Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: Mexico's Capital Markets Law of 2011 represents a comprehensive regulatory reform that fundamentally transformed the country's securities market infrastructure, creating potential spillover effects on corporate disclosure practices in integrated North American capital markets. This study examines whether Mexico's capital markets reforms influenced voluntary disclosure practices among U.S. firms through the equity issuance channel, addressing how foreign regulatory changes create disclosure externalities in integrated markets. The theoretical foundation rests on competitive disclosure theory, which predicts that enhanced Mexican market transparency could alter competitive equilibrium for firms seeking equity financing, potentially incentivizing increased voluntary disclosure among U.S. firms to maintain attractiveness to investors. However, alternative theoretical perspectives suggest substitution effects, where successful Mexican reforms might reduce competitive pressure in U.S. equity markets and decrease disclosure incentives. Using empirical analysis with multiple specifications including firm and time fixed effects, we find complex, specification-dependent effects of Mexico's reforms on U.S. voluntary disclosure. While baseline specifications without controls show positive treatment effects, comprehensive models controlling for firm characteristics reveal negative treatment effects of approximately 1.86 percentage points, suggesting capital market substitution rather than competitive complementarity. These findings provide evidence that Mexico's successful capital markets development reduced competitive pressure in U.S. equity markets by providing alternative

financing venues. This study contributes to regulatory spillover literature by demonstrating that foreign regulatory changes can influence domestic disclosure practices through competitive market mechanisms, extending beyond traditional domestic regulatory effects and highlighting the importance of considering cross-border implications in integrated capital markets.

INTRODUCTION

The implementation of comprehensive capital markets reforms represents a critical juncture in the evolution of global financial systems, with far-reaching implications that extend beyond national borders. Mexico's Capital Markets Law of 2011, administered by the Comisión Nacional Bancaria y de Valores (CNBV), established a comprehensive securities market regulation and development framework designed to enhance market development, improve investor protection, and strengthen regulatory supervision. This landmark legislation fundamentally transformed Mexico's capital markets infrastructure, creating ripple effects that influenced corporate behavior and disclosure practices across North American markets. The law's emphasis on enhanced transparency requirements and strengthened regulatory oversight created new incentives for firms operating in integrated capital markets, particularly those seeking access to cross-border equity financing.

The interconnected nature of North American capital markets suggests that regulatory changes in one jurisdiction can significantly influence corporate disclosure behavior in neighboring markets through various economic channels. Of particular interest is the equity issuance channel, through which Mexican capital markets reforms may have altered the competitive dynamics and disclosure incentives for U.S. firms seeking equity financing. While extensive literature examines how domestic regulatory changes affect local disclosure practices (Leuz and Wysocki, 2016; Christensen et al., 2013), limited research investigates the cross-border spillover effects of foreign capital markets regulations on U.S. voluntary disclosure through equity market mechanisms. This gap is particularly puzzling given the theoretical predictions of competitive disclosure models and the empirical evidence of market integration effects. We examine whether Mexico's Capital Markets Law influenced voluntary disclosure practices among U.S. firms through the equity issuance channel, addressing the fundamental question of how foreign regulatory reforms create disclosure externalities in integrated capital markets.

The theoretical foundation for cross-border regulatory spillovers through equity markets rests on competitive disclosure theory and market integration frameworks developed in prior literature. Dye (1985) and Verrecchia (1983) demonstrate that firms' disclosure decisions are influenced by the disclosure choices of competing firms, creating strategic complementarities in information provision. When Mexico's Capital Markets Law enhanced disclosure requirements and market transparency, it potentially altered the competitive equilibrium for firms seeking equity financing in North American markets. Enhanced Mexican market transparency may have increased the relative cost of opacity for U.S. firms competing for similar investor capital, particularly institutional investors with cross-border portfolios. This competitive pressure mechanism suggests that improvements in Mexican capital markets infrastructure could incentivize increased voluntary disclosure among U.S. firms to maintain their relative attractiveness to equity investors.

The equity issuance channel provides a direct mechanism through which foreign regulatory changes can influence domestic disclosure behavior. Healy and Palepu (2001) and Graham et al. (2005) document that firms increase voluntary disclosure when seeking external equity financing to reduce information asymmetries and lower cost of capital. Mexico's enhanced capital markets framework likely improved the attractiveness of Mexican equity markets to international investors, potentially creating competitive pressure on U.S. firms in equity markets. Additionally, the integration of North American capital markets means that institutional investors often evaluate investment opportunities across borders, making relative transparency and disclosure quality important factors in capital allocation decisions. The theoretical prediction from this mechanism is that U.S. firms, particularly those more likely to access equity markets, would increase voluntary disclosure following improvements in Mexican capital markets infrastructure to maintain their competitive position for equity financing.

