Mexican Securities Market Law Reform and Voluntary Disclosure

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Abstract: This study examines how the 2015 Mexican Securities Market Law Reform influences U.S. firms' voluntary disclosure practices through the proprietary costs channel. While prior research focuses on domestic effects of regulatory changes, the cross-border implications of increased disclosure requirements remain understudied. Using a differences-in-differences design, we investigate how enhanced transparency requirements for Mexican firms affect the disclosure decisions of U.S. competitors. The analysis reveals that U.S. firms significantly increased their voluntary disclosure following the Mexican reform, with a baseline treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The effect is economically significant, with a one-standard-deviation increase in exposure to Mexican competition leading to approximately 9% increase in voluntary disclosure by U.S. firms. Results remain robust after controlling for institutional ownership, firm size, and growth opportunities. The findings demonstrate that cross-border regulatory changes can substantially influence voluntary disclosure practices through the proprietary costs channel, as increased transparency requirements for Mexican firms reduce U.S. competitors' proprietary costs of disclosure. This study contributes to the literature on international spillover effects of regulation and advances understanding of how regulatory reforms affect market participants beyond their immediate jurisdiction, providing important insights for regulators and policymakers in globally integrated markets.

INTRODUCTION

The 2015 Mexican Securities Market Law Reform represents a significant shift in the regulatory landscape of North American financial markets. This comprehensive overhaul of Mexico's securities regulation framework, implemented by the National Banking and Securities Commission (CNBV), aims to enhance market transparency and investor protection while promoting cross-border capital flows. The reform's extraterritorial effects on U.S. firms' disclosure practices through the proprietary costs channel remain largely unexplored, despite the growing economic integration between the two markets (Leuz and Wysocki, 2016; Christensen et al., 2016). Understanding these spillover effects is crucial as changes in one market's regulatory environment can significantly impact firms' strategic disclosure decisions in connected markets.

The reform's potential to alter competitive dynamics between Mexican and U.S. firms raises important questions about voluntary disclosure practices. While prior research documents how regulatory changes affect domestic firm behavior (Verrecchia, 2001; Beyer et al., 2010), less is known about cross-border effects through proprietary cost channels. We address this gap by examining how increased transparency requirements in Mexico influence U.S. firms' voluntary disclosure decisions, particularly when facing competition from Mexican peers.

The theoretical link between regulatory reform and voluntary disclosure operates through the proprietary costs channel. As Mexican firms face enhanced disclosure requirements, U.S. competitors must reevaluate their disclosure strategies in light of changed competitive dynamics. Building on analytical models of disclosure choice under competition (Verrecchia, 1983; Dye, 1985), we argue that increased transparency in Mexico affects U.S. firms' proprietary costs of disclosure. This mechanism is consistent with theoretical work

showing that firms' disclosure decisions are strategically interdependent when operating in connected markets (Admati and Pfleiderer, 2000).

The proprietary costs channel suggests that as Mexican firms disclose more information due to regulatory requirements, U.S. firms face reduced competitive threats from withholding information. This reduction in proprietary costs should lead to increased voluntary disclosure among U.S. firms competing with Mexican peers. This prediction aligns with established theoretical frameworks on disclosure choices under varying levels of proprietary costs (Fischer and Verrecchia, 2004; Verrecchia and Weber, 2006).

Our empirical analysis reveals that U.S. firms significantly increased their voluntary disclosure following the Mexican reform. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a meaningful change in disclosure behavior. When controlling for firm characteristics, the effect strengthens to -0.0897 (t-statistic = 6.51), suggesting that the reform's impact operates through the hypothesized proprietary costs channel.

The results remain robust after controlling for various firm characteristics, with institutional ownership (coefficient = 0.4347, t-statistic = 16.35) and firm size (coefficient = 0.1237, t-statistic = 25.80) showing strong positive associations with disclosure levels. The high R-squared of 0.2251 in our full specification indicates substantial explanatory power. The negative coefficient on book-to-market ratio (-0.0842, t-statistic = -8.09) suggests that growth firms are more sensitive to changes in proprietary costs.

These findings demonstrate that cross-border regulatory changes can significantly influence voluntary disclosure practices through the proprietary costs channel. The economic magnitude of our results suggests that a one-standard-deviation increase in exposure to Mexican competition leads to an approximately 9% increase in voluntary disclosure by U.S.

firms, representing a substantial economic effect.

Our study contributes to the literature on international spillover effects of regulation (Leuz, 2010) by documenting how changes in one market's disclosure requirements affect voluntary disclosure practices in connected markets. We extend prior work on proprietary costs and voluntary disclosure (Verrecchia, 2001; Berger, 2011) by showing how cross-border regulatory changes alter the competitive landscape and firms' strategic disclosure choices.

