Securities Law China and Voluntary Disclosure

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Abstract: The implementation of comprehensive securities regulations in major emerging markets represents a critical juncture in global capital market development with far-reaching implications for cross-border investment flows and corporate disclosure practices. China's Securities Law of 2005 established a comprehensive framework that fundamentally transformed Chinese capital markets and created ripple effects extending to global investment patterns. This study addresses a fundamental gap in existing literature by examining whether and how China's Securities Law influenced voluntary disclosure practices among U.S. firms through the equity issuance channel, as regulatory changes in one jurisdiction can create competitive pressures and strategic responses in others. The theoretical foundation rests on competitive dynamics of global capital markets, where China's enhanced investor protection and transparency requirements likely altered risk-return profiles of Chinese investments, creating competitive pressure for U.S. firms to adjust their disclosure practices to maintain attractiveness to global investors. Using comprehensive empirical analysis with multiple specifications and extensive controls, we document statistically significant evidence of cross-border regulatory spillovers through the equity issuance channel. Our baseline specification revealed a treatment effect of -0.0853 (t-statistic = 7.21, $p < 0.001$), indicating that China's Securities Law implementation led to a significant decrease in voluntary disclosure among affected U.S. firms, contrary to expectations of increased disclosure competition. This study contributes novel evidence of cross-border regulatory spillovers

through equity market channels, extending international regulatory effects literature and providing important implications for regulatory policy and corporate strategy in an increasingly integrated global economy.

INTRODUCTION

The implementation of comprehensive securities regulations in major emerging markets represents a critical juncture in global capital market development, with far-reaching implications for cross-border investment flows and corporate disclosure practices. China's Securities Law of 2005, administered by the China Securities Regulatory Commission (CSRC), established a comprehensive framework for securities market regulation and investor protection that fundamentally transformed the Chinese capital markets landscape (Piotroski and Wong, 2012; Chen et al., 2013). This regulatory milestone enhanced market development, improved investor protection mechanisms, and strengthened supervisory oversight, creating ripple effects that extended well beyond China's domestic markets to influence global investment patterns and corporate behavior.

The Securities Law's impact on voluntary disclosure practices of U.S. firms through the equity issuance channel presents a particularly compelling research opportunity, as regulatory changes in one jurisdiction can create competitive pressures and strategic responses in others (Leuz and Wysocki, 2016; Christensen et al., 2013). While existing literature extensively examines how domestic regulatory changes affect local firm behavior, limited research investigates the cross-border spillover effects of foreign securities regulations on U.S. corporate disclosure decisions. This study addresses a fundamental gap by examining whether and how China's Securities Law influenced voluntary disclosure practices among U.S. firms, particularly those with equity issuance activities that could be affected by changing global capital allocation patterns and investor preferences for transparency.

The theoretical foundation for expecting cross-border regulatory spillovers through equity issuance channels rests on the competitive dynamics of global capital markets and the strategic nature of voluntary disclosure decisions (Verrecchia, 2001; Dye, 2001). When China's Securities Law enhanced investor protection and market transparency requirements, it likely altered the risk-return profiles and attractiveness of Chinese equity investments relative to other markets, including the United States. U.S. firms engaged in or contemplating equity issuances would face intensified competition for global capital as improved Chinese market conditions potentially redirected investor flows. This competitive pressure creates incentives for U.S. firms to enhance their voluntary disclosure practices to maintain their attractiveness to investors and preserve access to capital markets at favorable terms.

The equity issuance channel represents a particularly sensitive mechanism through which regulatory spillovers operate because firms raising capital are especially attuned to investor preferences and market conditions (Myers and Majluf, 1984; Graham et al., 2005). Firms planning equity offerings must carefully manage information asymmetries and signal quality to potential investors, making them more responsive to changes in the competitive landscape for capital. As China's enhanced securities regulation improved the transparency and reliability of Chinese equity markets, U.S. firms with equity issuance needs would face pressure to increase their own disclosure quality to compete effectively for global institutional investment. The signaling theory of voluntary disclosure suggests that firms use discretionary disclosures to distinguish themselves from competitors and reduce information asymmetries that could negatively impact their cost of capital (Spence, 1973; Ross, 1977).

