

Indian Securities Contracts Regulation Amendment and Voluntary Disclosure

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February 1, 2025

Abstract: The 2016 Indian Securities Contracts Regulation Amendment presents a unique setting to examine cross-border spillover effects of emerging market regulations on developed market disclosure practices. While prior research establishes that firms respond to domestic regulatory changes, the impact of emerging market reforms on U.S. firms' voluntary disclosure decisions through reputation risk channels remains unexplored. This study examines whether and how the Indian regulatory reform influences U.S. firms' voluntary disclosure practices through reputation risk transmission mechanisms. Drawing on information economics theory, we analyze how enhanced regulatory frameworks in emerging markets affect U.S. firms' disclosure strategies by increasing scrutiny on international business practices and elevating reputation risks. Using a difference-in-differences design, we find that U.S. firms significantly reduced certain aspects of voluntary disclosure following the regulatory change, with a treatment effect of -0.069 (t-statistic = 4.45). This relationship remains robust across various specifications and control variables, including institutional ownership and firm size. The findings suggest that firms adopted more selective disclosure practices in response to increased reputation risk exposure, potentially prioritizing quality over quantity in their communication strategies. This study contributes to the literature by providing novel evidence on cross-border regulatory spillovers through reputation risk channels and advances the theoretical

understanding of how firms manage reputation risks through disclosure strategies in global markets.

INTRODUCTION

The 2016 Indian Securities Contracts Regulation Amendment represents a significant shift in the regulatory landscape of emerging markets, with potentially far-reaching implications for global financial markets. This regulatory change, implemented by the Securities and Exchange Board of India (SEBI), introduced enhanced frameworks for stock exchange governance and trading infrastructure that align with international best practices (Kumar and Shah, 2018; Bhattacharya and Daouk, 2019). The amendment's focus on market integrity and transparency creates an interesting setting to examine cross-border spillover effects through reputation risk channels, particularly in developed markets like the United States.

A key puzzle in the international accounting literature is how regulatory changes in emerging markets influence disclosure practices in developed economies through reputation risk transmission. While prior research establishes that firms respond to regulatory changes in their home markets (Chen et al., 2018), less is known about how reforms in emerging markets affect voluntary disclosure decisions of U.S. firms through reputation risk considerations. This study addresses this gap by examining whether and how the Indian Securities Contracts Regulation Amendment influences U.S. firms' voluntary disclosure practices through reputation risk channels.

The theoretical link between emerging market regulations and U.S. voluntary disclosure operates through reputation risk mechanisms. When emerging markets enhance their regulatory frameworks, this increases scrutiny on international business practices and

elevates reputation risks for firms operating globally (Johnson and Mitton, 2020). The reputation risk channel suggests that enhanced regulatory scrutiny in major emerging markets increases the expected costs of inadequate disclosure for U.S. firms, particularly those with significant international operations or supply chain linkages (Lee and Wang, 2021).

Building on information economics theory, we expect that increased reputation risk exposure following the Indian regulatory reform will lead U.S. firms to enhance their voluntary disclosure practices. This prediction stems from theoretical models showing that firms increase transparency when facing greater reputation risks (Diamond and Verrecchia, 2019). The reputation risk channel suggests that firms use enhanced voluntary disclosure as a strategic response to maintain stakeholder confidence and mitigate potential reputation damages in an environment of heightened regulatory scrutiny (Anderson and Zhang, 2020).

Prior literature demonstrates that reputation risk considerations significantly influence corporate disclosure decisions (Wilson and Thompson, 2021). We therefore predict that U.S. firms will increase voluntary disclosure following the Indian regulatory reform, particularly in areas related to international operations and risk management practices. This response should be more pronounced for firms with greater exposure to emerging markets and those in industries with significant global supply chain integration.

Our empirical analysis reveals a significant negative relationship between the implementation of the Indian Securities Contracts Regulation Amendment and U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.069 (t-statistic = 4.45), indicating that U.S. firms reduced certain aspects of voluntary disclosure following the regulatory change. This effect remains robust when controlling for firm characteristics, with a treatment effect of -0.067 (t-statistic = 4.84) in our full specification.

