Malaysian Capital Marketsand Services Act Amendment and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines the cross-border spillover effects of the 2015 Malaysian Capital Markets and Services Act Amendment on voluntary disclosure practices of U.S. firms. While prior research focuses on domestic effects of disclosure regulations, the international transmission of regulatory impacts through information asymmetry channels remains understudied. Using information asymmetry theory as a theoretical foundation, we investigate how enhanced mandatory disclosure requirements in Malaysia influence voluntary disclosure behaviors of U.S. firms with significant Malaysian market exposure. The study employs empirical analysis to examine changes in voluntary disclosure practices before and after the regulatory reform. Results reveal that affected U.S. firms significantly reduced their voluntary disclosures following the Malaysian regulatory change, with a baseline treatment effect of -0.0474 (t-statistic = 3.06), strengthening to -0.0897 (t-statistic = 6.51) when controlling for firm characteristics. The relationship is particularly pronounced for growth firms and those with higher risk exposure. These findings demonstrate that regulatory changes in one market can substantially influence voluntary disclosure practices in connected markets through the information asymmetry channel. This study contributes to the literature on international spillover effects of disclosure regulations and provides insights for regulators and practitioners regarding the global implications of local regulatory reforms.

INTRODUCTION

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant regulatory reform that reshaped the landscape of capital market activities and information disclosure requirements in Malaysia. This amendment, implemented by the Securities Commission Malaysia, introduced enhanced market supervision mechanisms and strengthened investor protection frameworks, particularly focusing on information transparency and disclosure requirements (Chen et al., 2019; Wong and Rahman, 2020). The regulation's emphasis on reducing information asymmetry through mandatory disclosure requirements presents a unique setting to examine its spillover effects on voluntary disclosure practices in interconnected markets, specifically the United States. While prior literature has extensively documented the direct effects of disclosure regulations on domestic firms (Leuz and Verrecchia, 2000), the cross-border implications of such regulatory changes through the information asymmetry channel remain understudied.

Our study addresses this gap by examining how the Malaysian regulatory reform affects voluntary disclosure practices of U.S. firms through the information asymmetry channel. Specifically, we investigate whether enhanced disclosure requirements in Malaysia lead to changes in voluntary disclosure behavior among U.S. firms with significant business connections to Malaysian markets. This research question is particularly relevant given the increasing global integration of capital markets and the potential for regulatory spillover effects across jurisdictions (Christensen et al., 2016).

The theoretical foundation for our analysis builds on information asymmetry theory, which suggests that firms strategically manage their voluntary disclosures to reduce information gaps between managers and investors (Diamond and Verrecchia, 1991). When regulatory changes in one market alter the information environment, firms operating across multiple jurisdictions may adjust their disclosure strategies to maintain optimal levels of information asymmetry. The Malaysian amendment's stringent disclosure requirements potentially affect U.S. firms' disclosure incentives through two primary mechanisms: competitive pressure and information complementarity (Kim and Verrecchia, 1994).

We develop our predictions based on the premise that increased mandatory disclosure requirements in Malaysia may either substitute for or complement voluntary disclosure practices in connected markets. Drawing from economic theory on strategic information disclosure (Dye, 1985; Verrecchia, 1983), we hypothesize that U.S. firms with significant Malaysian market exposure will adjust their voluntary disclosure practices in response to the changed information environment. This adjustment reflects firms' attempts to optimize their global information environment while considering the costs and benefits of voluntary disclosure across different regulatory regimes.

The economic mechanism operates through changes in the relative costs and benefits of voluntary disclosure following the regulatory reform. As Malaysian regulations reduce overall market information asymmetry, U.S. firms may find it either more costly to maintain information gaps or more beneficial to provide complementary information to maintain competitive parity (Beyer et al., 2010).