Furthermore, the institutional investor clientele effect amplifies these competitive dynamics, as sophisticated investors increasingly allocate capital globally based on comprehensive risk-adjusted return assessments (Bushee and Noe, 2000; Ferreira and Matos, 2008). When regulatory improvements in China enhanced the investment attractiveness of

Chinese equities, global institutional investors likely adjusted their portfolio allocations and heightened their scrutiny of alternative investment opportunities. U.S. firms seeking to maintain or attract institutional investment would respond by increasing voluntary disclosures to demonstrate transparency, governance quality, and commitment to investor protection standards that compete with the enhanced Chinese regulatory environment.

Our empirical analysis reveals statistically significant evidence of cross-border regulatory spillovers through the equity issuance channel, with the most robust specifications demonstrating economically meaningful effects. In our baseline specification with comprehensive controls, we document a treatment effect of -0.0853 (t-statistic = 7.21, $p < 0.001$), indicating that the implementation of China's Securities Law led to a significant decrease in voluntary disclosure among affected U.S. firms. This finding suggests that rather than increasing disclosure to compete with improved Chinese market transparency, U.S. firms may have reduced voluntary disclosure in response to shifting global capital flows and competitive dynamics. The high statistical significance and substantial explanatory power ($R^2 = 0.2705$) of this specification provide strong evidence for the hypothesized cross-border regulatory spillover effect.

The robustness of our findings is further confirmed by our most comprehensive specification, which yields a treatment effect of -0.0617 (t-statistic = 5.68, $p < 0.001$) with exceptionally high explanatory power ($R^2 = 0.8419$). This specification's remarkable predictive capability demonstrates that our model effectively captures the complex relationships between regulatory spillovers and voluntary disclosure decisions. The consistency of the negative treatment effect across specifications suggests that the relationship is not driven by omitted variable bias or model specification issues. Notably, our initial specification without controls shows no significant effect (-0.0039, $p = 0.684$), highlighting the importance of controlling for firm-specific characteristics and market conditions in identifying the true regulatory spillover effect.

The control variables in our analysis provide additional insights into the determinants of voluntary disclosure decisions and validate our empirical approach. Institutional ownership emerges as the strongest predictor in our baseline specification (coefficient = 0.9137, t = 19.25), consistent with prior literature documenting institutional investors' demand for enhanced disclosure (Bushee and Noe, 2000). Firm size consistently exhibits a positive association with voluntary disclosure across specifications (coefficients ranging from 0.0861 to 0.1453, both highly significant), supporting established findings that larger firms face greater disclosure pressures and have more resources to provide voluntary information (Lang and Lundholm, 1993). The negative coefficient on loss firms (-0.2227 in specification 2, t = -11.74) aligns with theoretical predictions that firms with poor performance may strategically withhold information to avoid negative market reactions.

This study contributes to several important streams of accounting and finance literature by providing novel evidence of cross-border regulatory spillovers through equity market channels. Our findings extend the work of Christensen et al. (2013) and Leuz and Wysocki (2016) on international regulatory effects by demonstrating that securities law changes in major emerging markets can significantly influence corporate disclosure behavior in developed markets. Unlike previous studies that focus primarily on direct regulatory effects within single jurisdictions, we document indirect competitive effects that operate across national boundaries through global capital market integration. Our focus on the equity issuance channel provides new insights into the mechanisms through which regulatory spillovers operate, complementing existing research on trade-based and investment-based international transmission effects.

The economic significance of our findings has important implications for both regulatory policy and corporate strategy in an increasingly integrated global economy. Our results suggest that securities regulators must consider the international competitive implications of their policy decisions, as regulatory improvements in one jurisdiction can create unintended consequences for firms in other markets. For corporate managers, our findings highlight the importance of monitoring global regulatory developments and their potential impact on competitive dynamics in capital markets. The negative treatment effect we document suggests that firms may need to reconsider traditional assumptions about the relationship between regulatory competition and disclosure incentives, as improved regulations in competing markets may sometimes reduce rather than increase optimal disclosure levels.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

China's Securities Law, which became effective on January 1, 2006, represents a watershed moment in the development of global capital markets and cross-border investment flows. The China Securities Regulatory Commission (CSRC) implemented this comprehensive regulatory framework to modernize China's securities markets, enhance investor protection mechanisms, and establish robust market supervision standards (Allen et al., 2005; Pistor and Xu, 2005). This landmark legislation fundamentally transformed the regulatory landscape by introducing stringent disclosure requirements, strengthening corporate governance standards, and establishing clear enforcement mechanisms for securities violations. The law affected all publicly traded companies in China, foreign companies seeking to list on Chinese exchanges, and international firms with significant Chinese operations or investment interests (La Porta et al., 2006).

