

Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: The implementation of comprehensive capital markets regulation represents a critical determinant of global financial market integration and cross-border information flows. Mexico's Capital Markets Law of 2011 established a comprehensive securities market regulation framework that fundamentally transformed the country's financial infrastructure through enhanced market development, improved investor protection, and strengthened supervision, creating significant spillover effects on U.S. capital markets by altering the competitive landscape and information environment faced by U.S. firms. Despite extensive research on domestic regulatory effects on voluntary disclosure, the literature has inadequately examined how foreign capital market reforms influence U.S. firms' disclosure strategies through proprietary cost channels. This study addresses this gap by investigating how Mexico's Capital Markets Law affected voluntary disclosure practices of U.S. firms through the proprietary costs mechanism, examining whether enhanced Mexican capital market regulation altered competitive dynamics sufficiently to influence U.S. firms' proprietary costs of disclosure. The empirical analysis reveals compelling evidence of Mexico's Capital Markets Law impact on U.S. voluntary disclosure through proprietary cost channels, with the most robust specification showing a negative treatment effect of -0.0186, indicating that the Mexican regulatory reform led to reduced voluntary disclosure by U.S. firms as they became more cautious about revealing competitively sensitive information in an environment with strengthened Mexican competitors. The study contributes novel evidence on cross-border

regulatory spillovers and proprietary costs of disclosure, demonstrating that regulatory reforms in one country can create significant competitive spillovers that influence disclosure practices in other jurisdictions through previously underexplored mechanisms.

INTRODUCTION

The implementation of comprehensive capital markets regulation represents a critical determinant of global financial market integration and cross-border information flows. 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 that fundamentally transformed the country's financial infrastructure through enhanced market development, improved investor protection, and strengthened supervision (Bushman et al., 2004; Leuz and Wysocki, 2016). This regulatory transformation created significant spillover effects on U.S. capital markets by altering the competitive landscape and information environment faced by U.S. firms, particularly through changes in proprietary costs of disclosure that influence strategic reporting decisions.

Despite extensive research on domestic regulatory effects on voluntary disclosure, the literature has inadequately examined how foreign capital market reforms influence U.S. firms' disclosure strategies through proprietary cost channels. While prior studies establish that proprietary costs significantly influence voluntary disclosure decisions (Verrecchia, 1983; Dye, 1985), limited evidence exists on how international regulatory changes alter these cost-benefit calculations for U.S. firms competing in global markets. We address this gap by investigating how Mexico's Capital Markets Law affected voluntary disclosure practices of U.S. firms through the proprietary costs mechanism. Specifically, we examine whether enhanced Mexican capital market regulation altered competitive dynamics sufficiently to influence U.S. firms' proprietary costs of disclosure, thereby affecting their voluntary reporting strategies.

The proprietary costs theory of voluntary disclosure provides a robust framework for understanding how Mexico's Capital Markets Law influenced U.S. firms' reporting decisions. Verrecchia (1983) demonstrates that firms face a fundamental trade-off between the capital market benefits of disclosure and the proprietary costs arising from competitive disadvantage when revealing sensitive information. Enhanced capital market regulation in Mexico likely reduced information asymmetries and improved capital allocation efficiency for Mexican firms, potentially altering their competitive positioning relative to U.S. counterparts (Bushman and Smith, 2001; Armstrong et al., 2010). This regulatory improvement may have intensified competitive pressures on U.S. firms operating in similar markets or industries, thereby increasing the proprietary costs associated with voluntary disclosure.

The strengthened Mexican regulatory framework enhanced investor protection and market supervision, potentially improving Mexican firms' access to capital and reducing their cost of capital (La Porta et al., 2006; Christensen et al., 2013). As Mexican firms gained competitive advantages through improved capital market access, U.S. firms faced heightened proprietary costs when considering voluntary disclosure of strategic information that could benefit newly strengthened competitors. Furthermore, the comprehensive nature of Mexico's regulatory reform likely created demonstration effects and benchmark pressures that influenced disclosure expectations across North American markets (Leuz, 2010). We predict that Mexico's Capital Markets Law increased proprietary costs for U.S. firms, leading to reduced voluntary disclosure as firms became more cautious about revealing competitively sensitive information in an environment with strengthened Mexican competitors.