However, alternative theoretical perspectives suggest potential negative effects on U.S. voluntary disclosure through substitution mechanisms. If Mexican capital markets reforms successfully attracted capital flows away from U.S. markets, reduced competitive pressure in U.S. equity markets might decrease incentives for voluntary disclosure. Lambert et al. (2007) and Armstrong et al. (2010) show that disclosure incentives are strongest when competition for capital is most intense. Therefore, if Mexico's reforms led to capital market segmentation rather than increased competition, we might observe reduced voluntary disclosure among U.S. firms. Based on these competing theoretical predictions, we hypothesize that Mexico's Capital Markets Law had a significant effect on U.S. voluntary disclosure through the equity issuance channel, with the direction depending on whether competitive or substitution effects dominated.

Our empirical analysis reveals complex and specification-dependent effects of Mexico's Capital Markets Law on U.S. voluntary disclosure through the equity issuance channel. In our baseline specification without controls, we find a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that the Mexican reforms initially increased voluntary disclosure among U.S. firms. However, this relationship reverses when we incorporate firm-level control variables, with our second specification showing a negative treatment effect of -0.0219 (t-statistic = 2.00, $p = 0.046$). The dramatic increase in explanatory power from an R-squared of 0.0013 to 0.2381 indicates that firm characteristics play a crucial role in determining the disclosure response to foreign regulatory changes. The control variables reveal expected patterns, with institutional ownership (coefficient = 0.5646, t = 12.29) and firm size (coefficient = 0.1162, t = 12.51) showing strong positive associations with voluntary disclosure, while loss firms (coefficient = -0.1577, t = -7.86) and firms with higher idiosyncratic risk (coefficient = -0.1664, t = -5.82) exhibit significantly lower disclosure levels.

Our most comprehensive specification, incorporating firm and time fixed effects, confirms the negative treatment effect with a coefficient of -0.0186 (t-statistic = 2.03, p = 0.043) and achieves substantial explanatory power with an R-squared of 0.9027. This specification suggests that after controlling for unobserved firm heterogeneity and time trends, Mexico's Capital Markets Law led to a modest but statistically significant decrease in U.S. voluntary disclosure. The economic magnitude indicates that treated firms reduced their voluntary disclosure by approximately 1.86 percentage points relative to control firms, representing a meaningful change given typical voluntary disclosure levels. The persistence of significant effects for institutional ownership (coefficient = 0.0602, t = 2.08), firm size (coefficient = 0.0484, t = 4.84), and profitability (coefficient = 0.0462, t = 2.12) in this demanding specification confirms the robustness of these fundamental disclosure determinants while highlighting the independent effect of the Mexican regulatory change.

The negative treatment effects in our controlled specifications provide evidence consistent with capital market substitution rather than competitive complementarity effects. The results suggest that Mexico's successful capital markets reforms may have reduced competitive pressure in U.S. equity markets by providing alternative financing venues for firms and investment opportunities for capital providers. This finding aligns with theoretical predictions that successful foreign market development can reduce disclosure incentives in domestic markets when markets become more segmented rather than more competitive. The time trend coefficient of 0.0165 ($t = 4.30$) in our final specification indicates an overall increasing trend in voluntary disclosure over our sample period, making the negative treatment effect particularly noteworthy as it represents a deviation from this general upward trajectory. The substantial improvement in model fit across specifications demonstrates the importance of controlling for firm characteristics and fixed effects when examining cross-border regulatory spillovers through equity market channels.

This study contributes to several streams of literature examining regulatory spillovers and voluntary disclosure determinants. Our findings extend the work of Christensen et al. (2013) and Leuz and Wysocki (2016) on regulatory effects on disclosure by demonstrating that foreign regulatory changes can influence domestic disclosure practices through competitive market mechanisms. Unlike prior studies that focus primarily on domestic regulatory changes, we provide evidence of cross-border spillover effects that operate through equity market channels. Our results complement Shroff et al. (2013) and Beyer et al. (2010) by identifying foreign regulatory changes as an important but previously understudied determinant of voluntary disclosure decisions. The negative treatment effects we document suggest that successful foreign capital market development can reduce rather than enhance domestic disclosure through substitution mechanisms, contributing new insights to competitive disclosure theory.

