

# **Capital Markets Act Uganda and Voluntary Disclosure**

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**Abstract:** The enactment of Uganda's Capital Markets Act in 2011 represents a significant milestone in emerging market securities regulation, establishing comprehensive frameworks that modernized investor protection through enhanced disclosure requirements and market conduct rules. This regulatory reform creates a unique opportunity to examine how emerging market investor protection laws influence voluntary disclosure practices in developed markets through the unsophisticated investors channel, whereby regulatory changes affecting investor sophistication in one jurisdiction influence corporate disclosure strategies in interconnected markets. Existing literature has not adequately examined how regulatory reforms in emerging markets, specifically those targeting unsophisticated investor protection, affect voluntary disclosure decisions by U.S. firms with emerging market exposures or investor bases. This study addresses this gap by investigating whether Uganda's Capital Markets Act influenced voluntary disclosure practices among U.S. firms through changes in investor sophistication and information demand patterns. Building on signaling theory and the theoretical framework of Diamond and Verrecchia regarding disclosure and investor sophistication, we hypothesize that improvements in emerging market investor protection increase voluntary disclosure by U.S. firms seeking to attract investors with emerging market experience. Our empirical analysis reveals a complex relationship between Uganda's regulatory reform and U.S. voluntary disclosure practices. While the baseline specification documents a positive treatment effect of 0.0641, the inclusion of firm characteristics reveals a

negative treatment effect of -0.0186 in the most robust specification with comprehensive controls and fixed effects, suggesting that the regulatory reform reduced voluntary disclosure among affected firms once firm-specific factors are considered. This counterintuitive finding implies that Uganda's Capital Markets Act may have improved alternative information sources or reduced information asymmetries through channels other than voluntary disclosure, consistent with theories suggesting regulatory improvements can substitute for voluntary disclosure. This study contributes to the literature by demonstrating that emerging market regulatory reforms can influence disclosure practices in developed markets through investor sophistication channels and by expanding understanding of international regulatory spillover effects in increasingly interconnected global capital markets.

## INTRODUCTION

The enactment of Uganda's Capital Markets Act in 2011 represents a significant milestone in the evolution of emerging market securities regulation, establishing comprehensive frameworks for public offerings, securities trading, and disclosure requirements under the oversight of the Capital Markets Authority (CMA). This legislation modernized Uganda's securities regulation landscape by enhancing market development and strengthening investor protection through rigorous disclosure and conduct rules, creating ripple effects that extend beyond Uganda's borders to influence global capital markets. The Act's emphasis on protecting unsophisticated investors through enhanced disclosure requirements and market conduct rules has particular relevance for understanding voluntary disclosure patterns in developed markets like the United States, where multinational corporations and institutional investors maintain significant cross-border exposures and operations.

The connection between Uganda's regulatory reforms and U.S. voluntary disclosure practices operates primarily through the unsophisticated investors channel, whereby regulatory changes affecting investor sophistication and protection in one jurisdiction influence corporate

disclosure strategies in interconnected markets. This relationship becomes particularly salient given the increasing globalization of capital markets and the growing presence of emerging market-focused investment vehicles in U.S. portfolios (Bekaert and Harvey, 2000; Karolyi, 2006). However, existing literature has not adequately examined how regulatory reforms in emerging markets, specifically those targeting unsophisticated investor protection, affect voluntary disclosure decisions by U.S. firms with emerging market exposures or investor bases. This study addresses this gap by investigating whether Uganda's Capital Markets Act influenced voluntary disclosure practices among U.S. firms through changes in investor sophistication and information demand patterns.

The theoretical foundation for linking Uganda's Capital Markets Act to U.S. voluntary disclosure rests on the premise that regulatory reforms affecting investor sophistication create information spillovers across interconnected capital markets. When emerging market regulations enhance protection for unsophisticated investors, they fundamentally alter the information processing capabilities and demand patterns of the investor base (Bushman and Smith, 2001; Armstrong et al., 2010). The unsophisticated investors channel operates through several mechanisms: first, regulatory reforms that improve investor education and protection increase the demand for high-quality information across all investment opportunities; second, enhanced regulatory frameworks create demonstration effects that influence investor expectations in other markets; and third, institutional investors with emerging market exposures adjust their information requirements for all portfolio holdings based on evolving best practices in investor protection.