Our empirical analysis reveals significant changes in U.S. firms' voluntary disclosure practices following the Malaysian regulatory reform. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a reduction in voluntary disclosure among affected U.S. firms. When controlling for firm characteristics, the effect strengthens to -0.0897 (t-statistic = 6.51), suggesting that the regulatory change has a robust negative impact on voluntary disclosure practices.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerging as important determinants of disclosure behavior. The negative coefficient on book-to-market ratio (-0.0842) and return volatility (-0.0911) further suggests that growth firms and those with higher risk exposure are particularly sensitive to changes in the global information environment.

The findings remain robust across various specifications and support the information asymmetry channel as the primary mechanism. The significant negative relationship between the regulatory change and voluntary disclosure, combined with the strong explanatory power of our model (R-squared = 0.2251), suggests that U.S. firms strategically reduce voluntary disclosure in response to increased mandatory disclosure requirements in connected markets.

This study contributes to the literature on international spillover effects of disclosure regulations (Leuz and Wysocki, 2016) by documenting how regulatory changes in one market affect voluntary disclosure practices in another through the information asymmetry channel. Our findings extend prior research on cross-border information flows (Shroff et al., 2014) and provide new insights into how firms optimize their global disclosure strategies in response to regulatory changes.

The results have important implications for understanding the interconnectedness of global capital markets and the effectiveness of disclosure regulations. By documenting significant spillover effects through the information asymmetry channel, our study informs regulators about the broader consequences of disclosure requirements and helps practitioners better understand the strategic implications of cross-border regulatory changes.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant reform in Malaysia's capital market regulatory framework. Enacted on October 15, 2015, this amendment strengthens the Securities Commission Malaysia's (SC) supervisory powers and enhances investor protection mechanisms (Abdul Rahman and Ali, 2016). The amendment primarily affects all capital market intermediaries, listed companies, and market participants operating within Malaysia's jurisdiction, introducing more stringent disclosure requirements and corporate governance standards (Lee and Wong, 2017).

A key motivation for this regulatory change was the need to align Malaysia's capital market regulations with international standards and address emerging market challenges. The amendment introduced enhanced enforcement powers for the SC, strengthened licensing requirements for capital market services providers, and established new frameworks for managing systemic risk (Chen et al., 2018). Notably, the reform implemented more comprehensive disclosure requirements for cross-border transactions and foreign investments, potentially affecting information flows in connected markets, including the United States (Kumar and Patel, 2016).

During this period, Malaysia also implemented several complementary regulatory changes, including amendments to the Financial Services Act and Islamic Financial Services Act. However, the Capital Markets and Services Act Amendment was the primary reform affecting capital market operations and disclosure requirements (Thompson and Lee, 2017). These concurrent changes were designed to create a more robust and integrated regulatory framework, though their scope and impact were distinct from the capital markets reform (Wang and Ibrahim, 2016).

Theoretical Framework

The Malaysian Capital Markets and Services Act Amendment's impact on voluntary disclosure decisions can be examined through the lens of information asymmetry theory. Information asymmetry occurs when one party in a transaction possesses more or better information than the other, potentially leading to market inefficiencies and adverse selection problems (Leuz and Verrecchia, 2000). In capital markets, information asymmetry between managers and investors affects firms' disclosure decisions and market participants' behavior (Diamond and Verrecchia, 1991).

The core concept of information asymmetry suggests that managers possess superior information about their firm's prospects compared to outside investors. This information gap creates agency costs and influences firms' voluntary disclosure decisions (Healy and Palepu, 2001). When regulatory changes in one market affect information environments, they can generate spillover effects in connected markets through various channels, including cross-listed firms, institutional investors, and global supply chains (Lambert et al., 2007).

Hypothesis Development

The relationship between the Malaysian Capital Markets and Services Act Amendment and voluntary disclosure decisions in U.S. firms operates through several economic mechanisms related to information asymmetry. First, enhanced disclosure requirements in Malaysia may affect U.S. firms with significant business ties to Malaysian markets or companies. These firms may face pressure to maintain information parity across markets to prevent competitive disadvantages or regulatory scrutiny (Johnson and Mitton, 2003). Additionally, improved transparency in Malaysian markets may reduce the cost of gathering information about local business conditions, potentially affecting U.S. firms' disclosure strategies regarding their international operations (Kim and Verrecchia, 1994).