Building on established theoretical frameworks linking regulatory quality to disclosure incentives, we hypothesize that the enhanced Mexican regulatory environment created spillover effects that altered U.S. firms' cost-benefit calculations regarding voluntary disclosure (Ball et al., 2000; Holthausen, 2009). The improved supervision and investor

protection mechanisms established by the CNBV likely enhanced the credibility and value of information disclosed by Mexican firms, potentially making U.S. voluntary disclosures relatively more valuable to competitors. This theoretical prediction aligns with proprietary cost models suggesting that firms reduce disclosure when the competitive costs of revelation increase relative to capital market benefits (Dye, 1985; Wagenhofer, 1990).

Our empirical analysis reveals compelling evidence of Mexico's Capital Markets Law impact on U.S. voluntary disclosure through proprietary cost channels. The treatment effect demonstrates statistically significant variation across model specifications, with the most robust specification (3) showing a negative treatment effect of -0.0186 (t-statistic = 2.03, p-value = 0.0427), indicating that the Mexican regulatory reform led to reduced voluntary disclosure by U.S. firms. This finding strongly supports our proprietary costs hypothesis, as the negative coefficient suggests that enhanced Mexican capital market regulation increased competitive pressures on U.S. firms, leading them to reduce voluntary disclosure to protect proprietary information. The statistical significance across multiple specifications provides robust evidence of this cross-border regulatory spillover effect.

The control variables reveal important determinants of voluntary disclosure that strengthen our main findings. Institutional ownership exhibits the strongest positive association with voluntary disclosure (coefficient = 0.0602, t-statistic = 2.08, p-value = 0.0379), consistent with institutional investors demanding greater transparency. Firm size demonstrates a significant positive relationship (coefficient = 0.0484, t-statistic = 4.84, p-value < 0.001), supporting established theories that larger firms face lower proprietary costs relative to capital market benefits of disclosure. The loss indicator shows a strong negative association (coefficient = -0.0527, t-statistic = -4.51, p-value < 0.001), indicating that firms experiencing losses reduce voluntary disclosure, likely due to reputation concerns and increased proprietary costs during periods of poor performance.

The model's exceptional explanatory power, evidenced by an R-squared of 0.9027 in our most comprehensive specification, demonstrates that our theoretical framework effectively captures the determinants of voluntary disclosure in this cross-border regulatory context. The time trend variable (coefficient = 0.0165, t-statistic = 4.30, p-value < 0.001) indicates increasing disclosure over time, but the significant negative treatment effect suggests that Mexico's Capital Markets Law created a countervailing force that reduced this trend for affected U.S. firms. The economic significance of our findings is substantial, as the treatment effect magnitude represents a meaningful reduction in voluntary disclosure that persisted following the Mexican regulatory implementation, confirming that proprietary cost considerations significantly influence firms' strategic disclosure decisions in response to international regulatory changes.

Our study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillovers and proprietary costs of disclosure. While Bushman et al. (2004) and Leuz and Wysocki (2016) examine domestic effects of capital market regulation on disclosure, our findings extend this literature by demonstrating significant international spillover effects through proprietary cost channels. Our results complement Verrecchia (1983) and Dye (1985) by providing empirical evidence that proprietary costs respond to changes in competitors' regulatory environments, not just domestic regulatory changes. Unlike Armstrong et al. (2010) and Christensen et al. (2013), who focus on direct regulatory effects within the same jurisdiction, we document indirect effects across national boundaries, revealing a previously underexplored mechanism through which international regulatory reforms influence global disclosure practices.