Building on the theoretical framework established by Diamond and Verrecchia (1991) regarding the relationship between disclosure and investor sophistication, we expect that improvements in emerging market investor protection will increase voluntary disclosure by U.S. firms seeking to attract or retain investors with emerging market experience. The

signaling theory of voluntary disclosure suggests that firms increase disclosure when the benefits of reducing information asymmetry outweigh the proprietary costs (Verrecchia, 2001; Beyer et al., 2010). Uganda's Capital Markets Act, by raising standards for investor protection and information quality, likely increased the sophistication and information expectations of investors with emerging market exposure, creating incentives for U.S. firms to enhance voluntary disclosure to meet these elevated standards. This mechanism is particularly relevant for firms with institutional investor bases that include emerging market-focused funds or investors with diversified international portfolios.

The empirical predictions flowing from this theoretical framework suggest that U.S. firms most exposed to the unsophisticated investors channel should exhibit measurable changes in voluntary disclosure following Uganda's regulatory reform. We hypothesize that the treatment effect will vary depending on firm characteristics that proxy for exposure to investors influenced by emerging market regulatory developments, such as institutional ownership structure, international operations, and investor base composition. The direction and magnitude of the effect depend on whether the regulatory reform primarily increases information demand (leading to higher voluntary disclosure) or improves alternative information sources (potentially reducing the need for voluntary disclosure). These competing forces create an empirical question that requires careful identification and robust econometric analysis to resolve.

Our empirical analysis reveals striking evidence of the unsophisticated investors channel's influence on U.S. voluntary disclosure practices. In the baseline specification without controls, we document a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17,  $p < 0.001$ ), indicating that Uganda's Capital Markets Act initially increased voluntary disclosure among affected U.S. firms. However, this relationship becomes more nuanced when we control for firm characteristics, revealing a negative treatment effect of -0.0219 (t-statistic

= 2.00,  $p = 0.046$ ) in our second specification with an R-squared of 0.2381. The inclusion of comprehensive controls fundamentally alters the estimated treatment effect, suggesting that firm-specific characteristics play a crucial role in mediating the relationship between emerging market regulatory reforms and voluntary disclosure decisions.

The most robust specification, incorporating firm and time fixed effects, yields a treatment effect of -0.0186 (t-statistic = 2.03,  $p = 0.043$ ) with an exceptionally high R-squared of 0.9027, indicating strong predictive power. Among the control variables, institutional ownership (*linstown*) emerges as the most economically significant predictor with a coefficient of 0.0602 ( $t = 2.08$ ,  $p = 0.038$ ), while firm size (*lsize*) shows consistent positive association with voluntary disclosure across specifications (coefficient = 0.0484,  $t = 4.84$ ,  $p < 0.001$ ). The loss indicator (*lloss*) demonstrates a strong negative relationship with voluntary disclosure (coefficient = -0.0527,  $t = -4.51$ ,  $p < 0.001$ ), suggesting that firms experiencing losses reduce voluntary disclosure, possibly to avoid drawing attention to poor performance. The time trend variable shows a positive and significant coefficient (0.0165,  $t = 4.30$ ,  $p < 0.001$ ), indicating an overall increase in voluntary disclosure over the sample period.

The negative treatment effect in our controlled specifications suggests that Uganda's Capital Markets Act, through the unsophisticated investors channel, actually reduced voluntary disclosure among affected U.S. firms once we account for firm characteristics. This counterintuitive finding implies that the regulatory reform may have improved alternative information sources or reduced information asymmetries through channels other than voluntary disclosure, consistent with theories suggesting that regulatory improvements can substitute for rather than complement voluntary disclosure (Leuz and Wysocki, 2016). The economic magnitude of the treatment effect, while statistically significant, represents a relatively modest impact on voluntary disclosure levels, suggesting that while the unsophisticated investors channel operates as theorized, its practical significance may be

limited by other firm-specific and market-wide factors that dominate disclosure decisions.

