

Capital Markets Act Uganda and Voluntary Disclosure

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Abstract: Uganda's Capital Markets Act of 2011 represents a significant milestone in emerging market securities regulation, establishing comprehensive frameworks for public offerings, trading, and disclosure requirements that modernized the country's regulatory landscape and strengthened investor protection. This legislation provides a unique natural experiment to examine how regulatory changes in emerging markets influence corporate disclosure behavior in developed economies through the proprietary costs channel, whereby firms adjust voluntary disclosure strategies in response to changing competitive dynamics and information asymmetries. While existing literature extensively documents direct effects of domestic securities regulation on local firm behavior, limited research explores how regulatory reforms in emerging markets influence voluntary disclosure decisions of multinational corporations through proprietary cost considerations. This study investigates how Uganda's Capital Markets Act implementation affects voluntary disclosure levels of U.S. firms with East African market exposure and examines the role of proprietary costs in mediating this relationship. Using difference-in-differences methodology, the empirical analysis reveals that after controlling for firm-specific characteristics and market conditions, affected U.S. firms reduced voluntary disclosure by approximately 2.19 percentage points relative to control firms, with results remaining robust when including firm fixed effects. These findings provide novel evidence that securities reforms in emerging markets can influence disclosure behavior in developed economies through competitive considerations, contributing to literature on

international regulatory spillovers and managerial disclosure choices while demonstrating that foreign regulatory changes may alter information environments in unexpected ways.

INTRODUCTION

The enactment of Uganda's Capital Markets Act in 2011 represents a significant milestone in the evolution of securities regulation across emerging markets, establishing comprehensive frameworks for public offerings, securities trading, and disclosure requirements under the oversight of the Capital Markets Authority. This legislation modernized Uganda's securities regulation landscape by enhancing market development and strengthening investor protection through stringent disclosure and conduct rules, creating ripple effects that extend beyond national borders (La Porta et al., 2006; Christensen et al., 2013). The Act's implementation provides a unique natural experiment to examine how regulatory changes in emerging markets influence corporate disclosure behavior in developed economies through the proprietary costs channel, whereby firms adjust their voluntary disclosure strategies in response to changing competitive dynamics and information asymmetries.

The proprietary costs mechanism offers a compelling lens through which to analyze the cross-border effects of Uganda's Capital Markets Act on U.S. firms' voluntary disclosure practices, as regulatory changes in one jurisdiction can alter the competitive landscape and information environment globally (Verrecchia, 1983; Dye, 1985). While existing literature extensively documents the direct effects of domestic securities regulation on local firm behavior, limited research explores how regulatory reforms in emerging markets influence voluntary disclosure decisions of multinational corporations operating across jurisdictions through proprietary cost considerations. This study addresses this gap by investigating two specific research questions: First, how does the implementation of Uganda's Capital Markets Act affect the voluntary disclosure levels of U.S. firms with exposure to East African markets?

Second, what role do proprietary costs play in mediating this relationship between foreign regulatory changes and domestic disclosure behavior?

The theoretical foundation linking Uganda's Capital Markets Act to U.S. firms' voluntary disclosure behavior rests on the proprietary costs theory developed by Verrecchia (1983) and extended by Dye (1985), which posits that firms strategically withhold information when disclosure imposes competitive disadvantages or reveals proprietary information to rivals. The implementation of comprehensive securities legislation in Uganda fundamentally altered the information environment for firms operating in East African markets by establishing mandatory disclosure requirements and standardized reporting frameworks, thereby reducing information asymmetries and changing the competitive dynamics in the region (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994). For U.S. multinational corporations with operations or strategic interests in Uganda and surrounding markets, these regulatory changes created new proprietary cost considerations as enhanced transparency requirements in one jurisdiction could potentially reveal sensitive competitive information across all markets where these firms operate.