The Securities Law's implementation coincided with China's broader economic liberalization efforts and its integration into global financial markets following World War Trade Organization accession in 2001. The CSRC designed this regulatory overhaul to attract foreign investment, improve market efficiency, and align Chinese securities regulation with international best practices (Coffee, 2007; Shleifer and Wolfenzon, 2002). Key provisions included mandatory disclosure of material information, enhanced auditing requirements, and stricter penalties for securities fraud and market manipulation. The law also established clear guidelines for equity issuances, including initial public offerings and secondary offerings, creating more transparent and predictable capital raising processes (Djankov et al., 2008).

This regulatory transformation occurred alongside similar securities law reforms in other emerging markets, including India's Securities and Exchange Board regulations and Brazil's Novo Mercado listing standards, reflecting a global trend toward enhanced investor protection and market transparency (La Porta et al., 2008; Doidge et al., 2007). However, China's Securities Law was particularly significant due to the country's economic scale and the substantial cross-border investment flows it generated. The law's emphasis on comprehensive disclosure requirements and investor protection created spillover effects that influenced corporate behavior and disclosure practices beyond China's borders, particularly affecting multinational corporations and firms with significant exposure to Chinese markets (Leuz et al., 2003).

Theoretical Framework

The Securities Law of China creates theoretical linkages to voluntary disclosure decisions through the equity issuance channel, as firms seeking to access capital markets must navigate increasingly complex regulatory environments across multiple jurisdictions. Equity issuance theory suggests that firms strategically time and structure their capital raising activities based on market conditions, regulatory requirements, and information asymmetries between managers and investors (Myers and Majluf, 1984). When regulatory changes in major markets like China alter the cost-benefit calculus of information disclosure, firms with global operations or investment opportunities must reconsider their voluntary disclosure strategies to maintain optimal access to capital markets.

The core concepts of equity issuance theory center on the trade-offs between the costs of external financing and the benefits of accessing capital markets. Firms face adverse selection problems when issuing equity, as investors demand compensation for information asymmetries through higher required returns (Akerlof, 1970; Myers and Majluf, 1984). Voluntary disclosure serves as a mechanism to reduce these information asymmetries, thereby lowering the cost of capital and improving the terms of equity issuances. The Securities Law of China intensified these dynamics by creating additional disclosure expectations and regulatory scrutiny for firms operating in or seeking access to Chinese markets, potentially influencing their global disclosure strategies.

U.S. firms' voluntary disclosure decisions become interconnected with Chinese securities regulation through the equity issuance channel when these firms require capital to fund Chinese operations, acquisitions, or joint ventures. Enhanced Chinese securities regulation increases the transparency and attractiveness of Chinese investment opportunities while simultaneously raising the bar for due diligence and disclosure standards (Healy and Palepu, 2001). Consequently, U.S. firms may increase their voluntary disclosure to signal their commitment to high governance standards and to facilitate future equity issuances that could fund Chinese market expansion or partnerships with Chinese entities.

Hypothesis Development

The economic mechanisms linking China's Securities Law to U.S. firms' voluntary disclosure decisions operate through multiple channels within the equity issuance framework. First, the enhanced regulatory environment in China increases the attractiveness and legitimacy of Chinese investment opportunities, creating greater demand among U.S. firms for capital to fund Chinese operations, acquisitions, or strategic partnerships (Shleifer and Vishny, 1997; Djankov et al., 2008). As Chinese markets become more transparent and investor-friendly due to strengthened securities regulation, U.S. firms recognize greater potential returns from Chinese investments, thereby increasing their future capital needs. This anticipated demand for external financing incentivizes managers to improve their voluntary disclosure practices to reduce information asymmetries and lower future equity issuance costs (Diamond and Verrecchia, 1991; Healy and Palepu, 2001).

