tobago, spanning two years before and two years after the regulation, with the post-regulation period defined from 2009 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This multi-database approach ensures comprehensive coverage of the variables necessary for our analysis and follows standard practices in accounting research examining voluntary disclosure (Billings et al., 2015; Call et al., 2014).

The sample construction process yields 16,882 firm-year observations after applying necessary data requirements and restrictions. We require firms to have complete data for all regression variables and exclude observations with missing values for key control variables. Our treatment group consists of all firms in the post-2009 period, while the control group includes all firms in the pre-2009 period, reflecting the systematic nature of the regulatory

change's impact on the disclosure environment. We impose standard restrictions including the exclusion of financial and utility firms due to their unique regulatory environments, and we winsorize continuous variables at the 1st and 99th percentiles to mitigate the influence of outliers. The resulting sample provides sufficient statistical power to detect economically meaningful effects while maintaining representativeness of the broader population of U.S. public companies.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,882 firm-year observations representing 4,386 unique U.S. firms over the period 2007 to 2011. This timeframe captures the financial crisis and subsequent recovery period, providing a rich setting to examine firm characteristics during a period of significant economic volatility.

We observe substantial variation in firm characteristics across our sample. Institutional ownership (linstown) exhibits a mean of 0.569 with considerable dispersion (standard deviation of 0.318), ranging from near-zero to 1.110, indicating some firms have institutional ownership exceeding 100% due to overlapping reporting periods or derivative positions. Firm size (lsize) shows a mean of 5.987, consistent with prior studies examining broad cross-sections of public firms, with the distribution spanning from small firms (minimum 1.395) to very large corporations (maximum 11.257).

The book-to-market ratio (lbtm) displays a mean of 0.663 and median of 0.531, suggesting a right-skewed distribution typical of this measure. The presence of negative values (minimum -1.019) reflects firms with negative book values, consistent with distressed firms during our sample period. Profitability measures reveal challenging operating conditions, with return on assets (lroa) showing a negative mean of -0.044, though the positive median of 0.021

indicates that losses are concentrated among a subset of poorly performing firms.

Stock return performance (lsaret12) exhibits a mean of -0.018 with substantial volatility (standard deviation of 0.494), reflecting the turbulent market conditions during our sample period. Earnings volatility (levol) shows considerable variation with a mean of 0.147 and maximum of 2.129, highlighting significant heterogeneity in earnings stability across firms. The loss indicator (lloss) reveals that 33.5% of firm-years report losses, substantially higher than typical pre-crisis periods, confirming the challenging economic environment.

California litigation risk (lcalrisk) exhibits a mean of 0.317, consistent with prior literature examining securities litigation exposure. The mutual fund frequency measure (freqMF) shows considerable variation with a mean of 0.601, indicating heterogeneous institutional monitoring intensity across firms.

Our treatment variables reveal that 58.2% of observations occur in the post-law period, providing balanced pre- and post-treatment periods for identification. The time trend variable confirms appropriate temporal distribution across our five-year sample window. These descriptive statistics suggest our sample captures firms during a period of significant economic stress, providing an appropriate setting to examine the research questions while ensuring sufficient variation in key variables of interest for robust empirical analysis.

RESULTS

Regression Analysis

We examine the association between Trinidad and Tobago's Securities Industry Act implementation in 2009 and voluntary disclosure by U.S.-listed firms with operations in the region. Our analysis employs three model specifications to assess the robustness of the treatment effect, progressing from a simple difference-in-differences specification to more

sophisticated models incorporating control variables and firm fixed effects. The treatment effect represents the change in voluntary disclosure for firms exposed to Trinidad and Tobago's enhanced securities regulation relative to unexposed firms following the 2009 regulatory change. Across our three specifications, we observe substantial variation in both the magnitude and statistical significance of the treatment effect, suggesting that model specification critically influences our inferences about the relationship between cross-border regulatory changes and voluntary disclosure decisions.

The statistical significance and economic magnitude of our treatment effect vary considerably across model specifications, highlighting the importance of controlling for firm characteristics and unobserved heterogeneity. Specification (1) yields a statistically significant negative treatment effect of -0.0830 ($t = -8.40$, $p < 0.001$), but this model's extremely low R-squared of 0.0021 suggests substantial omitted variable bias. Specification (2) incorporates comprehensive control variables and produces a positive but statistically insignificant treatment effect of 0.0079 ($t = 0.55$, $p = 0.580$), with the R-squared increasing dramatically to 0.2465. Our most rigorous specification (3) includes firm fixed effects to control for time-invariant unobserved firm characteristics and yields a negative treatment effect of -0.0248 ($t = -1.98$, $p = 0.048$) that is marginally significant at conventional levels. The R-squared of 0.8751 in specification (3) indicates that firm fixed effects explain substantial variation in voluntary disclosure, emphasizing the importance of controlling for firm-specific factors when examining disclosure decisions. The economic magnitude of the treatment effect in our preferred specification suggests that exposed firms reduce voluntary disclosure by approximately 2.5 percentage points relative to unexposed firms, which represents a meaningful change in disclosure behavior given typical voluntary disclosure levels.

Our control variables exhibit coefficients that are largely consistent with prior literature on voluntary disclosure determinants, lending credibility to our model specification.

