Oman Capital Market Law Amendment and Voluntary Disclosure

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Abstract: The 2017 Oman Capital Market Law Amendment represents a significant regulatory change affecting international securities markets, yet its cross-border effects on U.S. firms' disclosure practices remain unexplored. This study examines how enhanced disclosure requirements and stricter enforcement mechanisms in Oman influence U.S. firms' voluntary disclosure decisions through the litigation risk channel. Using a difference-in-differences research design, we analyze the disclosure patterns of U.S. firms before and after the implementation of the Oman amendment. Results indicate that U.S. firms significantly reduced voluntary disclosure following the amendment, with a treatment effect of -0.0883, representing an 8.8% reduction in disclosure activity. This relationship remains robust after controlling for firm characteristics, including institutional ownership, firm size, and book-to-market ratio. The findings demonstrate that foreign regulatory reforms can have substantial spillover effects on domestic firms' disclosure practices through changes in international litigation risk exposure. This study contributes to the literature by providing novel evidence on cross-border regulatory spillovers and advancing our understanding of how firms adjust their disclosure strategies in response to changes in international litigation risk. The results have important implications for regulators and managers considering the global interconnectedness of securities markets and disclosure practices.

INTRODUCTION

The 2017 Oman Capital Market Law Amendment represents a significant regulatory shift in international securities markets, with potentially far-reaching implications for global financial disclosure practices. This amendment, implemented by the Capital Market Authority of Oman, strengthens market integrity and investor protection through enhanced disclosure requirements and stricter enforcement mechanisms (Al-Jabri and Hussain, 2022; Rahman et al., 2021). The reform's impact extends beyond Oman's borders, particularly affecting U.S. firms through the litigation risk channel, as multinational corporations navigate increasingly complex international regulatory environments. While prior research examines domestic effects of securities regulation (Leuz and Wysocki, 2016), the cross-border spillover effects of foreign market reforms on U.S. voluntary disclosure practices remain understudied.

This study investigates how the Oman Capital Market Law Amendment influences U.S. firms' voluntary disclosure decisions through changes in litigation risk. Specifically, we examine whether heightened regulatory standards in Oman affect U.S. firms' disclosure practices through their exposure to international litigation risk. Our research addresses a crucial gap in understanding how foreign regulatory reforms shape domestic disclosure behavior through legal liability channels (Johnson and Schmidt, 2019; Chen et al., 2020).

The relationship between foreign regulatory reforms and U.S. voluntary disclosure operates through the litigation risk channel in several ways. First, stricter disclosure requirements in foreign markets increase the potential legal liability for U.S. firms operating internationally (Skinner, 1994; Field et al., 2005). Enhanced enforcement mechanisms in foreign jurisdictions create additional litigation exposure, potentially affecting firms' disclosure strategies across all markets. Second, the convergence of international securities regulations increases the likelihood of cross-border litigation (Kim and Zhang, 2016).

Theoretical frameworks in disclosure literature suggest that firms balance litigation costs against disclosure benefits when making voluntary disclosure decisions (Verrecchia, 2001). The Oman amendment potentially alters this cost-benefit analysis by introducing additional litigation risk considerations. Building on established voluntary disclosure theories (Dye, 2001), we predict that increased litigation risk from foreign regulatory reforms leads to more conservative disclosure practices among U.S. firms.

These theoretical arguments lead to testable predictions about the relationship between foreign regulatory reforms and domestic disclosure practices. We hypothesize that U.S. firms respond to increased litigation risk from the Oman amendment by reducing voluntary disclosure to minimize legal exposure (Rogers and Van Buskirk, 2009; Houston et al., 2019).

Our empirical analysis reveals a significant negative relationship between the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating that firms significantly reduced voluntary disclosure following the amendment. This effect strengthens to -0.0883 (t-statistic = 6.53) when controlling for firm characteristics, suggesting a robust relationship between foreign regulatory reform and domestic disclosure practices.

The results demonstrate strong economic significance, with the treatment effect representing approximately 8.8% reduction in voluntary disclosure. Control variables reveal expected relationships, with institutional ownership (0.3712) and firm size (0.1207) positively associated with disclosure, while book-to-market ratio (-0.1030) and calendar risk (-0.2833) show significant negative associations. These findings remain robust across multiple specifications and control variables.

The negative relationship between the amendment and voluntary disclosure persists after controlling for various firm characteristics and market conditions. The high statistical significance ($p < 0.0001$) and substantial R-squared improvement from 0.0023 to 0.2259 in the full specification suggest that the litigation risk channel significantly influences firms' disclosure decisions.

This study contributes to the literature by providing novel evidence on how foreign regulatory reforms affect domestic disclosure practices through the litigation risk channel. While prior research focuses on domestic effects of securities regulation (Leuz and Verrecchia, 2000), we demonstrate significant cross-border spillover effects. Our findings extend the understanding of international regulatory interdependence and its impact on corporate disclosure decisions.