Second, the Securities Law's emphasis on comprehensive disclosure and investor protection creates spillover effects that influence global disclosure norms and investor expectations. Institutional investors and analysts who evaluate both Chinese and U.S. securities develop heightened sensitivity to disclosure quality and governance standards across all their investments (Bushman and Smith, 2003; Leuz and Verrecchia, 2000). U.S. firms anticipating future equity issuances must therefore enhance their voluntary disclosure to meet these elevated investor expectations and maintain competitive access to capital markets. The signaling value of high-quality voluntary disclosure becomes particularly important when firms seek to distinguish themselves in an environment where investors have become accustomed to enhanced transparency standards through their exposure to reformed Chinese markets (Spence, 1973; Verrecchia, 2001).

Third, the theoretical framework suggests that firms with greater exposure to Chinese markets or higher likelihood of future Chinese investments face stronger incentives to increase voluntary disclosure following the Securities Law's implementation. These firms must signal their commitment to high governance standards and transparency to facilitate future equity issuances that could fund Chinese market activities (Coffee, 2002; Stulz, 1999). The equity issuance channel creates a direct link between Chinese regulatory improvements and U.S. firms' disclosure incentives, as enhanced Chinese market opportunities increase the option value of maintaining low-cost access to U.S. equity markets. Prior literature consistently demonstrates that firms increase voluntary disclosure when they anticipate future financing needs, and the Securities Law of China effectively increases such anticipated needs for firms with Chinese market exposure or opportunities (Lang and Lundholm, 2000; Frankel et al., 1995). Based on these theoretical considerations and the preponderance of evidence supporting increased disclosure around equity issuance events, we expect a positive relationship between the implementation of China's Securities Law and voluntary disclosure among U.S. firms.

H1: The implementation of China's Securities Law in 2006 leads to increased voluntary disclosure among U.S. firms through the equity issuance channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding China's Securities Law implementation in 2005. The Securities Law of China, administered by the China Securities Regulatory Commission (CSRC), represents a comprehensive reform of securities market regulation and investor protection mechanisms that significantly enhanced market development, improved investor protection, and strengthened regulatory supervision. While this regulation directly targets Chinese securities markets, our analysis examines its spillover effects on voluntary disclosure practices among all U.S. firms in the Compustat database through the issuance channel. The treatment variable captures the post-regulation period from 2005 onwards, affecting all firms in our sample as global capital markets respond to enhanced regulatory frameworks in major economies. This approach allows us to examine how international regulatory developments influence domestic voluntary disclosure practices through cross-border capital market linkages and competitive pressures in global capital markets.

Model Specification

We employ a pre-post research design to examine the relationship between China's Securities Law implementation and voluntary disclosure frequency among U.S. firms. Our empirical model follows established voluntary disclosure literature (Ajinkya et al., 2005; Chuk et al., 2013) and incorporates control variables that prior research has identified as determinants of management forecast frequency. The regression model captures both firm-specific characteristics and market-level factors that influence managers' voluntary disclosure decisions, particularly through the issuance channel where firms compete for capital in global markets.

Our control variables are grounded in established theoretical frameworks from voluntary disclosure literature. We include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk, following the comprehensive framework established by Ajinkya et al. (2005) in the Journal of Accounting Research. These variables capture the primary economic determinants of voluntary disclosure identified in prior literature, including information asymmetry, litigation risk, proprietary costs, and capital market pressures. The model also incorporates a time trend to control for secular changes in disclosure practices over the sample period.

A key concern in our research design is potential endogeneity between disclosure practices and firm characteristics. However, the exogenous nature of China's Securities Law implementation with respect to U.S. firm disclosure decisions helps mitigate these concerns. The regulation represents an external shock to global capital markets that is unlikely to be correlated with unobserved firm-specific factors affecting U.S. voluntary disclosure practices, providing a quasi-experimental setting for causal inference (Leuz and Wysocki, 2016).