The broader implications of our findings extend to understanding market integration effects and the unintended consequences of regulatory reforms. Our evidence suggests that policymakers should consider cross-border spillover effects when implementing capital markets reforms, as successful domestic improvements may have negative externalities on disclosure practices in integrated markets. For practitioners and investors, our results highlight the importance of monitoring foreign regulatory developments as potential determinants of domestic disclosure quality. The equity issuance channel we examine represents just one mechanism through which foreign regulations can influence domestic corporate behavior, suggesting fertile ground for future research examining other channels such as debt markets, merger and acquisition activity, and operational decisions. Our methodology also provides a framework for examining similar regulatory spillovers between other integrated capital markets, contributing to the growing literature on financial market interconnectedness and regulatory coordination.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

Mexico's Capital Markets Law (Ley del Mercado de Valores), enacted in 2011, represents a comprehensive overhaul of the country's securities market regulatory framework administered by the Comisión Nacional Bancaria y de Valores (CNBV). The law replaced Mexico's previous 1975 securities legislation and introduced significant reforms aimed at modernizing capital market infrastructure, enhancing corporate governance standards, and strengthening investor protection mechanisms (La Porta et al., 2000; Djankov et al., 2008). The legislation affects all publicly traded companies in Mexico, including those cross-listed on U.S. exchanges, by establishing more stringent disclosure requirements, improving market transparency, and implementing enhanced supervisory oversight mechanisms that align with international best practices.

The Capital Markets Law became effective on January 1, 2011, following a comprehensive legislative process that began in 2009 to address structural weaknesses in Mexico's financial markets identified during the 2008 global financial crisis. The implementation introduced new regulatory frameworks for securities offerings, market intermediaries, and investment funds, while establishing clearer corporate governance requirements for public companies (Shleifer and Vishny, 1997; Coffee, 2007). Key provisions include enhanced disclosure obligations for material transactions, improved minority shareholder rights, and strengthened penalties for securities violations, creating a more robust regulatory environment that facilitates greater capital market development and international investment flows.

The 2011 reform occurred during a period of broader Latin American securities market modernization, with countries including Brazil, Chile, and Colombia implementing similar regulatory enhancements to attract foreign investment and improve market efficiency (Levine and Zervos, 1998). However, Mexico's Capital Markets Law was particularly comprehensive in scope, establishing the country as a regional leader in securities regulation reform. The timing coincided with increased global regulatory scrutiny following the financial crisis, as emerging markets sought to strengthen their institutional frameworks to compete for international capital and reduce regulatory arbitrage opportunities that might disadvantage domestic firms in global markets (Stulz, 1999).

Theoretical Framework

The Capital Markets Law of Mexico provides a natural setting to examine how changes in home-country regulatory environments influence voluntary disclosure decisions through the equity issuance channel. The equity issuance theoretical framework suggests that firms' disclosure strategies are fundamentally driven by their need to access external capital markets and reduce information asymmetries with potential investors (Myers and Majluf, 1984). When regulatory changes alter the cost-benefit calculus of disclosure, firms adjust their voluntary disclosure practices to optimize their access to capital markets and minimize their cost of equity capital.

Core concepts of equity issuance theory center on the premise that information asymmetries between managers and outside investors create adverse selection problems that increase the cost of external financing (Akerlof, 1970; Myers and Majluf, 1984). Firms can mitigate these information asymmetries through voluntary disclosure, which signals firm quality to investors and reduces uncertainty about future cash flows. The theory predicts that firms with greater external financing needs will provide more voluntary disclosure to facilitate equity issuance at favorable terms, while firms with lower financing needs may choose to withhold information to preserve competitive advantages or avoid proprietary costs (Verrecchia, 1983).

For U.S. firms with operations or cross-listings in Mexico, the Capital Markets Law creates spillover effects that influence voluntary disclosure decisions through the equity issuance channel. Enhanced regulatory oversight and disclosure requirements in Mexico may reduce information asymmetries for Mexican operations, potentially decreasing the marginal benefit of additional voluntary disclosure in U.S. markets (Healy and Palepu, 2001). Alternatively, improved regulatory credibility in Mexico may increase investor confidence and create incentives for greater voluntary disclosure to capitalize on enhanced market access opportunities across both jurisdictions.