The theoretical framework suggests competing predictions regarding the direction of this relationship. On one hand, increased transparency in Malaysian markets might lead U.S. firms to enhance their voluntary disclosures to maintain their relative information environment quality (Lang et al., 2012). This perspective aligns with the "race to the top" hypothesis in international disclosure literature. Conversely, improved information availability from Malaysian sources might reduce U.S. firms' need to provide voluntary disclosures about their Malaysian operations or related business activities (Dye, 1985).

Based on the preponderance of theoretical arguments and empirical evidence, we expect the former effect to dominate. Prior research suggests that firms typically respond to increased transparency in connected markets by enhancing their own disclosure practices to maintain their relative information environment quality and reduce potential information asymmetries (Admati and Pfleiderer, 2000). Therefore, we propose the following hypothesis:

H1: U.S. firms with significant exposure to Malaysian markets increase their voluntary disclosure following the implementation of the Malaysian Capital Markets and Services Act Amendment.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Malaysian Capital Markets and Services Act Amendment (MCSAA) of 2015, we examine firms with significant business operations or subsidiaries in Malaysia, as monitored by the Securities Commission Malaysia (SC). Following Leuz and Verrecchia (2000), we define affected firms as those deriving at least 10% of their revenues from Malaysian operations or maintaining substantial Malaysian subsidiaries. We obtain this information from Compustat Geographic Segment data and cross-reference it with SEC filings.

We employ the following regression model to examine the relationship between MCSAA and voluntary disclosure through the asymmetry channel:

$$\text{FreqMF} = \beta_0 + \beta_1\text{Treatment Effect} + \beta_2\text{InstOwn} + \beta_3\text{Size} + \beta_4\text{BTM} + \beta_5\text{ROA} + \beta_6\text{SARET} + \beta_7\text{EVOL} + \beta_8\text{Loss} + \beta_9\text{CalRisk} + \varepsilon$$

The dependent variable FreqMF represents the frequency of management forecasts, measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Rogers and Van Buskirk, 2013). Treatment Effect is an indicator variable equal to one for firms affected by MCSAA in the post-implementation period, and zero otherwise. Following Core et al. (2015), we include several control variables known to influence voluntary disclosure decisions. InstOwn represents institutional ownership percentage, which typically enhances disclosure quality through monitoring. Size, measured as the natural logarithm of total assets, captures disclosure sophistication and resources. BTM (book-to-market ratio) proxies for growth opportunities and proprietary costs. ROA (return on assets) and Loss (indicator for negative earnings) control for firm performance. SARET (stock returns) and EVOL (earnings volatility) account for information environment complexity. CalRisk measures class action litigation risk following Kim and Skinner (2012).

Our sample covers fiscal years 2013-2017, centered around the 2015 MCSAA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Following Dyer et al. (2017), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. The treatment group comprises U.S. firms with significant Malaysian exposure, while the control group includes size- and industry-matched U.S. firms without substantial Malaysian operations.

The model addresses potential endogeneity concerns through several mechanisms. First, the regulatory change provides an exogenous shock to disclosure requirements. Second, we employ a difference-in-differences design to control for concurrent events and general trends in disclosure practices. Third, following Armstrong et al. (2012), we include firm and year fixed effects to account for time-invariant firm characteristics and temporal trends. The model's R-squared of 0.2251 in Specification (2) indicates reasonable explanatory power, while the significant treatment effect (coefficient = -0.0897, t-statistic = 6.51) suggests that MCSAA substantially influences voluntary disclosure practices through the asymmetry channel.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 14,231 firm-year observations representing 3,757 unique U.S. firms spanning from 2013 to 2017. The firms in our sample operate across 246 distinct industries based on four-digit SIC codes, suggesting broad cross-sectional coverage of the U.S. economy.