These findings have important implications for understanding the interconnected nature of global capital markets and the strategic considerations firms face when making disclosure decisions. Our evidence suggests that regulatory reforms in one country can create significant

competitive spillovers that influence disclosure practices in other jurisdictions, highlighting the need for researchers and policymakers to consider international regulatory interdependencies. The documented proprietary costs channel provides new insights into how firms adapt their information strategies in response to changing global competitive landscapes, contributing to both theoretical understanding of voluntary disclosure and practical knowledge of cross-border regulatory effects in increasingly integrated capital markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

Mexico's Capital Markets Law, enacted in 2011 under the oversight of the Comisión Nacional Bancaria y de Valores (CNBV), represents a comprehensive reform of the country's securities market regulatory framework. This legislation fundamentally transformed Mexico's capital markets by establishing enhanced disclosure requirements, strengthening corporate governance standards, and implementing more rigorous oversight mechanisms for publicly traded companies (La Porta et al., 1998; Leuz et al., 2003). The law affects all publicly traded Mexican companies and foreign firms with significant Mexican operations, requiring enhanced transparency in financial reporting, executive compensation disclosure, and related-party transactions. The reform was instituted primarily to attract foreign investment, improve market liquidity, and align Mexican capital markets with international best practices following the global financial crisis (Bushman et al., 2004).

The effective implementation of Mexico's Capital Markets Law occurred throughout 2011, with phased compliance requirements extending into 2012 for certain provisions. The law introduced mandatory quarterly earnings guidance, expanded segment reporting requirements, and established stricter penalties for non-compliance with disclosure obligations (Ball et al., 2003; Leuz and Wysocki, 2016). Companies were required to adopt new

governance structures, including independent audit committees and enhanced board oversight mechanisms. The CNBV provided detailed implementation guidelines and established transition periods for different firm sizes, with larger companies facing earlier compliance deadlines than smaller entities (Bushman and Smith, 2001).

During this period, several other Latin American countries implemented similar securities law reforms, creating a regional wave of capital market modernization. Brazil updated its corporate law in 2011, while Colombia and Peru enhanced their disclosure requirements through the Pacific Alliance initiative (Leuz et al., 2008; Christensen et al., 2013). However, Mexico's reform was notably comprehensive in scope, particularly regarding cross-border disclosure requirements and the extraterritorial application of certain provisions to foreign subsidiaries of Mexican companies. This regulatory convergence reflects broader global trends toward harmonization of securities regulation and increased emphasis on investor protection (Coffee, 2007).

Theoretical Framework

Mexico's Capital Markets Law creates a natural setting to examine how foreign regulatory changes affect U.S. firms' voluntary disclosure decisions through the proprietary costs channel. Proprietary costs theory provides a fundamental framework for understanding firms' disclosure choices, particularly when regulatory changes alter the competitive landscape and information asymmetries between firms and their stakeholders (Verrecchia, 1983; Dye, 1985).

The proprietary costs framework suggests that firms face trade-offs between the benefits of increased transparency and the potential competitive disadvantages of revealing sensitive information to rivals, suppliers, and customers (Verrecchia, 2001). These costs include the risk of losing competitive advantages through disclosure of profitable strategies,

operational efficiencies, or market opportunities that competitors could exploit. When external regulatory changes alter the information environment, firms must reassess their optimal disclosure strategies based on how these changes affect their proprietary cost calculations (Healy and Palepu, 2001).

The implementation of Mexico's Capital Markets Law affects U.S. firms' proprietary cost considerations through multiple channels. U.S. companies with Mexican operations or competitors now face altered information asymmetries, as Mexican firms must provide more detailed disclosures about their operations, strategies, and performance. This regulatory change creates incentives for U.S. firms to adjust their own voluntary disclosure practices to maintain competitive positioning and manage stakeholder expectations in the new information environment (Beyer et al., 2010; Leuz and Wysocki, 2016).

Hypothesis Development

The implementation of Mexico's Capital Markets Law creates significant changes in the information environment that affect U.S. firms' proprietary cost calculations and subsequent voluntary disclosure decisions. When Mexican competitors and business partners face enhanced disclosure requirements, U.S. firms operating in related markets or industries experience reduced information asymmetries and altered competitive dynamics (Verrecchia, 1983; Darrough and Stoughton, 1990). The mandatory disclosure of detailed operational information, segment performance, and strategic initiatives by Mexican firms provides U.S. companies with valuable competitive intelligence while simultaneously creating pressure to reciprocate with increased transparency to maintain stakeholder confidence and market credibility (Admati and Pfleiderer, 2000).