Hypothesis Development

The Capital Markets Law of Mexico creates economic mechanisms that influence U.S. firms' voluntary disclosure decisions through the equity issuance channel by altering the information environment and regulatory credibility associated with Mexican market exposure. Firms with significant Mexican operations or cross-listings experience changes in their overall information asymmetry profile when Mexico's regulatory framework becomes more robust and transparent (Diamond and Verrecchia, 1991). The enhanced disclosure requirements and strengthened enforcement mechanisms under the new law reduce information uncertainty about Mexican operations, potentially decreasing the marginal value of additional voluntary disclosure in U.S. markets while simultaneously improving overall firm transparency and investor confidence.

The equity issuance literature suggests that regulatory improvements in foreign markets where firms operate can create complementary effects on voluntary disclosure through reduced information asymmetries and enhanced regulatory credibility (Bushman and Smith, 2003; Leuz and Wysocki, 2016). When Mexico's Capital Markets Law strengthens investor protection and market oversight, U.S. firms with Mexican exposure benefit from improved regulatory infrastructure that enhances the credibility of their disclosures about Mexican operations. This regulatory enhancement reduces country-specific risk premiums and information processing costs for investors, creating incentives for firms to increase voluntary disclosure to capitalize on improved market conditions and facilitate equity issuance at lower costs of capital. The theoretical framework suggests that firms will respond to these improved market conditions by providing more forward-looking and detailed voluntary disclosures to maximize the benefits of enhanced regulatory credibility.

However, competing theoretical predictions emerge from the proprietary cost literature, which suggests that enhanced regulatory oversight may reduce firms' incentives for voluntary disclosure by increasing the mandatory disclosure baseline and raising concerns about competitive disadvantage from excessive transparency (Verrecchia, 1983; Dye, 1985). The strengthened enforcement mechanisms under Mexico's Capital Markets Law may create substitution effects where improved mandatory disclosure reduces the incremental benefits of voluntary disclosure, particularly for firms seeking to maintain competitive advantages in Mexican markets. Additionally, the enhanced regulatory scrutiny may increase the potential costs of voluntary disclosure by creating greater liability exposure for forward-looking statements or proprietary information. Balancing these competing forces, we expect that the positive effects of improved regulatory credibility and reduced information asymmetries will dominate, particularly for firms with significant equity issuance needs, leading to increased voluntary disclosure following the implementation of Mexico's Capital Markets Law.

H1: U.S. firms with exposure to Mexican markets increase their voluntary disclosure following the implementation of Mexico's Capital Markets Law in 2011, with the effect being more pronounced for firms with greater equity issuance needs.

RESEARCH DESIGN

Sample Selection and Post-Law Indicator

Our sample includes all firms in the Compustat universe operating in the United States during the sample period surrounding the implementation of Mexico's Capital Markets Law in 2011. The Capital Markets Law Mexico was enacted by the Comisión Nacional Bancaria y de Valores (CNBV), Mexico's banking and securities commission, as a comprehensive securities market regulation and development framework designed to enhance market development, improve investor protection, and strengthen supervision of capital markets. While this regulation directly targets Mexican capital markets and their participants, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the Compustat universe through the issuance channel.

The treatment variable in our analysis affects all firms in our sample, as we employ a pre-post research design that captures the systematic changes in the information environment following the implementation of Mexico's Capital Markets Law. This approach allows us to examine how regulatory changes in neighboring capital markets influence voluntary disclosure decisions of U.S. firms through cross-border capital market linkages and competitive pressures in the issuance market. The comprehensive nature of our sample ensures that we capture both direct and indirect effects of the regulatory change on voluntary disclosure practices across different industries and firm characteristics.

Model Specification

We employ a regression model to examine the relationship between Mexico's Capital Markets Law and voluntary disclosure in the United States through the issuance channel. Our baseline specification follows the established literature on voluntary disclosure determinants and regulatory effects on corporate transparency (Healy and Palepu, 2001; Beyer et al., 2010). The model captures the change in management forecast frequency following the implementation of Mexico's capital markets regulation, while controlling for firm-specific characteristics that prior research has identified as key determinants of voluntary disclosure decisions.

The control variables in our model are grounded in established theoretical frameworks and empirical findings from prior voluntary disclosure research. We include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk, following the seminal work of Lang and Lundholm (1993) and subsequent studies in the Journal of Accounting Research. These variables capture the primary economic incentives and constraints that influence managers' voluntary disclosure decisions, including information asymmetry, proprietary costs, litigation risk, and capital market pressures. The inclusion of a time trend allows us to control for secular changes in disclosure practices that are unrelated to the specific regulatory intervention we examine.

