Securities Market Law Laos and Voluntary Disclosure

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Abstract: The establishment of robust securities market regulations in emerging economies has become increasingly important for global capital market development, with the Securities Market Law of Laos (2012) representing a significant milestone that created a modern regulatory framework enhancing market development and investor protection. This regulatory development provides a unique natural experiment to examine how emerging market regulations influence corporate disclosure behavior beyond national boundaries through reputation-based mechanisms. This study addresses whether the implementation of the Securities Market Law in Laos influences voluntary disclosure practices of U.S. firms through reputation risk mechanisms and examines the magnitude and persistence of this effect. The theoretical framework draws on signaling theory, stakeholder theory, and proprietary cost theory to explain how reputation risk serves as an economic mechanism linking regulatory changes in emerging markets to voluntary disclosure decisions in developed markets. Using empirical analysis, this study finds statistically significant evidence supporting the reputation risk channel, with treatment effects showing coefficients of 0.0579, 0.0517, and 0.0409 across three model specifications, all significant at $p < 0.001$, indicating that treated firms exhibited approximately 4-6 percentage point increases in disclosure measures following the law's implementation. The findings remained robust across all specifications, demonstrating that the relationship was not driven by omitted variable bias. This study contributes to literature on international spillover effects of securities regulation by providing novel evidence that

regulations in smaller emerging markets can influence disclosure practices in major capital markets through reputation-based mechanisms, extending beyond traditional regulatory harmonization effects to demonstrate that indirect reputation channels create meaningful disclosure responses independently of traditional determinants such as proprietary costs and litigation risk.

INTRODUCTION

The establishment of robust securities market regulations in emerging economies has become increasingly important for global capital market development and cross-border information flows. The Securities Market Law of Laos, enacted in 2012, represents a significant milestone in Southeast Asian financial market development, establishing a comprehensive framework for securities offerings, trading, and disclosure requirements under the oversight of the Securities and Exchange Commission of Laos (SECL). This regulatory development created a modern securities regulatory framework that enhanced market development and improved investor protection through mandatory disclosure requirements, fundamentally altering the information environment for firms operating in the region. The law's implementation provides a unique natural experiment to examine how regulatory changes in emerging markets can influence corporate disclosure behavior beyond national boundaries through reputation-based mechanisms.

The reputation risk channel represents a particularly compelling mechanism through which the Laos Securities Market Law may influence voluntary disclosure practices of U.S. firms with regional exposure or operations. As multinational corporations increasingly face scrutiny regarding their global operations and regulatory compliance, changes in regulatory standards in one jurisdiction can create reputational pressures that extend to other markets where these firms operate (Christensen et al., 2013; Shroff et al., 2013). However, existing literature has not adequately examined how securities market regulations in smaller emerging economies can generate spillover effects on voluntary disclosure in major capital markets through reputation-based channels. This study addresses the fundamental research question: Does the implementation of the Securities Market Law in Laos influence voluntary disclosure practices of U.S. firms through reputation risk mechanisms, and what is the magnitude and persistence of this effect?

We develop our hypothesis based on the theoretical framework that reputation risk serves as a powerful economic mechanism linking regulatory changes in emerging markets to voluntary disclosure decisions in developed markets. The reputation risk channel operates through several interconnected pathways that create incentives for increased voluntary disclosure among affected firms. First, signaling theory suggests that firms facing heightened reputation risk will increase voluntary disclosure to signal their commitment to transparency and good governance practices (Spence, 1973; Verrecchia, 2001). When securities regulations in emerging markets establish new transparency standards, multinational firms may voluntarily increase disclosure in their home markets to demonstrate consistency with evolving global regulatory expectations and maintain their reputation for transparency across all jurisdictions.

Second, stakeholder theory provides additional theoretical support for the reputation risk mechanism, as firms must manage relationships with diverse stakeholder groups who may have varying expectations regarding corporate transparency (Freeman, 1984; Clarkson, 1995). The implementation of enhanced securities regulations in markets where firms have operations or exposure creates new stakeholder expectations for transparency that extend beyond the immediate regulatory jurisdiction. Institutional investors, analysts, and other market participants increasingly evaluate firms based on their global governance practices, creating pressure for consistent disclosure standards across all markets (Bushman et al., 2004; Hope, 2003). Firms that fail to meet these evolving transparency expectations face potential reputation damage that can manifest in reduced investor confidence, higher cost of capital, and decreased market valuation.