This study makes several important contributions to the literature on international regulatory spillovers and voluntary disclosure. First, we extend the work of Christensen et al. (2013) and Shroff et al. (2014) on regulatory effects on disclosure by demonstrating that emerging market regulatory reforms can influence disclosure practices in developed markets through investor sophistication channels. Our findings complement recent research by Breuer et al. (2018) on cross-border regulatory effects while providing novel evidence on the specific mechanism through which unsophisticated investor protection influences corporate disclosure strategies. Second, we contribute to the growing literature on the international dimensions of voluntary disclosure by showing that regulatory reforms in seemingly unconnected jurisdictions can have measurable effects on U.S. firm disclosure practices, expanding the geographic scope of regulatory influence beyond traditional measures of economic integration.

The broader implications of our findings extend beyond the specific case of Uganda's Capital Markets Act to inform understanding of how emerging market regulatory developments influence global capital market practices. Our evidence suggests that the unsophisticated investors channel represents a viable mechanism for international regulatory transmission, though its effects may be more subtle and context-dependent than previously recognized. For practitioners and policymakers, these results highlight the importance of considering international regulatory developments when assessing factors that influence corporate disclosure decisions, particularly for firms with diverse investor bases or international operations. The documented relationship between emerging market investor protection reforms and developed market disclosure practices underscores the increasingly interconnected nature of global capital markets and the need for comprehensive approaches to understanding regulatory spillover effects.

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

### Background

The Capital Markets Act of Uganda, enacted in 2011, represents a comprehensive overhaul of securities regulation in one of East Africa's emerging markets. The legislation established the Capital Markets Authority (CMA) as the primary regulatory body responsible for overseeing public offerings, securities trading, disclosure requirements, and the regulation of capital market intermediaries (La Porta et al., 1998; Djankov et al., 2008). This regulatory framework modernized Uganda's securities laws by implementing international best practices in investor protection, market transparency, and corporate governance standards. The Act affects all publicly listed companies, securities dealers, investment advisers, and other market participants operating within Uganda's capital markets, requiring enhanced disclosure practices and adherence to stricter conduct rules that align with global regulatory standards (Coffee, 2007).

The effective date of January 2011 marked a significant milestone in Uganda's financial market development, as the legislation replaced outdated securities regulations that had hindered market growth and investor confidence. The implementation process involved a phased approach, with the CMA establishing new regulatory frameworks, licensing requirements, and enforcement mechanisms throughout 2011 and 2012 (Christensen et al., 2013; Leuz and Wysocki, 2016). The timing of Uganda's securities law reform coincided with broader regulatory modernization efforts across Sub-Saharan Africa, as countries like Kenya, Tanzania, and Rwanda simultaneously strengthened their capital market regulations following the 2008 global financial crisis. This regional wave of securities law adoption reflects coordinated efforts by East African Community members to harmonize financial regulations and attract international investment (Beck et al., 2003).

The Capital Markets Act's emphasis on enhanced disclosure requirements and investor protection mechanisms creates important spillover effects for multinational corporations and investment firms with operations or interests in Uganda. These regulatory changes influence the information environment and investment decisions of sophisticated institutional investors who operate across multiple jurisdictions, including U.S.-based firms that may have exposure to Ugandan markets through direct investment, supply chain relationships, or emerging market investment strategies (Bushman et al., 2004; Leuz et al., 2003). The strengthened regulatory framework signals improved market quality and reduced information asymmetries, factors that sophisticated investors consider when making global portfolio allocation decisions and assessing the voluntary disclosure practices of firms with international exposure.

#### Theoretical Framework

The Capital Markets Act of Uganda's impact on U.S. voluntary disclosure practices operates through the unsophisticated investors channel, which draws upon information economics theory and the literature on investor heterogeneity in capital markets. This theoretical perspective recognizes that different classes of investors possess varying levels of financial sophistication, analytical capabilities, and access to information processing resources (Hirshleifer, 2001; Hong and Stein, 2007). Unsophisticated investors, typically characterized as individual retail investors with limited financial expertise and resources, rely heavily on simplified information signals and heuristics when making investment decisions, in contrast to institutional investors who possess advanced analytical capabilities and professional research resources.

The core concept underlying the unsophisticated investors channel centers on the notion that these investors exhibit systematic biases in information processing and demonstrate heightened sensitivity to salient, easily interpretable disclosure items (Miller, 2010; Libby et al., 2002). Unsophisticated investors tend to focus on headline financial metrics, narrative



disclosures, and qualitative information that can be readily understood without complex financial analysis. This investor class also demonstrates greater reliance on management guidance, forward-looking statements, and voluntary disclosures that provide accessible explanations of firm performance and prospects (Bloomfield, 2002). When regulatory changes in international markets signal improved information quality or enhanced investor protection, unsophisticated investors may interpret these developments as positive signals about firms with exposure to those markets, creating incentives for voluntary disclosure adjustments.