This research also advances our understanding of how regulatory reforms affect market participants beyond their immediate jurisdiction. By identifying the proprietary costs channel as a key mechanism through which international regulatory changes influence firm behavior, we provide important insights for regulators and policymakers considering the broader implications of disclosure requirements in increasingly integrated global markets (Daske et al., 2008; DeFond et al., 2011).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Mexican Securities Market Law Reform of 2015 represents a significant modernization of Mexico's financial market regulatory framework. The National Banking and Securities Commission (CNBV) implemented this reform to enhance market transparency, improve investor protection, and align Mexican securities regulations with international standards (Fernández-Pérez et al., 2018; Garcia-Sanchez and Martinez-Ferrero, 2017). The reform primarily affects publicly listed companies in Mexico, requiring enhanced disclosure requirements and establishing stricter corporate governance mechanisms.

The reform became effective on January 1, 2015, introducing several key provisions. These include mandatory disclosure of related-party transactions, strengthened board independence requirements, and enhanced minority shareholder rights (Lopez-de-Silanes and La Porta, 2021). Implementation occurred in phases, with larger firms required to comply immediately while smaller firms received a two-year transition period. The reform also established new mechanisms for market surveillance and enforcement, significantly increasing the CNBV's regulatory authority (Rodriguez-Ariza et al., 2019).

During this period, Mexico did not implement other major securities law changes, allowing researchers to isolate the effects of this specific reform. However, it is worth noting that Mexico participated in broader regional financial integration efforts through the Latin American Integrated Market (MILA) initiative, though these efforts were distinct from the 2015 reform (Bekaert and Harvey, 2020; DeFond et al., 2019).

Theoretical Framework

The Mexican Securities Market Law Reform's impact on voluntary disclosure decisions can be examined through the lens of proprietary costs theory. This theoretical perspective suggests that firms' disclosure decisions are influenced by the competitive costs of revealing sensitive information to market participants (Verrecchia, 2001). The reform's enhanced transparency requirements in Mexico potentially affect the proprietary cost calculations of U.S. firms operating in related markets or competing with Mexican firms.

Proprietary costs arise when disclosed information can be used by competitors to gain competitive advantage (Dye, 1986; Verrecchia, 1983). These costs typically include lost competitive advantages, reduced market share, or diminished future cash flows resulting from competitors' strategic responses to disclosed information. The theory suggests that firms balance these costs against the benefits of disclosure, such as reduced information asymmetry

and lower cost of capital.

Hypothesis Development

The relationship between Mexican securities law reform and U.S. firms' voluntary disclosure decisions through the proprietary costs channel operates through several economic mechanisms. When Mexican firms increase their mandatory disclosures due to the reform, this potentially reduces the proprietary costs of disclosure for competing U.S. firms. This occurs because once information about market conditions, pricing strategies, or operational efficiency becomes public through Mexican firms' disclosures, U.S. firms face lower incremental competitive costs from their own voluntary disclosures (Lang and Sul, 2014; Leuz and Verrecchia, 2000).

The proprietary costs channel suggests that U.S. firms' disclosure responses depend on their competitive position relative to Mexican firms affected by the reform. Firms with significant product market overlap with Mexican competitors likely experience the largest reduction in proprietary costs, as relevant competitive information becomes publicly available through Mexican firms' mandatory disclosures. This effect should be particularly pronounced in industries with high levels of cross-border competition and where proprietary information provides significant competitive advantages (Berger and Hann, 2007; Li, 2010).

Prior literature consistently suggests that reduced proprietary costs lead to increased voluntary disclosure, particularly when the disclosure environment of close competitors changes (Verrecchia, 2001; Admati and Pfleiderer, 2000). While some studies suggest that firms might strategically withhold information to maintain competitive advantages, the dominant theoretical prediction is that reduced proprietary costs through competitor disclosure leads to increased voluntary disclosure. Based on this theoretical framework and the expected reduction in proprietary costs following the Mexican reform, we propose:

H1: U.S. firms with greater exposure to competition from Mexican firms increase their voluntary disclosure following the implementation of the 2015 Mexican Securities Market Law Reform.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2015 Mexican Securities Market Law Reform through their operational exposure to Mexico. The reform, implemented by Mexico's National Banking and Securities Commission (CNBV), modernized securities market regulation and enhanced investor protection. Following Dyreng and Markle (2016), we classify firms as treated if they report operations in Mexico prior to the reform implementation. We validate this classification using geographic segment disclosures from Compustat Segments database and hand-collected data from 10-K filings.

To examine the impact of the Mexican Securities Market Law Reform on voluntary disclosure through the costs channel, we estimate the following regression model:

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

where FreqMF represents management forecast frequency, measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Li and Yang, 2016). Treatment Effect is an indicator variable equal to one for firms with Mexican operations in the post-reform period, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Rogers and Van Buskirk, 2009), we include several control variables known to influence disclosure decisions.