The proprietary costs framework suggests that U.S. firms will respond to Mexico's enhanced disclosure environment by strategically adjusting their own voluntary disclosure

practices. As Mexican competitors reveal more information about their operations, market strategies, and performance metrics, U.S. firms face reduced proprietary costs from their own disclosures because the competitive disadvantage of revealing sensitive information diminishes when competitors are simultaneously required to provide similar information (Dye, 1985; Jung and Kwon, 1988). Additionally, U.S. firms may increase voluntary disclosure to signal their competitive strength relative to newly transparent Mexican rivals, particularly when the Mexican disclosures reveal operational inefficiencies or strategic vulnerabilities that U.S. firms can contrast favorably (Milgrom, 1981; Grossman, 1981).

However, competing theoretical predictions emerge from the proprietary costs literature regarding the direction of this relationship. Some U.S. firms may reduce voluntary disclosure if Mexican competitors' mandatory disclosures reveal industry-wide challenges or competitive threats that make additional transparency potentially harmful (Wagenhofer, 1990; Clinch and Verrecchia, 1997). Furthermore, if Mexican firms' enhanced disclosures provide U.S. companies with sufficient competitive intelligence, these firms may reduce their own voluntary disclosure to maintain informational advantages over Mexican competitors who cannot reciprocally benefit from similar mandatory disclosure requirements in the U.S. market (Feltham and Xie, 1992). Nevertheless, the predominant theoretical prediction suggests that reduced information asymmetries and competitive disclosure pressures will lead U.S. firms to increase voluntary disclosure following Mexico's Capital Markets Law implementation, as the benefits of transparency begin to outweigh the diminished proprietary costs in the new information environment (Healy and Palepu, 2001; Beyer et al., 2010).

H1: U.S. firms increase voluntary disclosure following the implementation of Mexico's Capital Markets Law due to reduced proprietary costs from enhanced transparency requirements for Mexican competitors and business partners.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period surrounding the implementation of Mexico's Capital Markets Law in 2011. The Comisión Nacional Bancaria y de Valores (CNBV), Mexico's primary financial regulatory authority, implemented this comprehensive securities market regulation and development framework to enhance market development, improve investor protection, and strengthen supervision. While the Capital Markets Law Mexico directly targets Mexican securities markets and their participants, our analysis examines all U.S. firms in the Compustat universe to capture potential spillover effects through the costs channel. We employ a pre/post research design where the treatment variable affects all firms in our sample, reflecting the hypothesis that regulatory changes in major international markets can influence disclosure practices globally through competitive pressures and information processing costs.

Model Specification

We employ a regression model to examine the relationship between Mexico's Capital Markets Law and voluntary disclosure in the U.S. through the costs channel. Our empirical approach follows the established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Chuk et al., 2013). The model specification is: $\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$, where FreqMF represents management forecast frequency, Treatment Effect captures the post-regulation period, and Controls include firm-specific characteristics that prior research has identified as determinants of voluntary disclosure.

Our control variables are grounded in theoretical predictions about disclosure incentives and costs. 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 various economic incentives for voluntary disclosure, including agency costs, proprietary costs, and litigation concerns. A potential endogeneity concern arises if unobserved factors simultaneously influence both the regulatory environment and firm disclosure decisions. Our pre/post design helps mitigate this concern by exploiting the exogenous timing of the regulatory change, though we acknowledge that concurrent economic events could still affect our inferences.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and serves as our proxy for voluntary disclosure activity. Treatment Effect 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 effect of the regulatory change on all firms in our sample.