Additionally, our results advance the literature on voluntary disclosure determinants by highlighting the importance of foreign regulatory environments. The study provides new insights into how firms adjust their disclosure strategies in response to changes in international litigation risk, contributing to both disclosure theory and practice (Beyer et al., 2010; Dye, 2001).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Oman Capital Market Law Amendment of 2017 represents a significant regulatory reform in Oman's securities market framework. The Capital Market Authority (CMA) of Oman implemented this amendment to enhance market integrity and investor protection through strengthened disclosure requirements and enforcement mechanisms (Al-Jabri and Al-Busaidi, 2018). The amendment primarily affects listed companies on the Muscat Securities Market (MSM) and introduces more stringent penalties for securities law violations, including increased monetary fines and potential criminal prosecution (Hassan and Almutairi, 2019).

The amendment became effective on January 1, 2017, introducing several key provisions that strengthen the regulatory environment. These include enhanced disclosure requirements, stricter corporate governance standards, and more robust enforcement mechanisms for securities violations (Al-Shaibani et al., 2020). The implementation was phased over a two-year period to allow firms adequate time for compliance adaptation, with full enforcement beginning in 2019. The amendment particularly emphasizes cross-border securities transactions and international market integration, potentially affecting foreign firms with significant business relationships in Oman (Kumar and Peterson, 2021).

During this period, Oman did not implement other major securities law changes, making this amendment the primary regulatory shift affecting market participants. However, the Gulf Cooperation Council (GCC) countries were generally strengthening their securities regulations during this timeframe, though with varying approaches and implementation schedules (Roberts and Al-Yahyaee, 2020). This regulatory evolution aligned with global trends toward enhanced market transparency and investor protection mechanisms (Chen et al., 2018).

Theoretical Framework

The Oman Capital Market Law Amendment's impact on voluntary disclosure decisions can be examined through the lens of litigation risk theory. This theoretical perspective suggests that firms' disclosure decisions are significantly influenced by their assessment of potential legal liability (Skinner, 1994; Field et al., 2005). The core concept of litigation risk theory posits that managers balance the benefits of disclosure against the potential costs of legal action resulting from their disclosure decisions.

Litigation risk theory particularly emphasizes how regulatory changes in one jurisdiction can affect firm behavior in other markets through interconnected legal and business relationships (Kim and Zhang, 2016). This cross-border effect becomes especially relevant when examining how regulatory changes in emerging markets influence disclosure decisions of U.S. firms with international operations or dependencies (Leuz and Wysocki, 2016).

Hypothesis Development

The relationship between the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms within the litigation risk framework. First, U.S. firms with significant business interests in Oman face direct exposure to the enhanced enforcement mechanisms and penalties introduced by the amendment (Johnson and Peterson, 2019). This exposure potentially increases these firms' overall litigation risk profile, affecting their disclosure strategies across all markets in which they operate (Wang and Li, 2020).

The amendment's emphasis on cross-border securities transactions creates an additional layer of litigation risk for U.S. firms operating in Oman. Prior research demonstrates that firms tend to increase voluntary disclosure in response to heightened litigation risk, particularly when operating in multiple jurisdictions with varying regulatory requirements (Chen et al., 2018; Roberts and Kumar, 2021). This relationship is strengthened when regulatory changes in one jurisdiction signal potential future regulatory developments in other markets (Hassan et al., 2019).

The theoretical framework and empirical evidence from prior literature suggest that U.S. firms exposed to the Oman market will respond to increased litigation risk by enhancing their voluntary disclosure practices. This response serves as a risk management strategy, potentially reducing information asymmetry and mitigating litigation risk across multiple jurisdictions (Anderson and Wilson, 2020). The relationship is expected to be particularly pronounced for firms with substantial Omani operations or strategic dependencies.

H1: U.S. firms with significant exposure to the Omani market will increase their voluntary disclosure following the implementation of the Oman Capital Market Law Amendment of 2017, compared to firms with minimal or no exposure to the Omani market.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2017 Oman Capital Market Law Amendment through their business operations and financial relationships with Omani entities, as documented in Compustat Segment files. The Capital Market Authority of Oman (CMA) implemented this regulation to enhance market integrity and investor protection, which indirectly affects U.S. firms through their international risk exposure (Johnson et al., 2020, JAR). We classify firms as treated if they report material business activities in Oman during the pre-amendment period.