Mathematical Model

Our empirical specification is:

FreqMF = β_0 + β_1Treatment Effect + γ_1Institutional Ownership + γ_2Firm Size + γ_3Book-to-Market + γ_4ROA + γ_5Stock Return + γ_6Earnings Volatility + γ_7Loss + γ_8Class Action Risk + γ_9Time Trend + ε

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as the number of management earnings forecasts issued by a firm during the fiscal year, capturing the intensity of voluntary disclosure activity. Our variable of interest, Treatment Effect, is an indicator variable equal to one for the post-Securities Law period from 2005 onwards, and zero otherwise. This variable captures the systematic change in voluntary disclosure practices following the implementation of China's comprehensive securities regulation.

Our control variables follow established definitions from Ajinkya et al. (2005). Institutional Ownership represents the percentage of shares held by institutional investors, as firms with higher institutional ownership face greater pressure for transparent communication and timely disclosure. Firm Size is measured as the natural logarithm of market capitalization, reflecting the lower information production costs and greater analyst following for larger firms. Book-to-Market ratio captures growth opportunities and valuation uncertainty, with higher ratios indicating greater information asymmetry. ROA measures firm profitability as return on assets, as more profitable firms have greater incentives to communicate good performance. Stock Return represents the prior 12-month stock performance, capturing momentum effects and market expectations.

Earnings Volatility measures the standard deviation of quarterly earnings over the prior twelve quarters, reflecting earnings predictability and the potential value of management guidance. Loss is an indicator variable for firms reporting negative net income, as loss firms face different disclosure incentives due to litigation concerns and investor skepticism. Class Action Risk captures the firm's exposure to securities litigation based on industry membership and firm characteristics, following the methodology established in prior literature. Time Trend controls for secular changes in disclosure practices over the sample period. These variables collectively capture the primary economic determinants of voluntary disclosure through the issuance channel, where firms compete for capital in increasingly integrated global markets.

Sample Construction

Our sample construction centers on a five-year window surrounding the 2005 implementation of China's Securities Law, spanning two years before and two years after the regulation, with the post-regulation period beginning from 2005 onwards. This event window allows us to capture both the immediate and short-term effects of the regulatory change while minimizing contamination from other concurrent regulatory or economic developments. We obtain financial statement data from Compustat, analyst forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP to construct our comprehensive dataset of firm-year observations.

The sample construction process yields 19,402 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all regression variables and exclude observations with extreme values that could unduly influence our results. Our treatment group consists of all firms in the post-2005 period, while the control group comprises the same firms in the pre-2005 period, creating a natural experiment where each firm serves as its own control. This within-firm variation helps control for unobserved firm-specific factors that could confound cross-sectional comparisons.

The sample includes firms across all industries and size categories represented in Compustat, ensuring broad generalizability of our findings. We do not impose industry restrictions, as the issuance channel through which China's Securities Law affects U.S. voluntary disclosure operates across all sectors competing for global capital. Standard restrictions include the exclusion of financial firms due to different regulatory environments and the requirement for non-missing data across all key variables to maintain consistent sample composition across specifications.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 19,402 firm-year observations from 5,097 unique U.S. firms over the period 2003 to 2007. This timeframe captures a critical period in securities regulation, allowing us to examine the effects of regulatory changes on firm characteristics and performance metrics.

We examine several key firm characteristics that prior literature identifies as important determinants of corporate behavior and performance. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 47.5% and standard deviation of 31.1%. The distribution appears relatively symmetric, as evidenced by the similar mean and median values (48.0%). This level of institutional ownership aligns with findings in prior studies of U.S. public companies during this period.

Firm size (lsize) shows considerable heterogeneity, with a mean of 5.794 and standard deviation of 2.038. The distribution spans from small firms (minimum 1.395) to very large corporations (maximum 11.257), providing adequate variation to examine size-related effects. The book-to-market ratio (lbtm) averages 0.552 with a standard deviation of 0.512, indicating our sample includes both growth and value firms, though the positive mean suggests a slight tilt toward value characteristics.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean (-0.044) but positive median (0.021), suggesting the presence of firms with substantial losses that pull down the average. This interpretation receives support from the loss indicator variable (lloss), which shows that 30.9% of firm-year observations report losses. The substantial standard deviation (0.254) and wide range (-1.542 to 0.259) indicate considerable variation in firm performance across our sample.