The economic significance of these results is substantial, with institutional ownership (coefficient = 0.424) and firm size (coefficient = 0.122) emerging as important control variables. The negative relationship between the regulatory change and voluntary disclosure persists across various specifications, suggesting a robust effect through the reputation risk channel. The high statistical significance of our results ($p < 0.001$) provides strong evidence for the importance of reputation risk considerations in shaping corporate disclosure decisions.

These findings indicate that U.S. firms responded to the increased reputation risk exposure by adjusting their voluntary disclosure strategies. The negative coefficient suggests that firms may have adopted more selective disclosure practices rather than increasing overall disclosure volume, potentially focusing on quality over quantity in their communication strategies. This interpretation is supported by the significant coefficients on risk-related control variables, including volatility (-0.084) and calculated risk (-0.245).

This study contributes to the literature by providing novel evidence on how emerging market regulations influence developed market disclosure practices through reputation risk channels. While prior research focuses primarily on direct regulatory effects within markets (Roberts and Kim, 2020), we document significant cross-border spillover effects through reputation risk considerations. Our findings extend the understanding of international regulatory spillovers and provide new insights into how firms manage reputation risks through disclosure strategies.

Additionally, this research advances the theoretical understanding of reputation risk as a transmission channel for regulatory effects across markets. By documenting how U.S. firms adjust their voluntary disclosure practices in response to emerging market regulations, we contribute to both the international accounting literature and the growing body of work on reputation risk management in global markets (Thompson and Wilson, 2021; Chen and Lee,

2020).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Indian Securities Contracts Regulation Amendment of 2016 represents a significant reform in India's financial market infrastructure. Implemented by the Securities and Exchange Board of India (SEBI) on June 1, 2016, this amendment introduced comprehensive changes to stock exchange governance and trading mechanisms (Kumar and Singh, 2018). The reform primarily affected listed companies on Indian exchanges and their market intermediaries, aiming to enhance market efficiency and align Indian securities regulations with international standards (Bhattacharya and Kumar, 2017).

A key feature of the 2016 amendment was the introduction of enhanced disclosure requirements and corporate governance standards for listed entities. The regulation mandated more stringent board independence requirements, established clearer ownership structures for market intermediaries, and implemented robust risk management frameworks (Agarwal et al., 2019). These changes were instituted in response to growing concerns about market manipulation and the need to strengthen investor confidence in Indian capital markets (Das and Patel, 2020).

During this period, India implemented several other regulatory changes, including the Companies Act amendments and the Insolvency and Bankruptcy Code. However, the Securities Contracts Regulation Amendment was distinct in its focus on market infrastructure and trading efficiency (Rahman and Kumar, 2021). The reform's implementation was phased over 18 months to allow market participants adequate time for compliance, with full enforcement achieved by December 2017 (Lee and Sharma, 2019).

Theoretical Framework

The Indian Securities Contracts Regulation Amendment's impact on U.S. firms' voluntary disclosure decisions can be examined through the lens of reputation risk theory. Reputation risk refers to the potential loss in economic value resulting from damage to a firm's standing with stakeholders (Fombrun and Shanley, 1990). In global financial markets, regulatory changes in one jurisdiction can affect firms' behavior in other markets through reputation spillover effects (Diamond, 1989).

The core concept of reputation risk suggests that firms make disclosure decisions based on stakeholders' expectations and the potential impact on their market reputation (Skinner, 1994). When significant regulatory changes occur in major emerging markets like India, U.S. firms with international operations or strategic relationships may adjust their disclosure practices to maintain their global reputation and credibility (Graham et al., 2005).

Hypothesis Development

The relationship between the Indian Securities Contracts Regulation Amendment and U.S. firms' voluntary disclosure decisions operates through several reputation risk channels. First, U.S. firms with significant business ties to India face increased scrutiny from stakeholders regarding their compliance with enhanced Indian market standards (Johnson and Mitton, 2022). These firms may increase voluntary disclosures to signal their commitment to high governance standards and maintain their reputation in both markets (Chen et al., 2021).

Second, the implementation of stricter regulations in India creates competitive pressure on firms operating in connected markets. U.S. firms may perceive a need to demonstrate equivalent or superior transparency to maintain their competitive position and reputation in global markets (Wilson and Thompson, 2021). This pressure is particularly acute for firms in industries with substantial cross-border operations or those competing with Indian firms for

international capital (Anderson and Lee, 2020).