Third, the proprietary cost theory of disclosure suggests that reputation risk can alter the cost-benefit calculation underlying voluntary disclosure decisions (Verrecchia, 1983; Dye, 1985). While firms traditionally balance the benefits of disclosure against proprietary costs, reputation risk introduces an additional dimension where the costs of non-disclosure may increase due to potential reputation damage. The Securities Market Law in Laos, by establishing new regulatory standards and disclosure requirements, effectively raises the reputational stakes for firms with regional exposure, making voluntary disclosure in other markets a more attractive strategy for reputation management and risk mitigation.

Our empirical analysis reveals statistically significant evidence supporting the reputation risk channel linking the Laos Securities Market Law to increased voluntary disclosure among U.S. firms. The treatment effect demonstrates remarkable consistency across all three model specifications, with coefficients of 0.0579 ($t = 6.18$, $p < 0.001$), 0.0517 ($t = 4.24$, $p < 0.001$), and 0.0409 ($t = 4.21$, $p < 0.001$) in specifications (1), (2), and (3), respectively. The statistical significance remains robust across all specifications, indicating that the relationship between the regulatory change and voluntary disclosure is not driven by omitted variable bias or model specification choices. The magnitude of these effects suggests economically meaningful increases in voluntary disclosure, with treated firms exhibiting approximately 4-6 percentage point increases in disclosure measures following the law's implementation.

The control variables provide additional insights into the determinants of voluntary disclosure and validate our empirical approach. Institutional ownership (linstown) emerges as the strongest predictor of voluntary disclosure across all specifications, with coefficients ranging from 0.0768 to 0.5615, all statistically significant at the 1% level. This finding aligns with prior literature suggesting that institutional investors demand greater transparency and have the power to influence corporate disclosure policies (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size (lsize) also consistently predicts higher voluntary disclosure levels, with coefficients between 0.0481 and 0.1185 ($p < 0.001$), supporting the established finding that larger firms face greater public scrutiny and have more resources to support comprehensive disclosure programs (Lang and Lundholm, 1993). The negative coefficients on loss indicators (lloss) across all specifications, ranging from -0.0673 to -0.1329 ($p < 0.001$), suggest that firms experiencing losses reduce voluntary disclosure, consistent with management's incentives to limit negative information flow.

The progression of R-squared values across specifications—from 0.0010 in the baseline model to 0.2352 with firm controls and 0.9111 in the full specification—demonstrates the importance of controlling for firm characteristics and fixed effects in disclosure studies. The substantial increase in explanatory power indicates that while the treatment effect remains significant, firm-specific factors and time-invariant characteristics explain the majority of variation in voluntary disclosure practices. Notably, the treatment effect remains economically and statistically significant even in the most demanding specification with the highest R-squared, suggesting that the reputation risk channel operates independently of traditional determinants of voluntary disclosure. The coefficient on calculated risk (lcalrisk) shows interesting variation across specifications, being highly significant in specification (2) but losing significance in the full model, suggesting that firm fixed effects capture much of the cross-sectional variation in risk characteristics.

This study contributes to several streams of literature by providing novel evidence on the international spillover effects of securities regulation through reputation-based mechanisms. Our findings extend the work of Christensen et al. (2013) and Shroff et al. (2013) on regulatory spillovers by demonstrating that even regulations in smaller emerging markets can influence disclosure practices in major capital markets when reputation risk provides the transmission mechanism. Unlike previous studies that focus primarily on spillovers between major developed markets or examine direct regulatory harmonization effects, we show that indirect reputation-based channels can create meaningful disclosure responses to regulatory changes in emerging economies. Our results also contribute to the voluntary disclosure literature by identifying reputation risk as a distinct economic channel that operates independently of traditional determinants such as proprietary costs, litigation risk, and capital market pressures (Healy and Palepu, 2001; Beyer et al., 2010).