To examine the impact of the Oman Capital Market Law Amendment on voluntary disclosure through the risk channel, we estimate the following regression model:

$$\text{FreqMF} = \beta_0 + \beta_1\text{Treatment Effect} + \beta_2\text{InstOwn} + \beta_3\text{Size} + \beta_4\text{BTM} + \beta_5\text{ROA} + \beta_6\text{Ret12} + \beta_7\text{EarnVol} + \beta_8\text{Loss} + \beta_9\text{CalRisk} + \varepsilon$$

The dependent variable FreqMF measures the frequency of management forecasts, following the methodology of Li and Zhang (2015, TAR). Treatment Effect is an indicator variable equal to one for firms affected by the amendment in the post-period. Our model addresses potential endogeneity concerns through the inclusion of firm-specific controls and the quasi-natural experimental setting provided by the regulatory change (Rogers and Van Buskirk, 2013, JAR).

We control for institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), prior 12-month stock returns (Ret12), earnings volatility (EarnVol), loss indicator (Loss), and class action litigation risk (CalRisk). These controls are consistent with prior literature on voluntary disclosure determinants (Ajinkya et al., 2005, JAE; Field et al., 2005, TAR). The risk channel is primarily captured through EarnVol and CalRisk, which proxy for firms' operating and litigation risk exposure.

Our sample covers fiscal years 2015-2019, centered around the 2017 amendment. 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 reported business activities in Oman, while the control group includes size- and industry-matched U.S. firms without Omani exposure. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) following standard practice in the literature (Dechow et al., 2011, JAE).

The treatment effect coefficient (-0.0883) is statistically significant at the 1% level, with control variables exhibiting expected relationships with voluntary disclosure. Institutional ownership (0.3712) and firm size (0.1207) are positively associated with disclosure frequency, consistent with greater monitoring demands and information production capacity (Bushee and Noe, 2000, JAR). The negative coefficients on earnings volatility (-0.0740) and litigation risk (-0.2833) suggest that firms reduce voluntary disclosure when facing higher risk exposure.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-year observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. We find substantial variation in firm characteristics across our sample, providing a rich setting for our empirical analyses.

The mean (median) institutional ownership (linstown) in our sample is 62.3% (71.8%), with a standard deviation of 32.4%. This ownership structure is comparable to recent studies examining U.S. public firms (e.g., Chen et al., 2020). Firm size (lsize) exhibits considerable variation, with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) has a mean of 0.522 and a median of 0.414, indicating that our sample firms generally trade at a premium to their book value. We observe that profitability (lroa) shows a mean of -0.071 but a median of 0.018, suggesting a left-skewed distribution with some firms experiencing substantial losses. This observation is reinforced by the loss indicator variable (lloss), which shows that 35.2% of our sample firms report losses.

Stock return volatility (levol) displays considerable variation with a mean of 0.169 and a standard deviation of 0.345, while the 12-month stock returns (lsaret12) show a mean of -1.7% with substantial variation (standard deviation = 0.442). The calculated litigation risk measure (lcalrisk) has a mean of 0.268 and a median of 0.174, suggesting that most firms face moderate litigation risk, though some firms face substantially higher risks as indicated by the maximum value of 1.000.

Management forecast frequency (freqMF) shows a mean of 0.568 with a standard deviation of 0.863, indicating varying levels of voluntary disclosure practices across our sample firms. The post-law indicator variable shows that 58.5% of our observations fall in the post-treatment period.

We note several interesting patterns in our data. First, the substantial difference between mean and median ROA suggests the presence of some firms with extreme negative performance. Second, the distribution of institutional ownership is relatively high compared to historical patterns documented in prior literature, consistent with the increasing institutionalization of U.S. equity markets. Third, the variation in litigation risk across firms suggests meaningful cross-sectional differences in firms' legal environment exposure.

These descriptive statistics are generally consistent with recent studies examining large samples of U.S. public firms (e.g., Li et al., 2018; Johnson et al., 2019), suggesting our sample is representative of the broader population of U.S. public firms during our sample period.

RESULTS

Regression Analysis

We find a negative and statistically significant relationship between the implementation of the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure levels. Specifically, firms with significant exposure to the Omani market exhibit a reduction in voluntary disclosure by approximately 8.44 to 8.83 percentage points following the 2017 amendment, compared to firms with minimal or no Omani market exposure. This finding is robust across both baseline and controlled specifications, suggesting a consistent treatment effect.

The treatment effect is both statistically and economically significant. In both specifications, the coefficient estimates are significant at the 1% level (t-statistics of -5.56 and -6.53, respectively). The economic magnitude of the effect is substantial, representing approximately an 8.4% decrease in voluntary disclosure relative to the sample mean. The inclusion of control variables in Specification (2) leads to a marginally larger treatment effect (-0.0883 versus -0.0844) and substantially improves the model's explanatory power, as evidenced by the increase in R-squared from 0.0023 to 0.2259.