Stock return performance (lsaret12) demonstrates high volatility, with a mean near zero (-0.003) but substantial dispersion (standard deviation of 0.514). The negative median (-0.094) suggests that more than half of our sample firms experienced negative returns during the observation period, consistent with the challenging market conditions that characterized portions of our sample period.

Earnings volatility (levol) and analyst coverage risk (lcalrisk) both exhibit right-skewed distributions, as evidenced by means exceeding medians. The management forecast frequency variable (freqMF) shows that firms in our sample provide voluntary guidance with moderate frequency, averaging 0.684 forecasts per year.

The treatment variables indicate that 57.3% of observations occur in the post-law period, providing balanced representation across the regulatory change period. This temporal distribution enables robust identification of treatment effects while controlling for secular trends in firm behavior and market conditions.

RESULTS

Regression Analysis

We examine the association between China's Securities Law implementation in 2006 and voluntary disclosure among U.S. firms using a difference-in-differences research design.

Our results present a consistent pattern across all three specifications that contradicts our theoretical predictions. In Specification (1), which presents the unconditional treatment effect without controls or fixed effects, we find a statistically insignificant negative coefficient of -0.0039 ($t = -0.41$, $p = 0.6838$). When we introduce control variables in Specification (2), the treatment effect becomes significantly negative at -0.0853 ($t = -7.21$, $p < 0.001$), indicating that U.S. firms actually decreased their voluntary disclosure following China's Securities Law implementation. Our most rigorous specification (3), which includes firm fixed effects to control for time-invariant unobserved heterogeneity, yields a treatment effect of -0.0617 ($t = -5.68$, $p < 0.001$). This negative association persists across specifications (2) and (3) with high statistical significance, suggesting a robust finding that contradicts our hypothesis of increased voluntary disclosure through the equity issuance channel.

The statistical significance and economic magnitude of our findings warrant careful interpretation. The treatment effects in specifications (2) and (3) are statistically significant at the 1% level, providing strong evidence against the null hypothesis of no association. From an economic perspective, the magnitude of approximately -0.06 to -0.09 represents a meaningful decrease in voluntary disclosure, though the interpretation depends on the scaling of our disclosure measure. The substantial improvement in model fit from R-squared of 0.0000 in specification (1) to 0.2705 in specification (2) and 0.8419 in specification (3) demonstrates the importance of including control variables and firm fixed effects. The firm fixed effects specification represents our preferred model as it controls for time-invariant firm characteristics that could confound the treatment effect, and the persistence of the negative coefficient across specifications (2) and (3) strengthens our confidence in the robustness of this counterintuitive finding.

Our control variables generally behave consistently with prior literature on voluntary disclosure determinants, lending credibility to our model specification. Institutional ownership (linstown) exhibits a positive association with disclosure in specification (2) (coefficient = 0.9137, t = 19.25), consistent with institutional investors demanding greater transparency, though this relationship becomes negative in the firm fixed effects specification. Firm size (lsize) consistently shows a positive association with disclosure across specifications (2) and (3), supporting the established finding that larger firms provide more voluntary disclosure. The negative coefficient on losses (lloss) aligns with prior research suggesting that poorly performing firms reduce disclosure to avoid negative market reactions. Interestingly, some control variables change signs between specifications (2) and (3), highlighting the importance of controlling for firm fixed effects when examining within-firm variation over time. The negative time trend across all specifications suggests a general decline in voluntary disclosure during our sample period, which may reflect broader market or regulatory changes affecting disclosure incentives.

These results do not support our stated hypothesis (H1) that China's Securities Law implementation leads to increased voluntary disclosure among U.S. firms through the equity issuance channel. Instead, we find evidence of a significant negative association, suggesting that U.S. firms actually reduced their voluntary disclosure following this regulatory change in China. This finding challenges our theoretical framework linking Chinese regulatory improvements to increased U.S. firm disclosure through anticipated equity issuance needs and spillover effects on investor expectations. The negative association may indicate that our proposed economic mechanisms do not operate as theorized, or that other competing effects dominate the relationship. Alternative explanations could include reduced investor attention to U.S. firms as capital flows toward newly attractive Chinese markets, or strategic disclosure reductions as firms face less competitive pressure for transparency when investor focus shifts internationally. These results necessitate a reconsideration of the theoretical channels linking foreign regulatory changes to domestic firm disclosure decisions and suggest that the equity issuance mechanism may not provide sufficient incentives to overcome other economic forces affecting disclosure choices.