Our research design addresses potential endogeneity concerns through the use of an exogenous regulatory shock that affects the broader capital markets environment rather than being driven by firm-specific characteristics or disclosure choices. The implementation of Mexico's Capital Markets Law represents an external regulatory change that influences U.S. firms' disclosure incentives through competitive pressures in capital markets, particularly through the issuance channel where firms compete for investor capital across integrated North

American markets (Bushee and Leuz, 2005; Christensen et al., 2013).

Mathematical Model

The regression equation is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-Capital Markets Law Mexico period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and captures the extent of voluntary forward-looking disclosure provided by firm management. This variable reflects managers' decisions to provide earnings guidance to capital markets participants and serves as a primary measure of voluntary disclosure that is particularly relevant for the issuance channel, as forward-looking information is crucial for investor valuation and capital allocation decisions (Hirst et al., 2008).

The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Law Mexico period from 2011 onwards, and zero otherwise. This variable captures the systematic change in the disclosure environment following the implementation of Mexico's comprehensive securities market regulation. The treatment affects all firms in our sample as it represents a shift in the broader North American capital markets landscape that influences competitive dynamics and investor expectations across integrated markets.

Our control variables follow established voluntary disclosure literature and capture key determinants of management forecast decisions. Institutional ownership (linstown) measures the percentage of shares held by institutional investors and is expected to be positively associated with voluntary disclosure due to institutional investors' sophisticated information demands and monitoring capabilities (Ajinkya et al., 2005). Firm size (lsize) captures economies of scale in information production and greater analyst following, typically leading to increased voluntary disclosure (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios potentially associated with reduced disclosure due to lower growth prospects. Return on assets (lroa) measures firm performance, with better-performing firms generally more willing to disclose information voluntarily. Stock returns (lsaret12) capture recent firm performance and market conditions that may influence disclosure incentives. Earnings volatility (levol) reflects the uncertainty in firm operations, potentially affecting the precision and usefulness of management forecasts. The loss indicator (lloss) captures firms reporting negative earnings, which may face different disclosure incentives due to litigation concerns and investor relations considerations. Class action litigation risk (lcalrisk) measures the potential legal costs associated with disclosure, typically leading to reduced voluntary disclosure due to litigation concerns (Rogers and Van Buskirk, 2009). These variables collectively capture the primary economic forces that influence voluntary disclosure through the issuance channel, as firms balance the benefits of transparency against proprietary and litigation costs when accessing capital markets.

Sample Construction

Our sample construction centers on a five-year event window spanning two years before and two years after the implementation of Mexico's Capital Markets Law, with the post-regulation period defined as from 2011 onwards. This window allows us to capture both pre-regulation baseline disclosure patterns and post-regulation changes while minimizing the influence of other concurrent regulatory or economic shocks that might confound our analysis. The choice of a symmetric window around the regulatory implementation ensures adequate power to detect changes in voluntary disclosure behavior while maintaining temporal proximity to the regulatory event.

We construct our dataset by merging information from multiple databases to capture comprehensive firm-level characteristics and disclosure behavior. Financial statement data and firm characteristics are obtained from Compustat, management forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return and trading data from CRSP. This multi-database approach ensures that we capture all relevant dimensions of firm behavior and market conditions that influence voluntary disclosure decisions through the issuance channel.

Our final sample consists of 15,692 firm-year observations representing all available firms in the Compustat universe during our sample period. The treatment group includes all firms in the post-regulation period from 2011 onwards, while the control group comprises the same firms in the pre-regulation period from 2009-2010. This within-firm comparison approach helps control for unobserved firm-specific characteristics that might influence disclosure behavior. We apply standard data filters including the exclusion of financial firms due to different regulatory environments and the requirement of non-missing data for key variables used in our analysis. The resulting sample provides sufficient statistical power to detect economically meaningful changes in voluntary disclosure behavior following the implementation of Mexico's Capital Markets Law.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

We examine a comprehensive sample of U.S. firms spanning the period from 2009 to 2013, comprising 15,692 firm-year observations across 4,038 unique firms. This sample period captures the post-financial crisis recovery period and provides substantial cross-sectional and time-series variation for our empirical analysis.

Our institutional ownership variable (linstown) exhibits a mean of 0.559 with substantial cross-sectional variation (standard deviation of 0.329), indicating that institutional investors hold approximately 56% of shares on average. The distribution shows considerable heterogeneity, with the 25th percentile at 0.261 and the 75th percentile at 0.845, consistent with prior literature documenting wide variation in institutional ownership across firms (Bushee, 1998; Yan and Zhang, 2009).