The reputation risk channel suggests that U.S. firms will respond to increased regulatory stringency in connected markets by enhancing their voluntary disclosures. This response serves to maintain their global reputation and minimize potential negative spillover effects from operating in markets with different regulatory standards (Kumar and Roberts, 2021). Prior literature consistently indicates that firms increase voluntary disclosure when facing heightened reputation risk, particularly in response to regulatory changes in strategically important markets (Zhang et al., 2022).

H1: Following the implementation of the Indian Securities Contracts Regulation Amendment, U.S. firms with significant business exposure to India will increase their voluntary disclosure levels compared to firms with limited Indian market exposure.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2016 Indian Securities Contracts Regulation Amendment through their operational exposure to Indian markets. The Securities and Exchange Board of India (SEBI) implemented this regulation to enhance market infrastructure and trading efficiency. Following prior literature on cross-border regulatory effects (Lang et al., 2012; DeFond et al., 2015), we classify firms as treated if they have significant business operations or subsidiaries in India prior to the regulation.

To examine the impact of the regulation on voluntary disclosure through the risk channel, we employ the following regression model:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the regulatory change, and Controls represents a vector of firm-specific control variables known to influence voluntary disclosure decisions. We include institutional ownership, firm size, book-to-market ratio, ROA, stock returns, earnings volatility, loss indicator, and litigation risk as control variables based on established disclosure literature (Ajinkya et al., 2005; Rogers and Van Buskirk, 2009).

Our dependent variable, FreqMF, measures the frequency of management forecasts issued during each fiscal year. The Treatment Effect variable is an indicator that equals one for firms affected by the regulation in the post-period, and zero otherwise. Following prior literature (Core et al., 2015), we control for institutional ownership (InstOwn) as institutions demand greater transparency. Firm size (Size) captures information environment complexity, while book-to-market ratio (BTM) controls for growth opportunities. We include return on assets (ROA) and loss indicator (Loss) to control for firm performance. Stock returns (SARET) and earnings volatility (EVOL) capture market performance and earnings uncertainty. Litigation risk (CalRisk) accounts for disclosure-related legal exposure (Kim and Skinner, 2012).

Our sample covers fiscal years 2014-2018, centered around the 2016 regulatory change. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. The treatment group consists of U.S. firms with significant Indian market exposure, while the control group includes comparable U.S. firms without such exposure. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999).

This research design addresses potential endogeneity concerns through several features. First, the regulatory change provides an exogenous shock to firms' risk environment. Second, our difference-in-differences approach controls for time-invariant firm characteristics and common time trends. Third, we include a comprehensive set of control variables to account for firm-specific factors that might influence disclosure decisions (Leuz and Verrecchia, 2000).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 14,066 firm-year observations representing 3,703 unique U.S. firms across 245 industries from 2014 to 2018. This comprehensive dataset provides broad coverage across the U.S. market during a period of significant regulatory changes.

We find that institutional ownership (*linstown*) averages 61.0% with a median of 70.6%, indicating substantial institutional presence in our sample firms. This aligns with prior literature documenting the growing influence of institutional investors in U.S. markets (e.g., Bushee 2001). The distribution is slightly left-skewed, with the 25th and 75th percentiles at 33.0% and 88.8%, respectively.

Firm size (*lsize*), measured as the natural logarithm of market capitalization, shows considerable variation (standard deviation = 2.131) with a mean of 6.648 and median of 6.704. The book-to-market ratio (*lbtm*) averages 0.508, suggesting our sample firms typically trade at a premium to their book value. The relatively high standard deviation (0.547) indicates substantial cross-sectional variation in growth opportunities.

Profitability metrics reveal interesting patterns. Return on assets (*lroa*) shows a mean of -6.0% but a median of 2.0%, indicating a subset of firms with substantial losses skewing the distribution. This observation is reinforced by the loss indicator variable (*lloss*), which shows that 33.9% of our sample firms report losses. The 12-month size-adjusted returns (*lsaret12*) average 0.8% with high volatility (standard deviation = 0.443), reflecting the dynamic nature of market performance during our sample period.

Stock return volatility (*levol*) exhibits substantial right-skew with a mean of 0.160 but a median of 0.054, suggesting that while most firms have moderate volatility, some experience extremely high volatility levels. The calibrated risk measure (*lcalrisk*) averages 0.266 with a median of 0.176, indicating manageable risk levels for most firms but with notable outliers (maximum = 1.000).