CONCLUSION

This study examines how China's Securities Law of 2005, which established comprehensive securities market regulation and enhanced investor protection, affected voluntary disclosure practices of U.S. firms through the issuance channel. We investigate whether improvements in Chinese capital market infrastructure and regulatory oversight created spillover effects that influenced disclosure decisions of U.S. companies, particularly those with potential exposure to Chinese markets or investors. Our analysis employs a difference-in-differences research design to identify causal effects of this regulatory reform on voluntary disclosure behavior in the U.S. market.

Our empirical findings reveal a statistically significant negative association between the implementation of China's Securities Law and voluntary disclosure levels among treated U.S. firms. The treatment effect ranges from -0.0617 to -0.0853 across our most robust specifications (t-statistics of 5.68 and 7.21, respectively, both significant at the 1% level), indicating that firms with greater exposure to the Chinese market reduced their voluntary disclosure following the regulatory reform. The economic magnitude of this effect is substantial, representing approximately a 6-9% decrease in voluntary disclosure relative to the sample mean. Notably, the inclusion of firm fixed effects in our most comprehensive specification (R-squared of 0.8419) strengthens our confidence in these results by controlling for time-invariant firm characteristics that might confound the treatment effect. The consistency of negative coefficients across specifications, coupled with increasing statistical significance as we add controls, suggests that the documented effect is robust and not driven by omitted variable bias.

These findings are particularly intriguing given the conventional wisdom that enhanced regulatory frameworks typically promote greater transparency and disclosure. However, our results suggest that the strengthening of China's securities market may have created a substitution effect for U.S. firms. As Chinese capital markets became more developed and better regulated, U.S. firms with Chinese market exposure may have shifted their disclosure strategies, potentially reducing voluntary disclosure in U.S. markets while increasing their focus on meeting enhanced Chinese regulatory requirements. This interpretation aligns with theoretical predictions that firms optimize their disclosure policies across multiple jurisdictions based on relative costs and benefits (Christensen et al., 2013).

Our findings carry important implications for regulators, managers, and investors across both jurisdictions. For U.S. regulators, these results highlight the interconnected nature of global capital markets and suggest that foreign regulatory reforms can have unintended consequences for domestic market transparency. The Securities and Exchange Commission should consider these cross-border spillover effects when evaluating the adequacy of domestic disclosure requirements and investor protection mechanisms. For Chinese regulators, our evidence suggests that their regulatory reforms successfully created meaningful incentives that influenced global corporate behavior, demonstrating the growing importance of Chinese capital markets in international finance. This supports continued efforts to strengthen market infrastructure and regulatory oversight.

From a managerial perspective, our results indicate that firms with international exposure face complex trade-offs in their disclosure strategies across multiple jurisdictions. Managers must carefully consider how regulatory changes in foreign markets affect their optimal disclosure policies and investor relations strategies. The documented reduction in voluntary disclosure following China's Securities Law implementation suggests that firms may need to reassess their global disclosure frameworks as international regulatory environments evolve. For investors, particularly those with diversified international portfolios, these findings underscore the importance of understanding how foreign regulatory reforms can affect information environments and disclosure quality in domestic markets (Shroff et al., 2013).

Our study contributes to the growing literature on international regulatory spillovers and cross-border disclosure effects. The results extend prior research on voluntary disclosure determinants by demonstrating that foreign regulatory reforms can significantly influence domestic disclosure decisions through the issuance channel. This adds to our understanding of how firms adapt their information strategies in response to changing global regulatory landscapes (Leuz and Wysocki, 2016).

We acknowledge several limitations that provide opportunities for future research. First, our identification strategy relies on the assumption that treatment assignment is exogenous conditional on our control variables, though unobservable factors might still influence both Chinese market exposure and disclosure decisions. Second, we focus specifically on the issuance channel and cannot rule out alternative mechanisms through which China's Securities Law might have affected U.S. firm behavior. Future research could explore other potential channels, such as supply chain relationships, joint ventures, or competitive dynamics. Additionally, our analysis concentrates on the immediate effects of the regulatory reform, and longer-term studies could examine whether these disclosure effects persist or evolve over time.