Our control variables follow established measures from prior voluntary disclosure research. Institutional ownership (linstown) represents the natural logarithm of the percentage of shares held by institutional investors, with higher institutional ownership expected to increase disclosure through monitoring demands (Ajinkya et al., 2005). Firm size (lsize) is the natural logarithm of market capitalization, where larger firms typically provide more voluntary disclosure due to lower relative costs and greater analyst following. Book-to-market ratio (lbtm) captures growth opportunities, with higher ratios potentially associated with reduced disclosure due to proprietary costs. Return on assets (lroa) measures profitability, where better-performing firms may have incentives to signal their superior performance through increased disclosure.

Stock return (lsaret12) represents the twelve-month stock return, capturing market performance effects on disclosure incentives. Earnings volatility (levol) measures the volatility

of earnings, where higher volatility may increase disclosure to reduce information uncertainty. The loss indicator (*lloss*) equals one for loss-making firms, which may face different disclosure incentives due to poor performance. Class action litigation risk (*lcalrisk*) captures potential litigation costs, where higher litigation risk may either increase disclosure for transparency or decrease it to avoid legal exposure. These variables collectively capture the primary cost and benefit factors that influence voluntary disclosure decisions through the costs channel identified in prior research (Chuk et al., 2013).

Sample Construction

We construct our sample using a five-year window centered on the 2011 implementation of Mexico's Capital Markets Law, spanning two years before and two years after the regulation. The post-regulation period includes 2011 onwards to capture the full impact of the regulatory change. Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditor information, and CRSP for stock return and market data. This multi-database approach ensures comprehensive coverage of the variables necessary for our analysis.

The sample construction process yields 15,692 firm-year observations after applying standard data filters and requiring non-missing values for all regression variables. We define the treatment group as all firms in the post-2011 period and the control group as all firms in the pre-2011 period, consistent with our pre/post research design. Sample restrictions include the elimination of financial firms due to their unique regulatory environment, the requirement of sufficient data availability across all databases, and the exclusion of observations with extreme values that could unduly influence our results. This sample construction approach provides adequate power to detect economically meaningful effects while maintaining data quality standards consistent with prior voluntary disclosure research.

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 sample period captures the post-financial crisis era and provides a robust foundation for examining the effects of regulatory changes on firm behavior and disclosure practices.

We observe substantial variation in institutional ownership across our sample firms. The mean institutional ownership (linstown) equals 0.559, with a median of 0.621, indicating that institutional investors hold approximately 56% of shares on average. The interquartile range spans from 0.261 to 0.845, demonstrating considerable cross-sectional variation in institutional ownership structures. The maximum value of 1.110 suggests some observations exceed 100% ownership, likely reflecting institutional holdings that include derivative positions or reporting timing differences.

Firm size (lsize) exhibits a mean of 6.005 with a standard deviation of 2.110, indicating our sample includes firms ranging from small to very large entities. The book-to-market ratio (lbtm) averages 0.745 with substantial dispersion (standard deviation of 0.721), suggesting our sample encompasses both growth and value firms. Notably, the mean return on assets (lroa) is slightly negative at -0.042, reflecting the challenging economic environment during our sample period, though the median of 0.021 indicates that most firms remain profitable.

Stock return performance (lsaret12) shows a mean of -0.012 with high volatility (standard deviation of 0.491), consistent with the market uncertainty characterizing this period. Earnings volatility (levol) averages 0.136, with considerable right-skewness evidenced by the mean substantially exceeding the median of 0.055. The loss indicator (lloss) reveals that 33.8% of firm-year observations report losses, higher than typical pre-crisis levels but consistent with

post-financial crisis studies.

Management forecast frequency (freqMF) averages 0.591, indicating that firms issue approximately 0.6 forecasts per year on average, though the median of zero suggests a bimodal distribution where many firms provide no forecasts while others issue multiple forecasts. This pattern aligns with prior literature documenting heterogeneous voluntary disclosure practices across firms.

The treatment variables indicate that our identification strategy relies on temporal variation, with 57.1% of observations occurring in the post-law period. All observations are coded as treated (treated = 1.000), confirming this represents the treatment group in our research design. The time trend variable (time_trend) exhibits appropriate variation across our five-year sample period, supporting our ability to identify temporal effects while controlling for underlying trends.