### Hypothesis Development

The theoretical mechanism linking Uganda's Capital Markets Act to U.S. voluntary disclosure decisions through the unsophisticated investors channel operates through several interconnected pathways. First, the enhanced regulatory framework in Uganda signals improved market quality and reduced information risk to global investors, including unsophisticated U.S. investors who may hold shares in multinational corporations or emerging market funds with Ugandan exposure (Bekaert et al., 2005; Henry, 2000). These regulatory improvements create positive spillover effects that influence investor perceptions of firms with international operations or emerging market exposure. Unsophisticated investors, who rely heavily on simplified heuristics and readily observable signals, may interpret strengthened securities regulations in Uganda as indicative of reduced operational and regulatory risks for U.S. firms with African market exposure (Hirshleifer and Teoh, 2003; Miller, 2010). This improved investor sentiment creates incentives for U.S. managers to increase voluntary disclosure to capitalize on enhanced investor interest and potentially lower cost of capital.

The second mechanism operates through the information complementarity effect, where regulatory improvements in foreign markets increase the value of voluntary disclosure for firms with international exposure. When Uganda's Capital Markets Act enhances the overall information environment and investor protection framework, it reduces information

asymmetries and increases the credibility of financial reporting in that market (Diamond and Verrecchia, 1991; Verrecchia, 2001). Unsophisticated investors, who face significant information processing constraints, benefit disproportionately from regulatory changes that improve information quality and reduce the complexity of investment analysis (Bloomfield, 2002; Libby et al., 2002). U.S. firms with operations, investments, or business relationships in Uganda find that voluntary disclosure becomes more valuable as a mechanism to communicate the benefits of improved regulatory environments to their unsophisticated investor base. These investors may not possess the analytical capabilities to independently assess the implications of foreign regulatory changes, making voluntary disclosure an important channel for management to convey positive developments.

The third pathway involves the competitive disclosure dynamics that emerge when regulatory improvements in emerging markets increase investor attention and scrutiny of firms with international exposure. Prior literature demonstrates that unsophisticated investors exhibit limited attention and tend to focus on salient, easily identifiable information when making investment decisions (Hirshleifer et al., 2004; DellaVigna and Pollet, 2009). The implementation of Uganda's Capital Markets Act likely increased media coverage and investor awareness of East African markets, drawing attention to U.S. firms with emerging market exposure. This heightened attention creates competitive pressure for voluntary disclosure, as firms seek to differentiate themselves and provide accessible information to unsophisticated investors who may otherwise rely on simplified heuristics or incomplete information. The theoretical framework suggests that firms respond to increased investor attention by expanding voluntary disclosure to meet the information needs of unsophisticated investors and maintain their competitive position in capital markets. Based on these theoretical mechanisms, we expect that the strengthened securities regulation in Uganda creates positive incentives for voluntary disclosure among U.S. firms through the unsophisticated investors channel.

H1: The implementation of Uganda's Capital Markets Act in 2011 is positively associated with increased voluntary disclosure by U.S. firms through the unsophisticated investors channel.

## RESEARCH DESIGN

### Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period surrounding the implementation of Uganda's Capital Markets Act in 2011. The Capital Markets Authority (CMA) of Uganda serves as the primary regulatory body responsible for administering this comprehensive securities legislation, which governs public offerings, securities trading, disclosure requirements, and regulation of capital market intermediaries. While the Capital Markets Act of Uganda directly targets specific firms and industries within Uganda's jurisdiction, our analysis examines all U.S. firms in the Compustat universe to capture potential spillover effects through the investor channel. We construct a treatment variable that affects all firms in our sample, reflecting the hypothesis that regulatory changes in one jurisdiction can influence disclosure practices globally through interconnected capital markets and investor networks. This approach allows us to examine whether enhanced disclosure requirements and investor protection measures in Uganda create competitive pressures or learning effects that influence voluntary disclosure decisions by U.S. firms seeking to attract international capital.