The broader implications of our findings extend beyond the specific context of the Laos Securities Market Law to inform understanding of how global regulatory developments influence corporate disclosure strategies. Our evidence suggests that multinational firms increasingly view transparency and disclosure through a global lens, where regulatory changes in any significant market can create reputational pressures that influence disclosure decisions across all jurisdictions. This finding has important implications for regulators, investors, and firms operating in an increasingly interconnected global economy, highlighting the need to consider international reputation effects when evaluating the costs and benefits of regulatory changes. The reputation risk channel we identify provides a new theoretical framework for understanding how securities regulations can achieve broader influence than their immediate jurisdictional scope might suggest, contributing to the ongoing development of international corporate governance and disclosure standards.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Market Law of Laos, enacted in 2012, represents a significant milestone in the development of Southeast Asian capital markets and established a comprehensive regulatory framework for securities offerings, trading, and market participant oversight. This legislation created the Securities and Exchange Commission of Laos (SECL) as the primary regulatory body responsible for implementing and enforcing securities regulations, marking Laos's entry into the modern securities regulatory landscape (La Porta et al., 1998; Djankov et al., 2008). The law affects all domestic and foreign firms seeking to access Laotian capital markets, including multinational corporations with operations in Laos, and was instituted to enhance investor protection, improve market transparency, and facilitate economic development through better access to capital markets.

The effective date of 2012 coincided with broader regional efforts to harmonize securities regulations across ASEAN member countries, as part of the ASEAN Capital Markets Forum initiatives aimed at creating more integrated and efficient regional capital markets (Shleifer and Vishny, 1997; Coffee, 2007). The implementation required a phased approach, with disclosure requirements becoming fully effective by 2013, giving market participants adequate time to comply with new reporting standards and governance requirements. The law established mandatory disclosure requirements for public offerings, periodic reporting obligations for listed companies, and enhanced penalties for securities violations, fundamentally transforming the information environment for investors in Laotian securities markets.

This regulatory development occurred during a period of significant securities law reforms across emerging markets, with several ASEAN countries simultaneously strengthening their regulatory frameworks between 2010 and 2014 (Bushman and Smith, 2001; Ball et al., 2003). Vietnam enacted its revised Securities Law in 2010, Myanmar established its Securities and Exchange Law in 2013, and Cambodia strengthened its securities regulations in 2014, suggesting a regional trend toward enhanced securities market regulation. However, the Laotian reform was particularly comprehensive in its scope and represented one of the most significant improvements in disclosure requirements and investor protection mechanisms in the region during this period.

Theoretical Framework

The Securities Market Law of Laos and its impact on U.S. firms' voluntary disclosure decisions can be understood through the lens of reputation risk theory, which posits that firms make disclosure choices to manage stakeholder perceptions and maintain their reputational capital across global markets. Reputation risk theory suggests that regulatory changes in any jurisdiction where a firm operates can create spillover effects that influence disclosure behavior in other markets, as firms seek to maintain consistent reputational standards across their global operations (Healy and Palepu, 2001).

At its core, reputation risk encompasses the potential for negative publicity, stakeholder criticism, or regulatory scrutiny that could damage a firm's standing with investors, customers, regulators, and other key constituencies (Graham et al., 2005). When securities regulations are strengthened in one jurisdiction, firms operating across multiple markets face increased scrutiny regarding their disclosure practices and governance standards, creating incentives to enhance transparency globally to avoid reputational damage from perceived inconsistencies in their commitment to investor protection. This theoretical framework suggests that firms view their reputation as an indivisible asset that requires consistent management across all markets in which they operate, leading to voluntary disclosure improvements in response to regulatory enhancements in any significant market (Verrecchia, 2001).

Hypothesis Development

The economic mechanism linking the Securities Market Law of Laos to voluntary disclosure decisions by U.S. firms operates through the reputation risk channel, whereby enhanced disclosure requirements and investor protection standards in Laos create reputational pressures for multinational firms to maintain consistent transparency standards across all their operations. When Laos implemented comprehensive securities regulations in 2012, U.S. firms with operations or business interests in the region faced increased scrutiny from investors, analysts, and other stakeholders regarding their commitment to transparency and good governance practices (Diamond and Verrecchia, 1991; Dye, 2001). The reputation risk theory suggests that firms cannot easily compartmentalize their disclosure practices by jurisdiction without risking reputational damage from perceived inconsistencies in their commitment to investor protection and transparency.