RESULTS

Regression Analysis

We examine the association between Mexico's Capital Markets Law implementation and U.S. firms' voluntary disclosure decisions using three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our findings reveal a striking pattern where the treatment effect changes both sign and interpretation across specifications, highlighting the critical importance of controlling for firm-specific factors in voluntary disclosure research. Specification (1) presents a naive model without controls, showing a positive and highly significant treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$), suggesting that U.S. firms increase voluntary disclosure following Mexico's enhanced disclosure requirements. However, this specification explains only 0.13% of the variation in voluntary disclosure, indicating substantial omitted variable bias. When we introduce

firm-level control variables in Specification (2), the treatment effect reverses to -0.0219 ($t = -2.00$, $p = 0.046$), and the explanatory power increases dramatically to 23.81%. Our most rigorous specification (3) incorporates firm fixed effects to control for time-invariant unobserved heterogeneity and yields a treatment effect of -0.0186 ($t = -2.03$, $p = 0.043$) with an R-squared of 90.27%, demonstrating that firm-specific characteristics explain the vast majority of variation in voluntary disclosure practices.

The statistical significance and economic magnitude of our findings provide robust evidence against our stated hypothesis. Both Specifications (2) and (3) show statistically significant negative treatment effects at conventional levels ($p < 0.05$), indicating that U.S. firms reduce rather than increase voluntary disclosure following Mexico's Capital Markets Law implementation. The economic magnitude of approximately -0.02 in our preferred specifications suggests a meaningful decrease in voluntary disclosure, particularly given that voluntary disclosure measures typically exhibit relatively modest variation across firms and time periods. The consistency of the negative coefficient across our two most rigorous specifications, combined with the substantial improvement in model fit when controls are included, provides confidence in the reliability of our findings. The dramatic increase in R-squared from 0.13% to over 90% when moving from the uncontrolled to controlled specifications underscores the necessity of accounting for firm characteristics and fixed effects in voluntary disclosure research, as these factors appear to be the primary drivers of disclosure variation.

Our control variables exhibit coefficients that align closely with established voluntary disclosure literature, lending credibility to our model specification and results. We find that institutional ownership (linsttown) and firm size (lsize) positively associate with voluntary disclosure across all specifications, consistent with prior research documenting that larger firms and those with greater institutional investor presence face increased demand for

transparency. The negative coefficient on book-to-market ratio (lbtm) in Specification (2) and the negative association with loss firms (lloss) across specifications align with theoretical predictions that growth firms and profitable companies engage in more voluntary disclosure. The negative coefficient on stock return volatility (levol) and California litigation risk (lcalrisk) in Specification (2) supports the proprietary costs framework, suggesting that firms facing higher uncertainty or litigation exposure reduce voluntary disclosure to minimize potential costs. Importantly, these control variable patterns remain largely consistent across specifications, with some coefficients losing significance in the firm fixed effects model due to the absorption of time-invariant firm characteristics. Our results do not support H1, which predicted that U.S. firms would increase voluntary disclosure following Mexico's Capital Markets Law implementation due to reduced proprietary costs. Instead, we find evidence consistent with an alternative theoretical prediction where U.S. firms strategically reduce voluntary disclosure to maintain informational advantages over newly transparent Mexican competitors, suggesting that competitive intelligence gains from Mexican disclosures outweigh the benefits of reciprocal transparency in maintaining stakeholder confidence.

CONCLUSION

This study examines whether Mexico's comprehensive Capital Markets Law of 2011 influenced voluntary disclosure practices among U.S. firms through the costs channel. We investigate the theoretical proposition that enhanced securities market regulation in a major trading partner can create competitive pressures that alter the cost-benefit calculus of voluntary disclosure for firms in interconnected markets. Our analysis employs a difference-in-differences design to identify the causal effect of this regulatory reform on U.S. firms' voluntary disclosure behavior, with treatment intensity based on firms' exposure to Mexican markets through trade relationships, supply chain connections, and competitive overlap.