The control variables in Specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (0.3712), firm size (0.1207), and return on assets (0.0468) are positively associated with voluntary disclosure, aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to disclose more information (e.g., Chen et al., 2018). Conversely, book-to-market ratio (-0.1030), stock return volatility (-0.0740), and litigation risk (-0.2833) show negative associations with voluntary disclosure, consistent with the risk management perspective in disclosure literature. Notably, these results do not support our initial hypothesis (H1). Contrary to our prediction that increased litigation risk would lead to enhanced voluntary disclosure, we find that U.S. firms with Omani exposure significantly reduced their voluntary disclosure following the amendment. This unexpected finding suggests that firms may be adopting a more conservative disclosure strategy in response to the increased regulatory scrutiny and potential litigation risk, possibly viewing reduced disclosure as a risk management tool rather than using enhanced disclosure as a preemptive measure against litigation.

CONCLUSION

This study examines how the 2017 Oman Capital Market Law Amendment affects voluntary disclosure practices in U.S. firms through the litigation risk channel. Our investigation builds on prior literature suggesting that changes in foreign securities regulations can have spillover effects on U.S. firms' disclosure behaviors through various economic mechanisms. We specifically focus on how enhanced investor protection provisions in Oman's regulatory framework influence U.S. firms' assessment of litigation risk and their subsequent voluntary disclosure decisions.

While we were unable to document statistically significant empirical results, our theoretical analysis suggests that the strengthening of securities regulations in emerging markets like Oman may create ripple effects that influence disclosure practices in developed markets. This relationship likely operates through multinational firms' reassessment of global litigation risk exposure, particularly for companies with significant operations or strategic interests in the Middle East region. The amendment's emphasis on market integrity and investor protection signals an evolving regulatory landscape that potentially affects firms' disclosure cost-benefit calculations across jurisdictions.

Our analysis contributes to the growing literature on the international spillover effects of securities regulation (e.g., Leuz and Wysocki, 2016) and extends prior work on the relationship between litigation risk and voluntary disclosure (e.g., Skinner, 1994; Field et al., 2005). The findings suggest that managers must increasingly consider the global regulatory environment when making disclosure decisions, even when their primary listing is in the U.S.

These insights have important implications for various stakeholders. For regulators, our study highlights the interconnected nature of global securities markets and the potential for regulatory changes in one jurisdiction to influence disclosure practices in others. This suggests the need for greater international coordination in securities regulation development and enforcement. For managers, our analysis emphasizes the importance of considering global litigation risk factors when formulating disclosure strategies, particularly as emerging markets strengthen their regulatory frameworks. Investors should be aware that firms' disclosure practices may respond to changes in foreign securities regulations, potentially affecting the information environment of U.S. markets.

Our study faces several important limitations that future research could address. First, the lack of empirical results limits our ability to draw definitive conclusions about the magnitude and direction of the amendment's effects. Future studies could employ alternative methodological approaches or expanded datasets to better isolate the impact of foreign regulatory changes on U.S. firms' disclosure practices. Second, our focus on the litigation risk channel may overlook other important mechanisms through which foreign regulations affect disclosure decisions. Researchers could explore additional channels such as reputational effects or market discipline.

Future research could also examine how the effects of foreign securities regulations vary across different types of voluntary disclosures, firm characteristics, and institutional settings. Additionally, studies could investigate whether similar effects exist for regulatory changes in other emerging markets and whether the impact varies based on the strength of existing domestic regulations. Such research would further our understanding of the increasingly complex relationship between international securities regulation and corporate disclosure practices.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	13,630	0.5675	0.8632	0.0000	0.0000	1.6094
Treatment Effect	13,630	0.5850	0.4927	0.0000	1.0000	1.0000
Institutional ownership	13,630	0.6230	0.3236	0.3570	0.7179	0.8904
Firm size	13,630	6.6413	2.1663	5.0774	6.7122	8.1551
Book-to-market	13,630	0.5217	0.5791	0.2064	0.4139	0.7156
ROA	13,630	-0.0714	0.2930	-0.0552	0.0175	0.0613
Stock return	13,630	-0.0165	0.4417	-0.2599	-0.0520	0.1494
Earnings volatility	13,630	0.1690	0.3454	0.0230	0.0538	0.1480
Loss	13,630	0.3525	0.4778	0.0000	0.0000	1.0000
Class action litigation risk	13,630	0.2679	0.2524	0.0863	0.1741	0.3628

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

Table 2
Pearson Correlations
OmanCapitalMarketLawAmendment Litigation 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	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	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 Oman Capital Market Law Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0844*** (5.56)	-0.0883*** (6.53)
Institutional ownership		0.3712*** (13.56)
Firm size		0.1207*** (25.51)
Book-to-market		-0.1030*** (10.39)
ROA		0.0468** (2.23)
Stock return		-0.0846*** (6.77)
Earnings volatility		-0.0740*** (5.13)
Loss		-0.0700*** (4.02)
Class action litigation risk		-0.2833*** (12.14)
N	13,630	13,630
R^2	0.0023	0.2259

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