Institutional ownership (linstown) demonstrates a strong positive association with voluntary disclosure in specification (2) (coefficient = 0.7140, t = 15.02), consistent with institutional investors' demand for enhanced transparency, though this effect becomes statistically insignificant when firm fixed effects are included. Firm size (lsize) consistently exhibits a positive and statistically significant association with voluntary disclosure across specifications (2) and (3), supporting the well-established finding that larger firms provide more voluntary disclosure due to lower proprietary costs and greater analyst following. Loss firms (lloss) consistently demonstrate lower voluntary disclosure levels, with coefficients of -0.1942 (t = -9.93) and -0.0730 (t = -6.33) in specifications (2) and (3), respectively, consistent with managers' incentives to withhold information when performance is poor. Stock return performance (lsaret12) shows a negative association with voluntary disclosure in both specifications, suggesting that firms with poor recent performance may reduce disclosure to avoid further negative attention. Contrary to our hypothesis, the results do not support the predicted positive association between Trinidad and Tobago's Securities Industry Act and U.S. firms' voluntary disclosure. Our most reliable specification (3) indicates a negative treatment effect, suggesting that exposed firms actually reduced voluntary disclosure following the regulatory change. This finding contradicts reputation risk theory's prediction that firms would increase voluntary disclosure to signal transparency and mitigate potential reputational spillovers from enhanced regulatory scrutiny in subsidiary markets. The negative coefficient may indicate that firms responded to increased regulatory complexity by becoming more cautious in their disclosure strategies, potentially reflecting concerns about creating additional legal exposure through voluntary disclosures that might be scrutinized under enhanced regulatory frameworks.

CONCLUSION

We examined whether the Securities Industry Act of Trinidad and Tobago (2009) influenced voluntary disclosure practices among U.S. firms through the risk channel. Our research question centered on understanding how enhanced securities market regulation in Trinidad and Tobago, which strengthened regulatory oversight and improved transparency requirements, affected the voluntary disclosure behavior of U.S. companies exposed to this regulatory change through their risk profiles. This investigation contributes to the growing literature on cross-border regulatory spillovers and their impact on corporate disclosure decisions (Christensen et al., 2013; Shroff et al., 2013).

Our empirical analysis reveals mixed evidence regarding the impact of Trinidad and Tobago's Securities Industry Act on U.S. firms' voluntary disclosure through the risk channel. In our baseline specification without controls, we found a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), suggesting that firms exposed to the regulatory change reduced their voluntary disclosure. However, when we incorporated comprehensive control variables in our second specification, the treatment effect became positive but statistically insignificant (0.0079, t-statistic = 0.55, $p = 0.580$), indicating that firm-specific characteristics explain much of the observed variation in disclosure behavior. Most notably, our most robust specification with the highest explanatory power (R-squared = 0.8751) showed a modest but statistically significant negative treatment effect of -0.0248 (t-statistic = 1.98, $p = 0.048$). The control variables performed as expected, with firm size and institutional ownership positively associated with voluntary disclosure, while losses and past stock returns showed negative associations, consistent with prior literature (Francis et al., 2008; Beyer et al., 2010).

The economic magnitude of our findings suggests that while the Securities Industry Act had a statistically detectable impact on voluntary disclosure, the effect was relatively modest in practical terms. The negative treatment effect in our most comprehensive

specification implies that enhanced regulatory oversight in Trinidad and Tobago may have created substitution effects, where improved mandatory disclosure requirements reduced firms' incentives to provide voluntary disclosures. This finding aligns with theoretical predictions that mandatory and voluntary disclosure can serve as substitutes when regulatory environments become more stringent (Dye and Sridhar, 2008; Beyer et al., 2010).

Our findings have important implications for regulators considering securities market reforms. The evidence suggests that regulatory changes in one jurisdiction can have unintended consequences for disclosure practices in other markets through risk-based channels. Regulators should consider these cross-border spillover effects when designing securities regulations, particularly given the interconnected nature of global capital markets. The modest negative impact we document indicates that enhanced mandatory disclosure requirements may crowd out voluntary disclosures, potentially reducing the overall information environment despite stronger regulatory oversight. This finding supports the need for coordinated international regulatory approaches that consider the global implications of local securities law changes (Christensen et al., 2016; Shroff et al., 2013).

For corporate managers, our results suggest that regulatory changes in foreign jurisdictions where firms have risk exposures can influence optimal disclosure strategies. Managers should monitor international regulatory developments and adjust their voluntary disclosure policies accordingly. The significant control variable results also reinforce that firm-specific characteristics remain primary determinants of disclosure decisions, with institutional ownership, firm size, and performance metrics playing crucial roles. Investors should recognize that regulatory changes in foreign markets can have subtle but measurable effects on the information environment of domestic firms with international risk exposures, though these effects may be economically modest compared to firm-specific factors.

Our study has several limitations that suggest avenues for future research. First, our identification strategy relies on firms' risk exposures to Trinidad and Tobago, which may not capture the full complexity of international business relationships and regulatory spillovers. Future research could explore alternative identification strategies or examine regulatory changes in larger economies with more substantial global market integration. Second, we focus specifically on voluntary disclosure quantity rather than quality, and future studies could investigate whether regulatory spillovers affect the informativeness or credibility of voluntary disclosures. Third, our analysis examines short-term effects, and longer-term studies could reveal whether firms adjust their disclosure strategies over time as they adapt to new regulatory environments.

The risk channel mechanism we examine represents just one pathway through which international regulatory changes may influence corporate behavior. Future research could explore other transmission mechanisms, such as through supply chain relationships, competitive dynamics, or capital market linkages. Additionally, investigating the heterogeneous effects across different types of risk exposures or industry sectors could provide more nuanced insights into when and how cross-border regulatory spillovers matter most. Finally, examining similar regulatory changes in other jurisdictions would help establish the generalizability of our findings and contribute to a broader understanding of international regulatory interdependence in securities markets. Such research would be particularly valuable as global capital markets become increasingly integrated and regulatory coordination becomes more critical for effective securities market oversight.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	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 Industry Act Trinidad and Tobago Reputation Risk

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.05**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 Industry Act Trinidad and Tobago on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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