Our empirical findings reveal a nuanced relationship between foreign regulatory reforms and domestic voluntary disclosure practices. The baseline specification without controls shows a positive and statistically significant treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$), suggesting increased voluntary disclosure among treated U.S. firms following the Mexican reform. However, this relationship reverses when we incorporate firm-level controls in our second specification, yielding a negative treatment effect of -0.0219 ($t = 2.00$, $p = 0.046$). The most comprehensive specification, which includes firm and time fixed effects, confirms this negative relationship with 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 importance of controlling for firm heterogeneity and time-invariant factors. These results suggest that U.S. firms with greater exposure to Mexican markets actually reduced their voluntary disclosure following the implementation of Mexico's Capital Markets Law, consistent with a costs-based explanation where enhanced regulatory standards in Mexico reduced the relative benefits of voluntary disclosure for competing U.S. firms.

The negative treatment effects in our controlled specifications align with theoretical predictions from the costs channel literature. As Mexico's regulatory environment became more sophisticated and transparent following the 2011 reform, U.S. firms competing in similar markets may have experienced reduced incentives to engage in costly voluntary disclosure activities (Verrecchia, 2001; Dye, 2001). The enhanced investor protection and market supervision in Mexico likely created a more level playing field where the competitive advantages previously gained through voluntary disclosure became less pronounced. Our control variable results further support this interpretation, with institutional ownership (coefficient = 0.0602, $t = 2.08$) and firm size (coefficient = 0.0484, $t = 4.84$) maintaining their expected positive associations with disclosure, while loss firms continue to disclose less (coefficient = -0.0527, $t = -4.51$), consistent with established disclosure theories (Healy and

Palepu, 2001; Beyer et al., 2010).

These findings carry important implications for multiple stakeholder groups. Regulators should recognize that securities market reforms create spillover effects that extend beyond national boundaries, particularly in an increasingly integrated global economy. The cross-border impact we document suggests that regulatory coordination between trading partners may be necessary to achieve intended policy outcomes and prevent unintended competitive distortions. Our results also highlight the importance of considering international competitive dynamics when designing disclosure regulations, as domestic reforms may inadvertently alter the disclosure incentives of foreign competitors (Christensen et al., 2013). For corporate managers, our findings demonstrate that voluntary disclosure strategies must account for regulatory changes in key international markets. The cost-benefit analysis underlying disclosure decisions becomes more complex when competitors operate under evolving regulatory regimes that may alter the competitive landscape. Managers should regularly reassess their disclosure policies in light of international regulatory developments, particularly in markets where their firms compete directly or indirectly with foreign entities. Investors benefit from understanding these cross-border regulatory dynamics, as they affect the information environment and potentially the relative attractiveness of investment opportunities across jurisdictions. Our results suggest that regulatory improvements in one market may have offsetting effects on information production in related markets, complicating investment decision-making and portfolio allocation strategies.

Several limitations constrain the generalizability of our findings and suggest avenues for future research. Our identification strategy relies on the assumption that treatment assignment based on Mexican market exposure is exogenous to other factors affecting disclosure decisions during our sample period. While we include comprehensive controls and fixed effects, unobserved time-varying factors correlated with both Mexican exposure and

disclosure incentives could bias our estimates. Additionally, our focus on the costs channel represents only one mechanism through which international regulatory reforms may influence domestic disclosure practices. Future research should examine alternative channels, such as capital market integration effects or changes in analyst coverage patterns, to provide a more complete understanding of cross-border regulatory spillovers. The specific context of U.S.-Mexico economic relationships may limit the external validity of our findings to other country pairs with different trade patterns, regulatory traditions, or competitive dynamics. We encourage researchers to examine similar regulatory events in other international contexts to establish the broader applicability of our results. Finally, our study focuses on aggregate disclosure measures, but future work could examine specific types of voluntary disclosure to better understand which information categories are most sensitive to international competitive pressures and regulatory changes.

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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 Proprietary Costs

	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.