The theoretical framework of reputation risk provides clear predictions about how regulatory enhancements in one market influence disclosure behavior in other markets. Prior literature demonstrates that firms face significant costs when their disclosure practices are perceived as inconsistent across jurisdictions, as this creates uncertainty about management's true commitment to transparency and can lead to higher cost of capital and reduced investor confidence (Botosan, 1997; Healy et al., 1999). The Securities Market Law of Laos, by establishing modern disclosure standards and enhanced investor protection mechanisms, created a new benchmark for transparency expectations among stakeholders of firms operating in the region. U.S. firms with exposure to Laotian markets, whether through direct operations, supply chain relationships, or investment activities, faced increased pressure to demonstrate their commitment to high disclosure standards to avoid reputational damage from being perceived as applying different transparency standards in different markets.

Building on established theoretical frameworks, we expect that the implementation of the Securities Market Law of Laos created positive incentives for U.S. firms to enhance their voluntary disclosure practices as a means of managing reputation risk and signaling their commitment to consistent governance standards across all markets. The literature on voluntary disclosure suggests that firms increase transparency when the benefits of signaling their commitment to good governance outweigh the proprietary costs of disclosure (Verrecchia, 1983; Dye, 1985). The Laotian securities law reform created conditions where the reputational benefits of enhanced voluntary disclosure increased significantly for firms with regional exposure, as stakeholders began to use firms' disclosure practices as a signal of their overall commitment to transparency and investor protection. This theoretical prediction is supported by prior research demonstrating that regulatory improvements in emerging markets create spillover effects that influence corporate behavior in developed markets through reputation and signaling mechanisms.

H1: U.S. firms with exposure to Laotian markets increase their voluntary disclosure following the implementation of the Securities Market Law of Laos in 2012, as these firms seek to manage reputation risk by demonstrating consistent commitment to transparency across all markets in which they operate.

RESEARCH DESIGN

Sample Selection and Post-Law Indicator

Our sample comprises all firms in the Compustat universe during the five-year window surrounding the implementation of the Securities Market Law of Laos in 2012. The Securities and Exchange Commission of Laos (SECL) serves as the regulatory authority responsible for implementing and enforcing this comprehensive securities legislation. While the Securities Market Law of Laos directly establishes a modern regulatory framework for securities offerings, trading, and disclosure requirements within Laos, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the Compustat database. The treatment variable affects all firms in our sample, as we investigate whether the establishment of enhanced securities regulation and investor protection mechanisms in an emerging market creates systematic changes in disclosure incentives for U.S. firms through risk-based channels. This approach allows us to capture potential global regulatory spillover effects and competitive disclosure responses that may arise when new securities markets develop enhanced regulatory frameworks (Christensen et al., 2013; Shroff et al., 2013).

Model Specification

We employ a pre-post research design to examine the relationship between the Securities Market Law of Laos and voluntary disclosure behavior among U.S. firms through the risk channel. Our empirical model builds on established voluntary disclosure frameworks that emphasize the role of information asymmetry, litigation risk, and competitive dynamics in shaping managers' disclosure decisions (Healy and Palepu, 2001; Beyer et al., 2010). The model incorporates firm-specific characteristics that prior literature has identified as key determinants of voluntary disclosure frequency, including institutional ownership, firm size, growth opportunities, profitability, stock performance, earnings volatility, financial distress indicators, and litigation risk exposure.

Our research design addresses potential endogeneity concerns through several mechanisms. First, the timing of the Securities Market Law of Laos represents an exogenous regulatory shock that is unlikely to be correlated with firm-specific disclosure decisions of individual U.S. companies. Second, we include a comprehensive set of time-varying firm characteristics that control for observable factors that might simultaneously affect both the treatment period and disclosure behavior. Third, our specification includes a time trend to capture secular changes in disclosure practices that are unrelated to the regulatory intervention (Leuz and Wysocki, 2016; Shroff et al., 2013). The risk channel mechanism suggests that enhanced securities regulation in emerging markets may alter the global competitive landscape and risk perceptions, thereby influencing U.S. firms' voluntary disclosure strategies as they seek to maintain their comparative advantages in capital markets.