### Model Specification

We employ a pre-post research design to examine the relationship between Uganda's Capital Markets Act and voluntary disclosure by U.S. firms through the investor channel. Our empirical model follows established frameworks in the voluntary disclosure literature (Ajinkya et al., 2005; Chuk et al., 2013) and is specified as follows:

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

The model incorporates control variables identified in prior literature as significant determinants of voluntary disclosure frequency. Following Ajinkya et al. (2005) and Chuk et al. (2013), we include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk. These variables capture firm-specific characteristics that influence managers' incentives to provide voluntary guidance to investors. We also include a time trend to control for secular changes in disclosure practices over our sample period.

A primary concern in our research design is the potential for endogeneity between regulatory changes and firm disclosure decisions. We address this concern through our pre-post design, which exploits the exogenous timing of Uganda's Capital Markets Act implementation. The staggered nature of international regulatory reforms provides quasi-experimental variation that helps isolate the causal effect of enhanced disclosure requirements on voluntary disclosure practices. Additionally, our inclusion of firm-level controls helps mitigate concerns about omitted variable bias by accounting for observable firm characteristics that may correlate with both treatment exposure and disclosure frequency.

## Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during our sample period. This variable captures voluntary disclosure behavior and serves as a proxy for managers' willingness to provide forward-looking information to capital markets (Hirst et al., 2008; Chuk et al., 2013). The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Act period from 2011 onwards, and zero otherwise, affecting all firms in our sample.

We include several control variables based on established determinants of voluntary disclosure identified in prior research. Institutional ownership (*linstown*) captures the monitoring role of institutional investors and their demand for timely information (Ajinkya et al., 2005). Firm size (*lsize*) reflects the greater analyst following and investor attention typically associated with larger firms, creating incentives for more frequent voluntary disclosure. Book-to-market ratio (*lbtm*) controls for growth opportunities and information asymmetry, with growth firms typically providing more forward-looking guidance. Return on assets (*lroa*) measures firm performance, as profitable firms may be more willing to share positive information with investors.

Stock return (*lsaret12*) captures recent performance and potential momentum effects on disclosure decisions, while earnings volatility (*levol*) reflects the uncertainty in firms' operating environment. Loss (*lloss*) is an indicator variable for firms reporting negative earnings, as these firms may have different disclosure incentives compared to profitable firms. Class action litigation risk (*lcalrisk*) measures the potential legal costs associated with disclosure, following the framework established in prior litigation risk studies (Kim and Skinner, 2012). These variables collectively capture the investor channel through which regulatory changes may influence disclosure decisions, as they reflect the information environment and investor relations considerations that drive voluntary disclosure choices.

### Sample Construction

We construct our sample using data from multiple sources to capture comprehensive information about firm characteristics and disclosure behavior. Financial statement data are obtained from Compustat, analyst forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. Our event window spans five years, covering two years before and two years after the implementation of Uganda's Capital Markets Act, with the post-regulation period beginning from 2011 onwards. This window provides

sufficient observations to capture both pre-regulation baseline behavior and post-regulation changes in disclosure patterns.

Our sample construction process yields 15,692 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all variables included in our regression specifications, which may introduce some selection bias toward larger, more established firms with comprehensive data coverage. The treatment group consists of all firms in the post-2011 period, while the control group includes the same firms in the pre-2011 period, allowing us to examine within-firm changes in disclosure behavior. We exclude financial firms and utilities due to their unique regulatory environments and disclosure requirements, following standard practice in voluntary disclosure research (Chuk et al., 2013; Kim and Skinner, 2012). Additionally, we winsorize continuous variables at the 1st and 99th percentiles to mitigate the influence of extreme observations on our results.

## DESCRIPTIVE STATISTICS

### Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations from 4,038 unique U.S. firms over the period 2009 to 2013. This five-year window provides a balanced representation of post-financial crisis market conditions and captures sufficient cross-sectional and time-series variation for our empirical analyses.

We examine several key firm characteristics that prior literature identifies as important determinants of institutional ownership and market outcomes. Institutional ownership (*linstown*) exhibits substantial variation, with a mean of 0.559 and standard deviation of 0.329. The distribution shows that institutional investors hold meaningful stakes across our sample, with the median firm having 62.1% institutional ownership. The interquartile range spans from

26.1% to 84.5%, indicating considerable heterogeneity in institutional presence across firms.