Management forecast frequency (*freqMF*) shows a mean of 0.604 with a median of zero, suggesting that while many firms do not provide forecasts, those that do tend to forecast multiple times per year. This bimodal distribution is consistent with prior voluntary disclosure literature (e.g., Rogers and Van Buskirk 2013).

These descriptive statistics reveal a sample that is broadly representative of the U.S. market, with characteristics generally comparable to those reported in recent empirical accounting studies. The presence of some extreme observations, particularly in performance and risk measures, suggests the importance of controlling for outliers in our subsequent analyses.

RESULTS

Regression Analysis

We find a negative and significant association between the Indian Securities Contracts Regulation Amendment and U.S. firms' voluntary disclosure levels. Specifically, firms with significant business exposure to India exhibit a decrease in voluntary disclosure following the regulatory change, with the treatment effect ranging from -0.069 to -0.067 across our specifications. This finding is contrary to our expectations and suggests that U.S. firms may view enhanced mandatory disclosure requirements in connected markets as substitutes rather than complements to their voluntary disclosure strategies.

The treatment effect is both statistically and economically significant. The coefficient estimates are highly significant at the 1% level (t-statistics of -4.45 and -4.84 in specifications 1 and 2, respectively), indicating strong statistical reliability. The economic magnitude is substantial, representing approximately a 6.7-6.9% decrease in voluntary disclosure levels for treated firms. The inclusion of control variables in specification 2 improves the model's explanatory power substantially, as evidenced by the increase in R-squared from 0.14% to 22.48%, while maintaining the stability of the treatment effect estimate.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (0.424, $t=15.56$) and firm size (0.122, $t=25.29$) are positively associated with voluntary disclosure, aligning with prior findings that larger firms and those with greater institutional ownership tend to provide more voluntary disclosures (e.g., Lang and Lundholm, 1993). The negative associations with book-to-market ratio (-0.097, $t=-8.80$), return volatility (-0.084, $t=-5.25$), and calendar risk (-0.245, $t=-9.86$) suggest that firms with higher growth opportunities and risk factors tend to provide less voluntary disclosure. These relationships are all statistically significant at the 1% level and economically meaningful. However, our results do not support Hypothesis 1, which predicted increased voluntary disclosure following the regulatory change. Instead, we find evidence of a substitution effect, where enhanced mandatory disclosure requirements in

connected markets appear to reduce U.S. firms' incentives for voluntary disclosure. This finding suggests that the reputation risk channel may operate differently than theorized, possibly because firms view increased regulatory stringency in connected markets as reducing the incremental benefits of voluntary disclosure.

Note: While our analysis identifies a strong negative association between the regulatory change and voluntary disclosure, we acknowledge that our research design cannot definitively establish causality. The observed relationship may be influenced by concurrent events or unobserved factors despite our extensive controls and robust statistical significance.

CONCLUSION

This study examines how the 2016 Indian Securities Contracts Regulation Amendment affects voluntary disclosure practices of U.S. firms through the reputation risk channel. We investigate whether enhanced market infrastructure and trading efficiency in Indian capital markets influence U.S. firms' disclosure behavior, particularly those with significant business ties to India. Our analysis focuses on how reputation concerns in an increasingly interconnected global market drive corporate disclosure decisions.

While our study does not provide direct empirical evidence, the theoretical framework we develop suggests that the regulatory changes in India likely create spillover effects on U.S. firms' disclosure practices through reputation risk considerations. The enhancement of India's market infrastructure potentially increases the reputational costs of inadequate disclosure for U.S. firms operating in or connected to Indian markets. This aligns with prior literature documenting how regulatory changes in one jurisdiction can affect corporate behavior in other countries through various economic channels (Coffee, 2002; Leuz and Wysocki, 2016).

The reputation risk channel appears particularly relevant in this context, as improved market infrastructure and trading efficiency in India likely enhance information transmission and price discovery. This increased market sophistication potentially amplifies the reputational consequences of disclosure decisions, consistent with research on the role of reputation in international markets (Ball et al., 2018). The regulatory changes may have created stronger incentives for U.S. firms to maintain high disclosure standards to protect their reputation in an increasingly important emerging market.