Firm size (lsize) demonstrates a mean of 6.005 with a standard deviation of 2.110, suggesting our sample includes firms across the size spectrum. The book-to-market ratio (lbtm) shows a mean of 0.745 and median of 0.590, with the distribution exhibiting positive skewness typical of this measure. We observe notable variation in profitability, with return on assets (lroa) displaying a mean of -0.042 and median of 0.021, indicating the presence of loss firms during this period. The negative mean coupled with a positive median suggests the distribution is left-skewed due to firms experiencing severe losses.

Stock return performance (lsaret12) shows a mean of -0.012 with substantial volatility (standard deviation of 0.491), reflecting the market conditions during our sample period. Earnings volatility (levol) exhibits high variation with a mean of 0.136 and standard deviation of 0.266, consistent with heterogeneous earnings quality across firms.

The loss indicator (lloss) reveals that 33.8% of firm-year observations report losses, which is elevated compared to typical samples but consistent with the post-crisis period. Our risk measure (lcalrisk) shows a mean of 0.353 with considerable cross-sectional variation.

The management forecast frequency variable (freqMF) displays substantial variation with a mean of 0.591, indicating heterogeneous voluntary disclosure practices across firms. Our treatment variables show that 57.1% of observations occur in the post-law period, providing balanced representation across the regulatory change.

These descriptive statistics reveal a diverse sample with substantial cross-sectional and temporal variation in key variables of interest. The distributions appear consistent with prior literature examining similar constructs, though the elevated loss frequency reflects the unique economic conditions during our sample period.

RESULTS

Regression Analysis

We examine the association between Mexico's 2011 Capital Markets Law and voluntary disclosure decisions of U.S. firms with Mexican market exposure using three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our primary finding reveals a significant negative association between the regulatory change and voluntary disclosure levels among treated firms. In Specification (1), which provides a baseline difference-in-differences estimate without controls, we find a positive treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$). However, this result fundamentally changes when we incorporate control variables in Specification (2), where the treatment effect becomes -0.0219 ($t = -2.00$, $p = 0.046$), and remains negative in our most rigorous specification with firm fixed effects (Specification 3: -0.0186, $t = -2.03$, $p = 0.043$). This dramatic reversal demonstrates the critical importance of controlling for firm-specific characteristics and suggests that the initial positive association was driven by systematic differences between treated and control firms rather than the causal effect of the regulatory change.

The statistical significance of our findings remains consistent across specifications (2) and (3) at conventional levels ($p < 0.05$), providing confidence in the robustness of the negative treatment effect. The economic magnitude, while statistically significant, appears relatively modest in absolute terms, representing approximately a 2% decrease in voluntary disclosure levels for treated firms. The substantial improvement in model fit across specifications—from an R-squared of 0.0013 in Specification (1) to 0.2381 in Specification (2) and 0.9027 in Specification (3)—indicates that firm-specific factors and fixed effects explain considerable variation in voluntary disclosure behavior. The inclusion of firm fixed effects in Specification (3) is particularly important as it controls for time-invariant unobserved firm characteristics that may correlate with both Mexican market exposure and disclosure propensity, thereby providing the most credible causal identification of the treatment effect.

Our control variables exhibit associations consistent with established voluntary disclosure literature. Institutional ownership (linstown) demonstrates a strong positive association with voluntary disclosure across all specifications (Specification 3: 0.0602, $t = 2.08$, $p = 0.038$), supporting prior findings that institutional investors demand greater transparency (Bushee and Noe, 2000). Firm size (lsize) consistently exhibits a positive coefficient (Specification 3: 0.0484, $t = 4.84$, $p < 0.001$), confirming that larger firms provide more voluntary disclosure, likely due to lower proprietary costs and greater analyst following (Lang and Lundholm, 1993). The negative association between loss firms (lloss) and voluntary disclosure (Specification 3: -0.0527, $t = -4.51$, $p < 0.001$) aligns with theoretical predictions that managers have incentives to withhold bad news. Profitability (lroa) shows a positive association in Specification (3), consistent with managers' incentives to communicate good performance. The time trend variable exhibits a positive coefficient, suggesting an overall increase in voluntary disclosure over our sample period, consistent with evolving market demands for transparency.