Firm size (*lsize*) displays typical characteristics found in broad U.S. samples, with a mean of 6.005 and standard deviation of 2.110. The relatively symmetric distribution around the median (5.990) suggests our sample includes firms across the size spectrum. Book-to-market ratios (*lbtm*) average 0.745 with substantial dispersion (standard deviation of 0.721), consistent with the inclusion of both growth and value firms. The positive mean and median values align with typical market-to-book patterns in U.S. equity markets.

Profitability measures reveal interesting patterns. Return on assets (*lroa*) shows a slightly negative mean (-0.042) but positive median (0.021), indicating the presence of firms with substantial losses that skew the distribution leftward. This pattern is corroborated by the loss indicator (*lloss*), which shows that 33.8% of firm-years report losses. These statistics are consistent with our sample period, which includes the aftermath of the 2008 financial crisis when many firms experienced earnings difficulties.

Stock returns (*lsaret12*) exhibit the expected characteristics of equity returns, with negative mean (-0.012) and median (-0.083) values, along with substantial volatility (standard deviation of 0.491). The earnings volatility measure (*levol*) shows considerable variation across firms, with a highly skewed distribution evidenced by the large difference between the mean (0.136) and median (0.055).

The mutual fund coverage variable (*freqMF*) demonstrates significant variation, with many firms receiving no coverage (median of 0.000) while others receive substantial attention from mutual fund analysts. Our treatment variables confirm the research design structure, with *post\_law* indicating that 57.1% of observations occur in the post-treatment period, providing adequate power for difference-in-differences estimation. The calculated risk measure (*lcalrisk*) shows reasonable dispersion across firms, supporting cross-sectional analyses of risk-related

effects.

## RESULTS

### Regression Analysis

We examine the association between Uganda's Capital Markets Act implementation in 2011 and voluntary disclosure by U.S. firms through three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our main finding reveals a striking reversal in the treatment effect when we control for firm-specific factors and fixed effects. Specification (1), which includes only the treatment variable, shows a positive and highly significant coefficient of 0.0641 ( $t = 7.17$ ,  $p < 0.001$ ), suggesting that U.S. firms increased voluntary disclosure following Uganda's regulatory reform. However, this relationship fundamentally changes when we introduce control variables in Specification (2), where the treatment effect becomes negative and significant at -0.0219 ( $t = -2.00$ ,  $p = 0.046$ ). The treatment effect remains negative and significant in our most rigorous specification (3) with firm fixed effects at -0.0186 ( $t = -2.03$ ,  $p = 0.043$ ). This pattern indicates that the initial positive association is spurious and driven by omitted variable bias, as the inclusion of firm characteristics and fixed effects reveals the true underlying relationship.

The statistical significance of our findings is robust across specifications (2) and (3), with p-values below 0.05, though the economic magnitude appears modest. The negative treatment effect of approximately -0.019 in our preferred specification suggests that U.S. firms reduced voluntary disclosure by roughly 1.9 percentage points following Uganda's Capital Markets Act implementation. While statistically significant, this effect size is economically small relative to the mean level of voluntary disclosure in our sample. The dramatic improvement in model fit from Specification (1) to (3), with R-squared increasing from 0.0013 to 0.9027, demonstrates the critical importance of controlling for firm heterogeneity and



time-invariant characteristics. The firm fixed effects in Specification (3) absorb substantial variation, indicating that unobserved firm-specific factors significantly influence voluntary disclosure decisions. This specification comparison reveals that cross-sectional correlations can be misleading when examining the causal effects of regulatory changes on corporate disclosure behavior.

Our control variables exhibit coefficients that are largely consistent with prior literature on voluntary disclosure determinants. Institutional ownership (*linstown*) shows a positive and significant association with voluntary disclosure across all specifications, supporting the monitoring hypothesis that institutional investors demand greater transparency (Bushee and Noe, 2000; Healy et al., 1999). Firm size (*lsize*) demonstrates a consistently positive relationship, confirming that larger firms face greater disclosure incentives due to higher analyst following and investor attention (Lang and Lundholm, 1993). The negative coefficient on book-to-market ratio (*lbtm*) in Specification (2) aligns with growth firms having stronger incentives to communicate future prospects through voluntary disclosure. Loss firms (*lloss*) consistently show lower voluntary disclosure, which may reflect managers' reluctance to provide additional negative information or reduced investor demand for disclosure from poorly performing firms. The negative association with stock return volatility (*levol*) and analyst forecast dispersion (*lcalrisk*) suggests that firms facing greater uncertainty may strategically limit voluntary disclosure to avoid litigation risk or competitive disadvantage. Contrary to our hypothesis (H1), these results do not support the predicted positive association between Uganda's Capital Markets Act and U.S. firms' voluntary disclosure through the unsophisticated investors channel. Instead, we find evidence of a negative relationship, suggesting that the theoretical mechanisms linking foreign regulatory improvements to domestic voluntary disclosure may not operate as expected, or that other competing forces dominate the disclosure decision in this context.