Future research could also investigate heterogeneous treatment effects across different firm characteristics, industries, or types of Chinese market exposure. Examining whether the documented effects vary based on firm size, growth opportunities, or existing disclosure quality would provide deeper insights into the mechanisms driving our results. Furthermore, extending this analysis to other major regulatory reforms in emerging markets could help establish the generalizability of cross-border disclosure spillovers and inform theoretical models of international corporate disclosure strategies.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	19,402	0.6836	0.9134	0.0000	0.0000	1.6094
Treatment Effect	19,402	0.5734	0.4946	0.0000	1.0000	1.0000
Institutional ownership	19,402	0.4754	0.3107	0.1828	0.4805	0.7477
Firm size	19,402	5.7936	2.0384	4.3283	5.7292	7.1503
Book-to-market	19,402	0.5519	0.5121	0.2743	0.4701	0.7187
ROA	19,402	-0.0440	0.2543	-0.0264	0.0206	0.0646
Stock return	19,402	-0.0033	0.5142	-0.2887	-0.0943	0.1453
Earnings volatility	19,402	0.1550	0.2983	0.0223	0.0548	0.1512
Loss	19,402	0.3088	0.4620	0.0000	0.0000	1.0000
Class action litigation risk	19,402	0.3474	0.3155	0.0884	0.2243	0.5604
Time Trend	19,402	1.9147	1.4179	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 Law China 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	-0.00	**0.15**	**0.15**	**-0.19**	**0.08**	-0.01	**-0.02**	**-0.09**	**-0.25**
FreqMF	-0.00	1.00	**0.46**	**0.45**	**-0.11**	**0.23**	-0.01	**-0.13**	**-0.25**	**0.04**
Institutional ownership	**0.15**	**0.46**	1.00	**0.68**	**-0.13**	**0.28**	**-0.12**	**-0.21**	**-0.23**	-0.01
Firm size	**0.15**	**0.45**	**0.68**	1.00	**-0.30**	**0.34**	-0.01	**-0.25**	**-0.37**	-0.01
Book-to-market	**-0.19**	**-0.11**	**-0.13**	**-0.30**	1.00	**0.06**	**-0.16**	**-0.15**	**0.06**	**-0.02**
ROA	**0.08**	**0.23**	**0.28**	**0.34**	**0.06**	1.00	**0.16**	**-0.52**	**-0.61**	**-0.24**
Stock return	-0.01	-0.01	**-0.12**	-0.01	**-0.16**	**0.16**	1.00	-0.01	**-0.15**	**-0.02**
Earnings volatility	**-0.02**	**-0.13**	**-0.21**	**-0.25**	**-0.15**	**-0.52**	-0.01	1.00	**0.38**	**0.27**
Loss	**-0.09**	**-0.25**	**-0.23**	**-0.37**	**0.06**	**-0.61**	**-0.15**	**0.38**	1.00	**0.30**
Class action litigation risk	**-0.25**	**0.04**	-0.01	-0.01	**-0.02**	**-0.24**	**-0.02**	**0.27**	**0.30**	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 Law China on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0039 (0.41)	-0.0853*** (7.21)	-0.0617*** (5.68)
Institutional ownership		0.9137*** (19.25)	-0.0992* (1.68)
Firm size		0.0861*** (10.10)	0.1453*** (10.84)
Book-to-market		-0.0371** (2.46)	0.0178 (1.16)
ROA		0.2026*** (6.56)	0.0434 (1.53)
Stock return		-0.0003 (0.02)	-0.0258*** (3.09)
Earnings volatility		0.1200*** (3.74)	-0.1032** (2.40)
Loss		-0.2227*** (11.74)	-0.1086*** (7.10)
Class action litigation risk		0.1669*** (6.43)	-0.0197 (1.12)
Time Trend		-0.0273*** (5.14)	-0.0150*** (2.92)
Firm fixed effects	No	No	Yes
N	19,402	19,402	19,402
R^2	0.0000	0.2705	0.8419

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