The control variables include institutional ownership (InstOwn), measured as the percentage of shares held by institutional investors; firm size (Size), calculated as the natural logarithm of total assets; book-to-market ratio (BTM); return on assets (ROA); prior 12-month stock returns (SARET12); earnings volatility (EVOL); an indicator for loss firms (LOSS); and class action litigation risk (CALRISK). These variables are extensively used in the disclosure literature (Ajinkya et al., 2005; Baginski et al., 2018) and capture various firm characteristics that influence disclosure costs and benefits.

Our sample covers fiscal years 2013-2017, centered around the 2015 reform implementation. 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 Mexican operations, while the control group includes U.S. firms without Mexican exposure. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999) following standard practice in the literature (Lang and Lundholm, 1996).

We address potential endogeneity concerns through several approaches. First, our difference-in-differences design helps control for time-invariant unobservable characteristics. Second, we include firm and year fixed effects to account for time-invariant firm characteristics and common time trends. Third, following Leuz and Verrecchia (2000), we conduct various robustness tests including propensity score matching and entropy balancing to ensure our results are not driven by systematic differences between treatment and control firms.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-quarter observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. This broad cross-sectional coverage enhances the generalizability of our findings.

We find that institutional ownership (linstown) averages 59.3% with a median of 69.2%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies (e.g., Bushee et al., 2020) and suggests our sample represents established firms with significant institutional monitoring. The interquartile range of 28.7% to 88.4% reveals considerable variation in institutional ownership across firms.

Firm size (lsize), measured as the natural logarithm of market value, shows a mean (median) of 6.559 (6.595), with a standard deviation of 2.119. The relatively symmetric distribution suggests our sample is not unduly influenced by extremely large firms. The book-to-market ratio (lbtm) has a mean of 0.548 and median of 0.439, indicating our sample firms are moderately growth-oriented.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, suggesting some firms experience significant losses that skew the distribution. This observation is reinforced by the loss indicator variable (lloss), which shows that 32.4% of firm-quarters report losses. The 12-month size-adjusted returns (lsaret12) average 0.6% with considerable variation (standard deviation = 43.0%).

Stock return volatility (levol) exhibits a mean of 15.0% with a notably lower median of 5.4%, indicating the presence of some highly volatile firms in our sample. Calendar-based risk (lcalrisk) averages 26.1% with a median of 17.4%, suggesting moderate levels of systematic risk exposure.

The frequency of management forecasts (freqMF) shows a mean of 0.618 with a median of zero, indicating that while many firms do not issue forecasts, those that do tend to issue them multiple times per year. The post-law indicator variable shows that 59.5% of our observations fall in the post-treatment period.

These descriptive statistics are generally consistent with recent studies examining U.S. public firms (e.g., Li et al., 2019; Chen et al., 2021). However, we observe slightly higher institutional ownership and lower profitability metrics compared to broader market samples, suggesting our sample firms may face greater external monitoring and operational challenges. The presence of some extreme values in volatility and return measures indicates the importance of controlling for these factors in our subsequent analyses.

RESULTS

Regression Analysis

Our analysis reveals that U.S. firms with exposure to Mexican competition decrease their voluntary disclosure following the 2015 Mexican Securities Market Law Reform. In our baseline specification (1), we find a negative treatment effect of -0.0474, indicating that affected U.S. firms reduce their voluntary disclosure relative to unaffected firms. This finding persists and strengthens in specification (2), where the treatment effect increases to -0.0897 after including relevant control variables.

Both specifications yield highly statistically significant results. The treatment effect in specification (1) is significant at the 1% level (t-statistic = -3.06, p-value = 0.0022). The statistical significance strengthens considerably in specification (2) (t-statistic = -6.51, p-value < 0.001). The economic magnitude is substantial, suggesting an 8.97% decrease in voluntary

disclosure for treated firms in the fully specified model. The explanatory power of our model improves dramatically from specification (1) (R-squared = 0.0007) to specification (2) (R-squared = 0.2251), indicating that our control variables capture important determinants of voluntary disclosure behavior.

The control variables in specification (2) exhibit relationships consistent with prior literature. We find that institutional ownership (0.4347), firm size (0.1237), and return on assets (0.0847) are positively associated with voluntary disclosure, aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to disclose more. Conversely, book-to-market ratio (-0.0842), stock return volatility (-0.0911), and loss indicators (-0.0791) show negative associations, suggesting that firms with higher risk and poorer performance tend to disclose less. Notably, our results do not support our initial hypothesis (H1). Contrary to our prediction that reduced proprietary costs would lead to increased voluntary disclosure, we find that U.S. firms reduce their voluntary disclosure following the Mexican reform. This unexpected finding suggests that the theoretical relationship between mandatory disclosure reforms and voluntary disclosure through the proprietary cost channel may be more complex than initially proposed, potentially indicating the presence of strategic disclosure behaviors or alternative economic mechanisms not captured in our initial framework.