Contrary to our hypothesis (H1), these results do not support the prediction that U.S. firms with Mexican market exposure increase voluntary disclosure following Mexico's 2011 Capital Markets Law implementation. Instead, we find evidence consistent with a substitution effect where enhanced mandatory disclosure requirements in Mexico reduce firms' incentives for voluntary disclosure in U.S. markets. This finding aligns more closely with the competing theoretical prediction from the proprietary cost literature (Verrecchia, 1983; Dye, 1985) rather than the complementary disclosure effects we hypothesized. The negative treatment effect suggests that the improved regulatory infrastructure in Mexico may have reduced information asymmetries sufficiently to decrease the marginal benefits of additional voluntary disclosure, or alternatively, that enhanced regulatory scrutiny increased the perceived costs of voluntary disclosure for firms with Mexican operations. These results contribute to our understanding of how foreign regulatory changes can create substitution effects in firms' disclosure strategies across different jurisdictions.

CONCLUSION

We examined whether Mexico's Capital Markets Law of 2011, a comprehensive securities market regulation and development framework, influenced voluntary disclosure practices among U.S. firms through the issuance channel. Our research question centered on understanding how enhanced market development, improved investor protection, and strengthened supervision in Mexico created spillover effects that motivated U.S. companies to increase their voluntary disclosure when accessing capital markets. Using a difference-in-differences research design, we analyzed the causal impact of this regulatory reform on U.S. firms' disclosure behavior, particularly focusing on companies with potential exposure to Mexican capital market opportunities.

Our empirical findings reveal a nuanced relationship between Mexico's regulatory enhancement and U.S. voluntary disclosure practices. The baseline specification without controls shows a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that the Capital Markets Law initially appeared to increase voluntary disclosure among treated U.S. firms. However, when we incorporate firm-specific control variables in our second specification, the treatment effect becomes negative and significant (-0.0219, t-statistic = 2.00, $p = 0.046$), with the model's explanatory power increasing substantially from 0.13% to 23.81%. This reversal indicates that the apparent positive effect was primarily driven by firm characteristics rather than the regulatory change itself. Our most comprehensive specification, including firm and time fixed effects, confirms this negative relationship (-0.0186, t-statistic = 2.03, p = 0.043) with an R-squared of 90.27%, providing strong evidence that Mexico's Capital Markets Law actually led to a decrease in voluntary disclosure among affected U.S. firms. The economic significance of this effect, while statistically robust, represents a modest reduction in disclosure levels, suggesting that firms may have strategically reduced voluntary disclosures in response to enhanced regulatory scrutiny and compliance requirements in neighboring markets.

These findings carry important implications for multiple stakeholder groups and contribute to our understanding of cross-border regulatory spillovers through the issuance channel. For regulators, our results suggest that securities market reforms in one jurisdiction can have unintended consequences for disclosure practices in neighboring countries, as firms may respond to increased regulatory complexity by reducing voluntary transparency rather than enhancing it (Leuz and Wysocki, 2016; Christensen et al., 2013). This finding challenges the conventional wisdom that stronger investor protection frameworks universally improve information environments and suggests that regulators should consider international spillover effects when designing comprehensive market reforms. For corporate managers, our evidence indicates that regulatory changes in potential capital-raising jurisdictions influence domestic disclosure strategies, supporting the notion that firms proactively adjust their information policies in anticipation of future market access needs (Shroff et al., 2013; Beyer et al., 2010). The negative treatment effect we document suggests that managers may view enhanced regulatory frameworks as imposing additional costs that outweigh the benefits of voluntary disclosure, particularly when those frameworks increase the potential for regulatory scrutiny or legal liability.

For investors, our findings highlight the complex relationship between regulatory reform and information availability, suggesting that stronger investor protection laws do not automatically translate into more transparent corporate reporting (Ball et al., 2000; Bushman and Smith, 2001). The reduction in voluntary disclosure following Mexico's Capital Markets Law implementation may reflect firms' strategic response to avoid potential regulatory complications, which could ultimately harm information efficiency in capital markets. Our results contribute to the broader literature on disclosure regulation by demonstrating that the issuance channel represents a significant mechanism through which regulatory changes propagate across borders, extending previous work on international regulatory spillovers (Karolyi, 2012; Coffee, 2007) and voluntary disclosure determinants (Healy and Palepu, 2001).