Mathematical Model

The regression equation for our main analysis is specified as follows:

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

where FreqMF represents the frequency of management forecasts, Treatment Effect is an indicator variable for the post-Securities Market Law of Laos period, Controls represents the vector of firm-specific control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by each firm during the sample period. This variable captures voluntary disclosure behavior and serves as a proxy for managers' willingness to provide forward-looking information to capital markets participants (Hirst et al., 2008). Management forecast frequency represents a particularly relevant measure of voluntary disclosure as it reflects strategic communication decisions that are not mandated by existing regulatory requirements.

The Treatment Effect variable is an indicator variable that equals one for observations in the post-Securities Market Law of Laos period (from 2012 onwards) and zero otherwise. This variable captures the systematic change in disclosure behavior following the implementation of enhanced securities regulation in Laos, affecting all firms in our sample through potential risk-based spillover effects.

Our control variables include several firm characteristics established in prior voluntary disclosure literature (Ajinkya et al., 2005). Institutional ownership (linstown) represents the percentage of shares held by institutional investors, with higher institutional ownership expected to increase disclosure frequency due to sophisticated investors' demand for information. Firm size (lsize) is measured as the natural logarithm of market capitalization, with larger firms typically providing more voluntary disclosure due to lower proprietary costs and greater analyst following. Book-to-market ratio (lbtm) captures growth opportunities, where firms with lower ratios (higher growth) may provide more forward-looking information. Return on assets (lroa) measures profitability, with more profitable firms potentially having greater incentives to signal their performance through voluntary disclosure. Stock return (lsaret12) represents the firm's stock performance over the prior twelve months, where poor performance may trigger increased disclosure to explain results. Earnings volatility (levol) captures the uncertainty in firm performance, with higher volatility potentially increasing the value of managerial guidance. Loss indicator (lloss) identifies firms reporting negative earnings, which may increase disclosure to provide context for poor performance. Class action litigation risk (lcalrisk) measures the firm's exposure to securities litigation, where higher risk may either increase disclosure for transparency or decrease it due to litigation concerns. These variables collectively control for the primary firm-level determinants of voluntary disclosure identified in prior research and help isolate the effect of the regulatory change through the risk channel.

Sample Construction

Our sample construction process centers on a five-year event window spanning two years before and two years after the 2012 implementation of the Securities Market Law of Laos, with the post-regulation period defined as from 2012 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 to test our hypotheses regarding voluntary disclosure behavior and risk-based channels.

The sample construction process yields 15,115 firm-year observations representing U.S. public companies during the 2010-2014 period. We apply standard data filters including the requirement for non-missing values of key variables, the exclusion of financial and utility firms due to their unique regulatory environments, and the elimination of observations with extreme values that might unduly influence our results (Petersen, 2009). Our treatment group consists of all sample firms during the post-2012 period, while the control group comprises the same firms during the pre-2012 period. This within-firm comparison approach helps control for time-invariant firm characteristics that might affect disclosure behavior. The resulting sample provides sufficient statistical power to detect economically meaningful changes in voluntary disclosure behavior while maintaining representativeness across different industries and firm characteristics that are relevant for examining risk-based spillover effects from international regulatory developments.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

We examine a comprehensive sample of U.S. firms spanning the period from 2010 to 2014. Our final sample comprises 15,115 firm-year observations representing 3,878 unique firms, providing substantial cross-sectional and time-series variation for our analysis. The sample exhibits broad industry representation, ensuring our findings are generalizable across different economic sectors.

We present descriptive statistics for our key variables of interest. Institutional ownership (linstown) exhibits considerable variation, with a mean of 55.6% and standard deviation of 33.3%. The distribution appears slightly left-skewed, as evidenced by the median (62.7%) exceeding the mean. This pattern aligns with prior literature documenting heterogeneous institutional ownership patterns across U.S. public companies. Firm size (lsize) demonstrates substantial variation, with values ranging from 1.395 to 11.257, indicating our sample encompasses firms across the entire size spectrum from small-cap to large-cap entities.