## CONCLUSION

We examine how Uganda's Capital Markets Act of 2011, a comprehensive securities reform that modernized disclosure requirements and strengthened investor protection, influenced voluntary disclosure practices among U.S. firms through the investors channel. Our research question centers on whether enhanced regulatory frameworks in emerging markets create spillover effects that incentivize greater voluntary disclosure by multinational firms seeking to attract global capital. Using a difference-in-differences design, we analyze the disclosure behavior of U.S. firms with varying degrees of exposure to Ugandan capital markets before and after the Act's implementation. Our findings reveal a complex relationship between foreign regulatory reforms and domestic voluntary disclosure practices that depends critically on model specification and the inclusion of relevant control variables.

Our empirical results demonstrate significant variation in the estimated treatment effects across specifications, highlighting the importance of controlling for firm-specific characteristics when examining voluntary disclosure decisions. In our baseline specification without controls, we find a positive and statistically significant treatment effect of 0.0641 ( $t = 7.17$ ,  $p < 0.001$ ), suggesting that firms with greater exposure to Ugandan markets increased their voluntary disclosure following the Act's passage. However, this result reverses when we incorporate essential control variables. In our second specification, which includes fundamental firm characteristics such as institutional ownership, size, book-to-market ratio, profitability, stock returns, volatility, loss indicators, and calendar risk, the treatment effect becomes negative and significant at -0.0219 ( $t = 2.00$ ,  $p = 0.046$ ). This negative effect persists in our most comprehensive specification with firm fixed effects, where we estimate a treatment effect of -0.0186 ( $t = 2.03$ ,  $p = 0.043$ ). The dramatic improvement in explanatory power from an R-squared of 0.0013 in the baseline model to 0.9027 in the full specification underscores the critical role of firm-specific factors in voluntary disclosure decisions.

The control variables in our models reveal patterns consistent with established voluntary disclosure theory. We find that institutional ownership (*linstown*) positively predicts disclosure across all specifications, with coefficients ranging from 0.0602 to 0.5646, supporting the monitoring hypothesis that institutional investors demand greater transparency (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size (*lsize*) consistently exhibits a positive association with voluntary disclosure, reflecting lower proprietary costs and greater analyst following for larger firms (Lang and Lundholm, 1993). Loss firms (*lloss*) demonstrate significantly lower voluntary disclosure, consistent with managers' incentives to withhold bad news (Kothari et al., 2009). The negative coefficient on calendar risk (*lcalrisk*) suggests that firms facing greater uncertainty reduce voluntary disclosure to avoid potential litigation costs.

Our findings carry important implications for regulators, managers, and investors operating in increasingly interconnected global capital markets. For regulators, our results suggest that domestic securities reforms can have unintended consequences for foreign firms' disclosure practices. The negative treatment effect we document indicates that enhanced regulatory requirements in emerging markets may lead some multinational firms to reduce voluntary disclosure, possibly due to increased compliance costs or strategic considerations about information asymmetries across markets. This finding challenges the conventional wisdom that stronger investor protection universally enhances disclosure quality and suggests that regulators should consider cross-border spillover effects when designing securities legislation (Christensen et al., 2013). For corporate managers, our results highlight the complex strategic considerations involved in voluntary disclosure decisions when operating across multiple regulatory jurisdictions. The negative treatment effect suggests that managers may view enhanced foreign regulatory requirements as substitutes for, rather than complements to, domestic voluntary disclosure, particularly when targeting specific investor clienteles.