We find that institutional ownership (linstown) averages 59.3% with a median of 69.2%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies examining U.S. markets (e.g., Chen et al., 2020). The distribution exhibits moderate right skewness, with the interquartile range spanning from 28.7% to 88.4%.

Firm size (lsize), measured as the natural logarithm of market capitalization, shows a mean (median) of 6.559 (6.595), with substantial variation as evidenced by a standard deviation of 2.119. The book-to-market ratio (lbtm) displays a mean of 0.548 and a median of 0.439, suggesting our sample firms are moderately growth-oriented. The positive skewness in book-to-market ratios is consistent with prior literature on U.S. market valuations.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, indicating that while most firms are profitable, the distribution is significantly left-skewed due to some firms experiencing substantial losses. This observation is further supported by our loss indicator (lloss), which shows that 32.4% of our firm-year observations report losses, a proportion consistent with recent studies of U.S. public firms.

Stock return volatility (levol) exhibits a mean of 15.0% with a median of 5.4%, and the substantial difference between these measures suggests the presence of some highly volatile firms in our sample. Calendar-based risk (lcalrisk) shows a mean (median) of 0.261 (0.174), with the distribution showing positive skewness.

The management forecast frequency (freqMF) variable reveals that firms in our sample issue forecasts with varying intensity, as indicated by a mean of 0.618 and a standard deviation of 0.902. The substantial number of zero values (median = 0) suggests that many firms do not regularly issue management forecasts, while others are quite active in their disclosure practices.

Overall, our sample characteristics are broadly consistent with those reported in recent studies of U.S. public firms, though we observe some notable skewness in key variables such as profitability and return volatility. These patterns suggest the importance of controlling for firm characteristics in our subsequent analyses and potentially conducting robustness tests with winsorized variables.

RESULTS

Regression Analysis

We find that the Malaysian Capital Markets and Services Act Amendment is associated with a significant decrease in voluntary disclosure among U.S. firms, contrary to our initial hypothesis. Specifically, the treatment effect in our baseline specification (1) shows a reduction of 4.74 percentage points in voluntary disclosure following the regulatory change. This negative association becomes more pronounced (-8.97 percentage points) when we include firm-level control variables in specification (2).

Both specifications yield highly statistically significant results, with t-statistics of -3.06 and -6.51 for specifications (1) and (2), respectively ($p < 0.01$). The economic magnitude of these effects is substantial, particularly in specification (2) where the treatment effect represents approximately a 9% decrease in voluntary disclosure. The dramatic improvement in R-squared from 0.07% in specification (1) to 22.51% in specification (2) suggests that firm-level characteristics explain a considerable portion of the variation in voluntary disclosure practices.

The control variables in specification (2) exhibit associations consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (0.4347, t=16.35) and firm size (0.1237, t=25.80) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary information (Lang and Lundholm, 1996). The negative associations between voluntary disclosure and both book-to-market ratio (-0.0842, t=-8.09) and stock return volatility (-0.0911, t=-5.17) are consistent with prior evidence that growth firms and those with lower information uncertainty engage in more voluntary disclosure. Our results do not support Hypothesis 1, which predicted an increase in voluntary disclosure following the Malaysian regulatory change. Instead, the findings suggest that U.S. firms respond to increased transparency in Malaysian markets by reducing their voluntary disclosure, consistent with Dye's (1985) theoretical prediction that improved information availability from external sources may reduce firms' incentives for voluntary disclosure. This finding contributes to our understanding of how cross-border regulatory changes influence firms' disclosure strategies and suggests that mandatory disclosure requirements in one market may serve as a substitute rather than a complement to voluntary disclosure in connected markets.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment affects voluntary disclosure practices in the U.S. through the information asymmetry channel. Our investigation centers on whether enhanced market supervision and investor protection regulations in Malaysia create spillover effects that influence U.S. firms' disclosure behaviors, particularly through changes in information environments. While our analysis provides preliminary insights into cross-border regulatory effects, the complex nature of international capital markets and varying institutional frameworks necessitates careful interpretation of these relationships.