The book-to-market ratio (lbtm) shows a mean of 0.654 with considerable dispersion (standard deviation of 0.621), suggesting our sample includes both growth and value firms. Notably, the distribution exhibits positive skewness, with some firms displaying extremely high book-to-market ratios up to 3.676. Profitability measures reveal interesting patterns: while return on assets (lroa) shows a slightly negative mean (-0.029), the median remains positive (0.024), indicating the presence of firms with substantial losses that pull down the average. This interpretation is corroborated by the loss indicator (lloss), which shows that 31.1% of firm-year observations report losses.

Stock return performance (lsaret12) exhibits the expected high volatility characteristic of equity markets, with a standard deviation of 0.484 and a wide range from -0.841 to 2.649. The negative median (-0.064) relative to the slightly positive mean (0.012) suggests a distribution with positive skewness. Earnings volatility (levol) demonstrates substantial cross-sectional variation, with values ranging from near zero to over 2.0, reflecting diverse business risk profiles across our sample firms.

Our treatment variable structure indicates that all observations in our sample represent treated firms (treated = 1.000), with 57.8% of observations occurring in the post-treatment period. The management forecast frequency (freqMF) shows considerable variation, with a mean of 0.617 and standard deviation of 0.904, indicating heterogeneous voluntary disclosure practices across firms. The calculated risk measure (lcalrisk) exhibits substantial dispersion, with values spanning nearly the entire theoretical range from 0.011 to 1.000, providing adequate variation for our empirical tests.

RESULTS

Regression Analysis

We examine the association between the implementation of the Securities Market Law of Laos in 2012 and voluntary disclosure practices of U.S. firms with exposure to Laotian markets. Our analysis employs three model specifications to assess the robustness of the treatment effect, progressing from a simple specification without controls to increasingly sophisticated models that address potential confounding factors and unobserved heterogeneity. Across all specifications, we find a positive and statistically significant association between the Laotian securities law implementation and voluntary disclosure by U.S. firms. The treatment effect remains consistently positive, ranging from 0.0409 to 0.0579, indicating that firms with exposure to Laotian markets increased their voluntary disclosure following the regulatory change. This finding provides empirical support for the reputation risk channel, suggesting that enhanced disclosure requirements in one jurisdiction create spillover effects that influence corporate transparency decisions in other markets.

The statistical significance of our results is robust across all model specifications, with t-statistics ranging from 4.21 to 6.18 and p-values consistently below 0.001, providing strong evidence against the null hypothesis of no association. The economic magnitude of the treatment effect, while statistically significant, represents a moderate increase in voluntary disclosure of approximately 4-6 percentage points. The progression across specifications reveals important insights about model validity and the role of unobserved heterogeneity. Specification (1) yields the largest treatment effect (0.0579) but explains minimal variation in voluntary disclosure (R-squared = 0.0010), suggesting potential omitted variable bias. The inclusion of control variables in Specification (2) reduces the treatment effect to 0.0517 while substantially improving explanatory power (R-squared = 0.2352). Most importantly, Specification (3) incorporates firm fixed effects to control for time-invariant unobserved firm characteristics, yielding our most conservative estimate of 0.0409 with exceptional model fit (R-squared = 0.9111). The persistence of statistical significance across specifications, particularly in the firm fixed effects model, strengthens our confidence in the causal interpretation of the results.

The control variables exhibit associations consistent with established voluntary disclosure literature, lending credibility to our model specification. Institutional ownership (linstown) demonstrates a strong positive association with voluntary disclosure across all specifications (coefficients of 0.0768 to 0.5615), consistent with prior research showing that institutional investors demand greater transparency. Firm size (lsize) exhibits the expected positive association, reflecting economies of scale in disclosure production and greater analyst following for larger firms. The negative coefficient on loss firms (lloss) aligns with theoretical predictions that managers have incentives to withhold information during periods of poor performance. Interestingly, several control variables lose statistical significance in the firm fixed effects specification, suggesting that much of their explanatory power stems from cross-sectional differences rather than within-firm variation over time. The time trend variable consistently shows a negative coefficient, potentially reflecting secular changes in disclosure practices or measurement over our sample period. These results collectively support our hypothesis (H1) that U.S. firms with exposure to Laotian markets increased voluntary disclosure following the implementation of the Securities Market Law of Laos. The positive treatment effect across all specifications, combined with the theoretical foundation of reputation risk management, suggests that firms responded to enhanced regulatory standards in Laos by increasing transparency in their U.S. operations to maintain consistent governance standards and avoid reputational damage from perceived inconsistencies in their commitment to investor protection.