For investors, our findings underscore the importance of understanding how regulatory changes in one market can affect information availability in others. The negative relationship between Uganda's Capital Markets Act and U.S. firms' voluntary disclosure suggests that investors cannot assume that stronger investor protection in emerging markets will uniformly improve global information environments. Instead, investors must consider how firms strategically manage their disclosure policies across different regulatory regimes. Our results contribute to the growing literature on the global effects of securities regulation and complement recent work examining how foreign regulatory changes influence domestic market outcomes (Shroff et al., 2013; Brochet et al., 2013).

Several limitations constrain the interpretation of our findings and suggest avenues for future research. First, our identification strategy relies on the assumption that the timing of Uganda's Capital Markets Act was exogenous to U.S. firms' disclosure decisions, which may not hold if firms anticipated the regulatory change or if other contemporaneous events affected both Ugandan markets and U.S. disclosure practices. Second, our measure of exposure to Ugandan markets may not fully capture the complex channels through which regulatory spillovers operate, including indirect effects through institutional investors, analysts, or business partners. Third, we focus exclusively on the quantity rather than the quality of voluntary disclosure, which may provide an incomplete picture of how regulatory changes affect information environments.

Future research should explore several promising directions. First, researchers could examine whether our findings generalize to other emerging market regulatory reforms or whether the specific features of Uganda's Capital Markets Act drive our results. Second, investigating the mechanisms underlying the negative treatment effect we document—such as substitution between mandatory and voluntary disclosure or strategic information management across markets—would enhance our understanding of multinational firms' disclosure

strategies. Finally, extending our analysis to examine disclosure quality, timeliness, and market reactions would provide a more comprehensive assessment of how foreign regulatory changes affect global information environments and capital allocation efficiency.

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**Table 1**

## Descriptive Statistics

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>
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 Act Uganda Unsophisticated Investors**

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	<b>0.04</b>	<b>-0.04</b>	<b>0.12</b>	<b>-0.11</b>	<b>0.10</b>	<b>0.03</b>	<b>-0.04</b>	<b>-0.14</b>	<b>0.07</b>
FreqMF	<b>0.04</b>	1.00	<b>0.41</b>	<b>0.44</b>	<b>-0.17</b>	<b>0.22</b>	-0.01	<b>-0.16</b>	<b>-0.27</b>	-0.01
Institutional ownership	<b>-0.04</b>	<b>0.41</b>	1.00	<b>0.61</b>	<b>-0.20</b>	<b>0.29</b>	<b>-0.06</b>	<b>-0.22</b>	<b>-0.26</b>	<b>0.06</b>
Firm size	<b>0.12</b>	<b>0.44</b>	<b>0.61</b>	1.00	<b>-0.38</b>	<b>0.36</b>	<b>0.04</b>	<b>-0.25</b>	<b>-0.41</b>	<b>0.15</b>
Book-to-market	<b>-0.11</b>	<b>-0.17</b>	<b>-0.20</b>	<b>-0.38</b>	1.00	<b>0.04</b>	<b>-0.20</b>	<b>-0.12</b>	<b>0.13</b>	<b>-0.10</b>
ROA	<b>0.10</b>	<b>0.22</b>	<b>0.29</b>	<b>0.36</b>	<b>0.04</b>	1.00	<b>0.12</b>	<b>-0.52</b>	<b>-0.59</b>	<b>-0.07</b>
Stock return	<b>0.03</b>	-0.01	<b>-0.06</b>	<b>0.04</b>	<b>-0.20</b>	<b>0.12</b>	1.00	0.01	<b>-0.14</b>	0.01
Earnings volatility	<b>-0.04</b>	<b>-0.16</b>	<b>-0.22</b>	<b>-0.25</b>	<b>-0.12</b>	<b>-0.52</b>	0.01	1.00	<b>0.32</b>	<b>0.11</b>
Loss	<b>-0.14</b>	<b>-0.27</b>	<b>-0.26</b>	<b>-0.41</b>	<b>0.13</b>	<b>-0.59</b>	<b>-0.14</b>	<b>0.32</b>	1.00	<b>0.12</b>
Class action litigation risk	<b>0.07</b>	-0.01	<b>0.06</b>	<b>0.15</b>	<b>-0.10</b>	<b>-0.07</b>	0.01	<b>0.11</b>	<b>0.12</b>	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 Act Uganda 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 <sup>2</sup>	0.0013	0.2381	0.9027

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