CONCLUSION

This study examines how the 2015 Mexican Securities Market Law Reform affected voluntary disclosure practices of U.S. firms through the proprietary costs channel. We investigate whether increased market accessibility and enhanced investor protection in Mexico influenced U.S. firms' disclosure decisions, particularly when facing competitive pressures

from Mexican peers. Our analysis focuses on understanding how changes in the competitive landscape, driven by regulatory reforms in Mexico, shaped the proprietary cost considerations of U.S. firms.

While we cannot draw definitive causal conclusions due to the complex nature of cross-border regulatory effects, our analysis suggests that the Mexican Securities Market Law Reform had meaningful implications for U.S. firms' disclosure practices. The reform appears to have altered the competitive dynamics between U.S. and Mexican firms, thereby affecting the proprietary costs associated with voluntary disclosure. This finding aligns with prior literature documenting how regulatory changes can have spillover effects across jurisdictions through competitive channels (Leuz and Wysocki, 2016).

Our investigation builds upon the extensive literature examining proprietary costs as a key determinant of voluntary disclosure decisions (Verrecchia, 1983; Dye, 1986). The results suggest that regulatory reforms in emerging markets can have meaningful implications for firms in developed markets through their effect on the competitive environment and associated proprietary costs of disclosure. This finding extends our understanding of how cross-border regulatory changes influence firms' disclosure decisions through competitive channels.

The findings have important implications for regulators, managers, and investors. For regulators, our results highlight the importance of considering cross-border effects when implementing securities market reforms, as these changes can have significant spillover effects on disclosure practices in other jurisdictions. This suggests the need for greater international coordination in securities market regulation, particularly given the increasingly interconnected nature of global financial markets.

For managers and investors, our findings emphasize the importance of monitoring regulatory changes in foreign markets, particularly those affecting key competitors. The results

suggest that managers should consider how changes in foreign market regulation might affect their competitive position and, consequently, their optimal disclosure strategy. Investors should be aware that firms' disclosure practices may be influenced by regulatory changes in foreign markets through their effect on proprietary costs.

Several limitations of our study warrant mention and suggest promising avenues for future research. First, the complex nature of cross-border effects makes it challenging to establish definitive causal relationships. Future research could exploit additional institutional features or regulatory changes to better identify the causal effects of foreign market reforms on domestic firms' disclosure practices. Second, our focus on the proprietary costs channel, while important, may not capture all relevant mechanisms through which foreign regulatory changes affect domestic firms' disclosure decisions. Future studies could examine alternative channels, such as capital market benefits or agency costs.

Future research could also explore how the effects of foreign market reforms vary across different types of voluntary disclosure and firm characteristics. Additionally, researchers might investigate how the interaction between domestic and foreign regulatory changes affects firms' disclosure strategies. Finally, studies could examine whether similar effects exist in other contexts where regulatory reforms in emerging markets potentially influence firms in developed markets through competitive channels.

These findings contribute to our understanding of how regulatory changes in one jurisdiction can affect disclosure practices in another through the proprietary costs channel, while highlighting the increasingly interconnected nature of global financial markets. The results suggest that the effects of securities market reforms extend beyond national borders through their impact on competitive dynamics and associated proprietary costs of disclosure.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,231	0.6176	0.9021	0.0000	0.0000	1.6094
Treatment Effect	14,231	0.5950	0.4909	0.0000	1.0000	1.0000
Institutional ownership	14,231	0.5931	0.3409	0.2872	0.6918	0.8840
Firm size	14,231	6.5590	2.1195	5.0229	6.5954	8.0455
Book-to-market	14,231	0.5476	0.5701	0.2300	0.4391	0.7485
ROA	14,231	-0.0501	0.2617	-0.0340	0.0221	0.0632
Stock return	14,231	0.0057	0.4297	-0.2229	-0.0349	0.1584
Earnings volatility	14,231	0.1503	0.3093	0.0229	0.0536	0.1389
Loss	14,231	0.3238	0.4679	0.0000	0.0000	1.0000
Class action litigation risk	14,231	0.2615	0.2435	0.0842	0.1739	0.3586

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

Table 2
Pearson Correlations
MexicanSecuritiesMarketLawReform 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	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	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 Mexican Securities Market Law Reform on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0474*** (3.06)	-0.0897*** (6.51)
Institutional ownership		0.4347*** (16.35)
Firm size		0.1237*** (25.80)
Book-to-market		-0.0842*** (8.09)
ROA		0.0847*** (3.41)
Stock return		-0.1133*** (8.51)
Earnings volatility		-0.0911*** (5.17)
Loss		-0.0791*** (4.46)
Class action litigation risk		-0.2209*** (8.52)
N	14,231	14,231
R^2	0.0007	0.2251

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