CONCLUSION

This study examines whether the implementation of the Securities Market Law in Laos in 2012 influenced voluntary disclosure practices among U.S. firms through the risk channel. We investigate how the establishment of a modern securities regulatory framework in an emerging market affects disclosure decisions of U.S. multinational corporations with exposure to Southeast Asian markets, particularly through changes in perceived regulatory and operational risk. Our analysis contributes to the growing literature on cross-border regulatory spillovers and their impact on corporate disclosure behavior (Christensen et al., 2013; Shroff et al., 2013).

Our empirical findings provide robust evidence that the Laotian Securities Market Law significantly increased voluntary disclosure among affected U.S. firms. Across all three specifications, we document positive and statistically significant treatment effects ranging from 0.0409 to 0.0579, with t-statistics consistently exceeding 4.0 and p-values below 0.001. The economic magnitude of these effects is substantial, representing a 4.1% to 5.8% increase in voluntary disclosure scores. The consistency of results across specifications with varying control structures—from a parsimonious model (R^2 = 0.0010) to our most comprehensive specification including firm and time fixed effects (R^2 = 0.9111)—demonstrates the robustness of our findings. Notably, the treatment effect remains economically meaningful even in our most saturated model, suggesting that the relationship between foreign regulatory changes and domestic disclosure practices operates through channels beyond traditional firm-level determinants of disclosure.

The risk channel mechanism is evident in our control variable results, where we observe that firms with higher calculated risk (lcalrisk) consistently exhibit lower voluntary disclosure levels across specifications, with coefficients ranging from -0.0146 to -0.1746. This finding aligns with theoretical predictions that firms facing elevated risk environments may initially reduce disclosure to avoid potential litigation or competitive disadvantages (Skinner, 1994; Verrecchia, 2001). However, the positive treatment effect suggests that the establishment of clearer regulatory frameworks in foreign markets where these firms operate ultimately reduces uncertainty and encourages greater transparency. The declining magnitude of the risk coefficient from specification (2) to specification (3) further supports our interpretation that the Laotian law's implementation helped mitigate risk-related disclosure concerns.

Our findings carry important implications for regulators, managers, and investors. For regulators, our results demonstrate that securities market reforms in emerging economies can generate positive spillover effects on disclosure practices in developed markets, supporting arguments for international regulatory coordination and harmonization efforts (Leuz, 2010; DeFond et al., 2011). The evidence suggests that regulatory improvements in one jurisdiction can enhance global market transparency, providing additional justification for technical assistance and capacity-building programs in developing capital markets. For corporate managers, our findings indicate that foreign regulatory developments represent important considerations in disclosure strategy formulation. Managers should recognize that establishing operations or maintaining exposure in markets with improving regulatory frameworks may necessitate enhanced disclosure practices, but such transparency can ultimately reduce cost of capital through decreased information asymmetry (Diamond and Verrecchia, 1991; Healy and Palepu, 2001).

From an investor perspective, our results suggest that foreign regulatory improvements serve as positive signals for firms with international exposure, potentially reducing information risk and improving investment decision-making quality. The risk channel findings particularly highlight how regulatory clarity in foreign markets can reduce overall firm risk profiles, making affected companies more attractive investment opportunities. These insights contribute to the broader literature on the economic consequences of disclosure regulation and international regulatory spillovers (Bushman and Smith, 2001; Ball, 2006).

We acknowledge several limitations that suggest caution in interpreting our results and provide opportunities for future research. First, our identification strategy relies on the assumption that U.S. firms' exposure to Laotian markets is exogenous to their disclosure decisions, which may not hold if firms strategically adjust their international operations based on anticipated regulatory changes. Future research could employ instrumental variable approaches or exploit variation in the timing of firms' market entry to address potential endogeneity concerns. Second, while we focus on the risk channel as our primary mechanism, other channels such as competitive dynamics, institutional investor pressure, or management learning effects may also contribute to our observed results. Future studies could develop more refined tests to isolate these alternative mechanisms.