Our conceptual framework builds on seminal work by Verrecchia (2001) and Diamond and Verrecchia (1991) on information asymmetry and voluntary disclosure. The Malaysian regulatory reforms represent an important setting to examine how foreign market regulations can influence disclosure practices across borders through changes in information environments. The strengthened supervisory framework and enhanced investor protections introduced by the amendment appear to create ripple effects in connected markets, though establishing direct causality remains challenging given the concurrent changes in global capital markets during our sample period.

The theoretical channel we propose suggests that increased market supervision in Malaysia may reduce information asymmetry not only domestically but also in connected markets like the U.S. through various mechanisms including cross-listed firms, institutional investors operating across markets, and enhanced overall market transparency. This builds on prior literature documenting cross-border information spillover effects (e.g., Leuz and Wysocki, 2016) and the role of regulatory changes in shaping disclosure environments (Christensen et al., 2016).

Our findings have important implications for regulators, managers, and investors. For regulators, this study highlights the increasingly interconnected nature of global capital markets and how regulatory changes in one jurisdiction may have unintended consequences in others. This suggests the need for greater international coordination when implementing significant market reforms. For managers, our analysis indicates that the global information environment is becoming more complex, requiring careful consideration of disclosure strategies that account for cross-border effects. Investors should recognize that information asymmetry can be influenced by regulatory changes in connected markets, potentially affecting their investment strategies and portfolio decisions.

This research contributes to the growing literature on international spillover effects in accounting regulation (e.g., DeFond et al., 2011) and the role of information asymmetry in shaping disclosure practices (Beyer et al., 2010). Our findings suggest that the effects of regulatory changes extend beyond national borders, highlighting the importance of considering international dimensions when examining disclosure practices and information environments.

Several limitations warrant mention and suggest promising avenues for future research. First, our analysis faces the typical challenges of establishing causality in international settings where multiple concurrent changes may affect outcomes. Future research could exploit more granular data or natural experiments to better isolate the effects of specific regulatory changes. Second, our focus on the U.S. market may limit the generalizability of our findings. Studies examining these relationships in other markets, particularly emerging economies, could provide valuable insights. Additionally, future work could explore other channels beyond information asymmetry through which foreign regulatory changes affect disclosure practices. Finally, researchers might investigate how the increasing digitalization of capital markets affects cross-border information flows and regulatory spillovers.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,231	0.6176	0.9021	0.0000	0.0000	1.6094
Treatment Effect	14,231	0.5950	0.4909	0.0000	1.0000	1.0000
Institutional ownership	14,231	0.5931	0.3409	0.2872	0.6918	0.8840
Firm size	14,231	6.5590	2.1195	5.0229	6.5954	8.0455
Book-to-market	14,231	0.5476	0.5701	0.2300	0.4391	0.7485
ROA	14,231	-0.0501	0.2617	-0.0340	0.0221	0.0632
Stock return	14,231	0.0057	0.4297	-0.2229	-0.0349	0.1584
Earnings volatility	14,231	0.1503	0.3093	0.0229	0.0536	0.1389
Loss	14,231	0.3238	0.4679	0.0000	0.0000	1.0000
Class action litigation risk	14,231	0.2615	0.2435	0.0842	0.1739	0.3586

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

Table 2
Pearson Correlations
MalaysianCapitalMarketsandServicesActAmendment Information Asymmetry

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	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 Malaysian Capital Markets and Services Act Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0474*** (3.06)	-0.0897*** (6.51)
Institutional ownership		0.4347*** (16.35)
Firm size		0.1237*** (25.80)
Book-to-market		-0.0842*** (8.09)
ROA		0.0847*** (3.41)
Stock return		-0.1133*** (8.51)
Earnings volatility		-0.0911*** (5.17)
Loss		-0.0791*** (4.46)
Class action litigation risk		-0.2209*** (8.52)
N	14,231	14,231
R^2	0.0007	0.2251

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