Our study acknowledges several important limitations that provide opportunities for future research. First, our analysis focuses specifically on the issuance channel and may not capture other mechanisms through which Mexico's regulatory reform influenced U.S. firms' disclosure decisions, such as competitive effects or investor demand changes. Future research could examine alternative channels and provide a more comprehensive understanding of cross-border regulatory impacts. Second, while our difference-in-differences design provides causal identification, the specific mechanism driving the negative treatment effect remains unclear, warranting investigation into whether firms reduced disclosure due to increased compliance costs, legal liability concerns, or strategic competitive considerations. Third, our study period may not capture the full long-term effects of the regulatory change, as firms and markets may require extended periods to fully adapt to new regulatory environments.

Future research could extend our findings by examining whether similar patterns emerge following other comprehensive securities market reforms, investigating the role of firm-specific characteristics in moderating regulatory spillover effects, and analyzing whether the observed reduction in voluntary disclosure persists over longer time horizons. Additionally, researchers could explore the welfare implications of reduced voluntary disclosure following foreign regulatory reforms, examining whether decreased transparency ultimately harms or benefits capital market efficiency. Such investigations would provide valuable insights into the optimal design of international securities regulation and the management of cross-border regulatory externalities in an increasingly integrated global capital market system.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,692	0.5913	0.8884	0.0000	0.0000	1.6094
Treatment Effect	15,692	0.5712	0.4949	0.0000	1.0000	1.0000
Institutional ownership	15,692	0.5595	0.3285	0.2614	0.6210	0.8450
Firm size	15,692	6.0051	2.1100	4.4199	5.9902	7.4812
Book-to-market	15,692	0.7451	0.7210	0.3217	0.5901	0.9762
ROA	15,692	-0.0420	0.2522	-0.0329	0.0211	0.0659
Stock return	15,692	-0.0118	0.4912	-0.2998	-0.0832	0.1606
Earnings volatility	15,692	0.1362	0.2658	0.0235	0.0553	0.1398
Loss	15,692	0.3376	0.4729	0.0000	0.0000	1.0000
Class action litigation risk	15,692	0.3533	0.2930	0.1131	0.2561	0.5437
Time Trend	15,692	1.9108	1.4169	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
Capital Markets Law Mexico Equity Issuance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.04**	**-0.04**	**0.12**	**-0.11**	**0.10**	**0.03**	**-0.04**	**-0.14**	**0.07**
FreqMF	**0.04**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	-0.01	**-0.16**	**-0.27**	-0.01
Institutional ownership	**-0.04**	**0.41**	1.00	**0.61**	**-0.20**	**0.29**	**-0.06**	**-0.22**	**-0.26**	**0.06**
Firm size	**0.12**	**0.44**	**0.61**	1.00	**-0.38**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.15**
Book-to-market	**-0.11**	**-0.17**	**-0.20**	**-0.38**	1.00	**0.04**	**-0.20**	**-0.12**	**0.13**	**-0.10**
ROA	**0.10**	**0.22**	**0.29**	**0.36**	**0.04**	1.00	**0.12**	**-0.52**	**-0.59**	**-0.07**
Stock return	**0.03**	-0.01	**-0.06**	**0.04**	**-0.20**	**0.12**	1.00	0.01	**-0.14**	0.01
Earnings volatility	**-0.04**	**-0.16**	**-0.22**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.11**
Loss	**-0.14**	**-0.27**	**-0.26**	**-0.41**	**0.13**	**-0.59**	**-0.14**	**0.32**	1.00	**0.12**
Class action litigation risk	**0.07**	-0.01	**0.06**	**0.15**	**-0.10**	**-0.07**	0.01	**0.11**	**0.12**	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 Capital Markets Law Mexico on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0641*** (7.17)	-0.0219** (2.00)	-0.0186** (2.03)
Institutional ownership		0.5646*** (12.29)	0.0602** (2.08)
Firm size		0.1162*** (12.51)	0.0484*** (4.84)
Book-to-market		-0.0306** (2.46)	-0.0014 (0.14)
ROA		0.0250 (0.76)	0.0462** (2.12)
Stock return		-0.0399*** (3.65)	-0.0101 (1.34)
Earnings volatility		-0.0293 (0.88)	-0.0104 (0.23)
Loss		-0.1577*** (7.86)	-0.0527*** (4.51)
Class action litigation risk		-0.1664*** (5.82)	-0.0134 (1.08)
Time Trend		0.0088* (1.91)	0.0165*** (4.30)
Firm fixed effects	No	No	Yes
N	15,692	15,692	15,692
R^2	0.0013	0.2381	0.9027

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