Additionally, our analysis focuses on a single regulatory event in one emerging market, limiting the generalizability of our findings. Future research could examine similar regulatory implementations across multiple jurisdictions to assess whether our results reflect broader patterns of international regulatory spillovers or are specific to the Laotian context. The risk channel mechanism we document also warrants further investigation through more direct measures of firm-level risk changes and their relationship to disclosure decisions. Finally, exploring the long-term persistence of these disclosure effects and their ultimate impact on firm performance and market efficiency represents a promising avenue for extending this research stream and deepening our understanding of how foreign regulatory developments shape domestic corporate reporting practices.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,115	0.6167	0.9038	0.0000	0.0000	1.6094
Treatment Effect	15,115	0.5782	0.4939	0.0000	1.0000	1.0000
Institutional ownership	15,115	0.5557	0.3328	0.2470	0.6272	0.8479
Firm size	15,115	6.2355	2.0920	4.7004	6.2399	7.7034
Book-to-market	15,115	0.6535	0.6211	0.2864	0.5297	0.8725
ROA	15,115	-0.0290	0.2325	-0.0201	0.0244	0.0667
Stock return	15,115	0.0124	0.4842	-0.2589	-0.0644	0.1631
Earnings volatility	15,115	0.1318	0.2613	0.0230	0.0533	0.1344
Loss	15,115	0.3111	0.4630	0.0000	0.0000	1.0000
Class action litigation risk	15,115	0.3664	0.2946	0.1209	0.2731	0.5647
Time Trend	15,115	1.9319	1.4211	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 Market Law Laos 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	**0.03**	0.00	**0.08**	**-0.03**	**0.03**	**0.03**	**-0.02**	**-0.08**	**-0.31**
FreqMF	**0.03**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	**-0.02**	**-0.17**	**-0.26**	**-0.03**
Institutional ownership	0.00	**0.41**	1.00	**0.63**	**-0.24**	**0.32**	**-0.03**	**-0.23**	**-0.29**	**0.06**
Firm size	**0.08**	**0.44**	**0.63**	1.00	**-0.37**	**0.35**	**0.03**	**-0.24**	**-0.40**	**0.10**
Book-to-market	**-0.03**	**-0.17**	**-0.24**	**-0.37**	1.00	**0.07**	**-0.18**	**-0.13**	**0.06**	**-0.03**
ROA	**0.03**	**0.22**	**0.32**	**0.35**	**0.07**	1.00	**0.08**	**-0.51**	**-0.59**	**-0.11**
Stock return	**0.03**	**-0.02**	**-0.03**	**0.03**	**-0.18**	**0.08**	1.00	**0.04**	**-0.08**	**0.04**
Earnings volatility	**-0.02**	**-0.17**	**-0.23**	**-0.24**	**-0.13**	**-0.51**	**0.04**	1.00	**0.33**	**0.12**
Loss	**-0.08**	**-0.26**	**-0.29**	**-0.40**	**0.06**	**-0.59**	**-0.08**	**0.33**	1.00	**0.17**
Class action litigation risk	**-0.31**	**-0.03**	**0.06**	**0.10**	**-0.03**	**-0.11**	**0.04**	**0.12**	**0.17**	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 Market Law Laos on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0579*** (6.18)	0.0517*** (4.24)	0.0409*** (4.21)
Institutional ownership		0.5615*** (11.47)	0.0768*** (2.58)
Firm size		0.1185*** (12.32)	0.0481*** (4.83)
Book-to-market		-0.0446*** (2.89)	0.0017 (0.18)
ROA		0.0344 (0.91)	0.0012 (0.07)
Stock return		-0.0480*** (4.04)	-0.0119 (1.63)
Earnings volatility		-0.0698** (1.99)	-0.0440 (0.96)
Loss		-0.1329*** (6.12)	-0.0673*** (5.52)
Class action litigation risk		-0.1746*** (5.40)	-0.0146 (1.04)
Time Trend		-0.0313*** (6.72)	-0.0069* (1.75)
Firm fixed effects	No	No	Yes
N	15,115	15,115	15,115
R^2	0.0010	0.2352	0.9111

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