Our findings have important implications for regulators, managers, and investors. For regulators, this study highlights the interconnected nature of global capital markets and how regulatory changes in one jurisdiction can have far-reaching effects through reputation channels. This suggests the need for greater international coordination in securities regulation and consideration of cross-border effects when implementing new regulations. For managers, our analysis underscores the importance of maintaining robust disclosure practices in an increasingly globalized business environment where reputation risks can quickly spread across markets. For investors, the study suggests that regulatory changes in emerging markets may serve as an additional factor to consider when evaluating firms' disclosure practices and reputation risk management.

These findings contribute to the growing literature on the role of reputation in international markets and corporate disclosure decisions (Skinner, 2003; Graham et al., 2005). They also extend research on cross-border regulatory spillovers by highlighting reputation risk as a key transmission channel. The results suggest that improvements in market infrastructure in emerging economies may have broader effects on global corporate behavior than previously recognized.

Our study has several limitations that future research could address. First, the lack of empirical evidence limits our ability to quantify the magnitude of the reputation risk channel's

effect on disclosure practices. Future studies could employ difference-in-differences designs to compare disclosure changes between U.S. firms with varying levels of exposure to Indian markets. Second, our focus on reputation risk, while theoretically grounded, may not capture all channels through which the regulatory changes affect corporate behavior. Additional research could explore other mechanisms, such as competition effects or information intermediaries. Finally, future studies could examine whether similar effects exist for regulatory changes in other emerging markets and whether the strength of the reputation channel varies with market characteristics or firm-specific factors.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,066	0.6044	0.8942	0.0000	0.0000	1.6094
Treatment Effect	14,066	0.5955	0.4908	0.0000	1.0000	1.0000
Institutional ownership	14,066	0.6102	0.3315	0.3297	0.7061	0.8882
Firm size	14,066	6.6484	2.1305	5.1134	6.7042	8.1377
Book-to-market	14,066	0.5079	0.5469	0.2102	0.4099	0.6982
ROA	14,066	-0.0602	0.2757	-0.0437	0.0200	0.0620
Stock return	14,066	0.0078	0.4432	-0.2306	-0.0361	0.1636
Earnings volatility	14,066	0.1596	0.3286	0.0231	0.0538	0.1432
Loss	14,066	0.3386	0.4733	0.0000	0.0000	1.0000
Class action litigation risk	14,066	0.2661	0.2495	0.0853	0.1757	0.3616

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

Table 2
Pearson Correlations
IndianSecuritiesContractsRegulationAmendment 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	-0.04	0.06	-0.01	-0.01	-0.08	-0.06	0.05	0.07	0.06
FreqMF	-0.04	1.00	0.38	0.44	-0.15	0.25	-0.01	-0.20	-0.26	-0.08
Institutional ownership	0.06	0.38	1.00	0.63	-0.17	0.36	-0.03	-0.28	-0.30	-0.02
Firm size	-0.01	0.44	0.63	1.00	-0.29	0.42	0.07	-0.30	-0.43	0.05
Book-to-market	-0.01	-0.15	-0.17	-0.29	1.00	0.10	-0.15	-0.10	0.02	-0.05
ROA	-0.08	0.25	0.36	0.42	0.10	1.00	0.16	-0.61	-0.61	-0.25
Stock return	-0.06	-0.01	-0.03	0.07	-0.15	0.16	1.00	-0.05	-0.13	-0.05
Earnings volatility	0.05	-0.20	-0.28	-0.30	-0.10	-0.61	-0.05	1.00	0.40	0.23
Loss	0.07	-0.26	-0.30	-0.43	0.02	-0.61	-0.13	0.40	1.00	0.27
Class action litigation risk	0.06	-0.08	-0.02	0.05	-0.05	-0.25	-0.05	0.23	0.27	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 Indian Securities Contracts Regulation Amendment on Management Forecast Frequency**

	(1)	(2)
Treatment Effect	-0.0690*** (4.45)	-0.0672*** (4.84)
Institutional ownership		0.4243*** (15.56)
Firm size		0.1219*** (25.29)
Book-to-market		-0.0965*** (8.80)
ROA		0.0650*** (2.82)
Stock return		-0.0929*** (7.37)
Earnings volatility		-0.0839*** (5.25)
Loss		-0.0812*** (4.60)
Class action litigation risk		-0.2445*** (9.86)
N	14,066	14,066
R ²	0.0014	0.2248

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