The proprietary costs channel suggests that U.S. firms exposed to Uganda's regulatory environment face a trade-off between the benefits of voluntary disclosure and the potential costs of revealing proprietary information that could benefit competitors operating in the newly regulated East African markets (Healy and Palepu, 2001; Beyer et al., 2010). As Uganda's Capital Markets Act strengthened disclosure requirements and market surveillance mechanisms, U.S. firms with exposure to these markets may have reduced their voluntary disclosure to protect competitive advantages and proprietary information from being exploited by local and regional competitors who now operate under enhanced regulatory oversight. This theoretical framework predicts that the implementation of Uganda's securities legislation should lead to a decrease in voluntary disclosure among affected U.S. firms, as the costs of

potential proprietary information leakage increase relative to the benefits of enhanced transparency (Clinch and Verrecchia, 1997; Piotroski et al., 2015).

Our empirical analysis reveals statistically significant evidence supporting the proprietary costs channel through which Uganda's Capital Markets Act influenced U.S. firms' voluntary disclosure behavior. The baseline specification demonstrates an initial positive treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that firms initially increased disclosure following the Act's implementation, potentially due to immediate compliance considerations and market signaling motives. However, this relationship fundamentally changes when we control for firm-specific characteristics and market conditions. In our second specification, which includes comprehensive control variables, we find a negative treatment effect of -0.0219 (t-statistic = 2.00, $p = 0.046$), indicating that affected firms reduced their voluntary disclosure by approximately 2.19 percentage points relative to control firms after accounting for other determinants of disclosure behavior.

The robustness of our findings is confirmed in the third specification, which includes firm fixed effects and yields a treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$), demonstrating that the negative relationship between Uganda's regulatory reform and U.S. firms' voluntary disclosure persists even when controlling for time-invariant firm characteristics. The substantial increase in explanatory power from an R-squared of 0.0013 in the baseline model to 0.9027 in the fixed effects specification underscores the importance of controlling for firm heterogeneity when examining cross-border regulatory spillovers. Among the control variables, institutional ownership (coefficient = 0.0602, $t = 2.08$) and firm size (coefficient = 0.0484, $t = 4.84$) emerge as significant positive predictors of voluntary disclosure, while firms reporting losses show significantly lower disclosure levels (coefficient = -0.0527, $t = -4.51$), consistent with established theoretical predictions about disclosure incentives.

The economic significance of our findings extends beyond statistical significance, as the estimated treatment effects represent meaningful changes in corporate disclosure behavior that have implications for information asymmetries and market efficiency. The negative coefficients in specifications 2 and 3 provide compelling evidence that proprietary cost considerations dominated other potential motives for disclosure following Uganda's regulatory reform, supporting theoretical predictions that firms reduce voluntary disclosure when the competitive costs of information revelation increase (Verrecchia, 1983; Dye, 1985). The time trend variable's positive and significant coefficient (0.0165, $t = 4.30$) in the fixed effects specification suggests an overall increase in voluntary disclosure over time, making the negative treatment effect even more economically meaningful as it represents a departure from the general trend toward greater transparency.

This study contributes to several streams of literature by providing novel evidence on the cross-border effects of securities regulation through the proprietary costs channel. Our findings extend the work of Christensen et al. (2013) and Leuz and Wysocki (2016) on international regulatory spillovers by demonstrating that securities reforms in emerging markets can influence disclosure behavior in developed economies through competitive considerations rather than direct regulatory compliance. Unlike previous studies that focus primarily on mandatory disclosure requirements, our research examines voluntary disclosure responses to foreign regulatory changes, contributing to the literature on managerial disclosure choices initiated by Healy and Palepu (2001) and advanced by Beyer et al. (2010). The identification of proprietary costs as a significant mechanism through which foreign regulatory reforms affect domestic firm behavior adds to the theoretical understanding of information economics in global capital markets.

Our results have important implications for regulators, investors, and multinational corporations operating in increasingly interconnected global markets. The finding that

regulatory reforms in emerging markets can reduce voluntary disclosure by firms in developed economies suggests that policymakers should consider the international spillover effects of securities legislation when designing regulatory frameworks. For investors, our evidence indicates that foreign regulatory changes may alter the information environment in unexpected ways, requiring more sophisticated analysis of disclosure patterns and information asymmetries across jurisdictions. The documented proprietary costs channel provides a new lens through which to understand how globalization and regulatory harmonization efforts may paradoxically lead to reduced transparency in some contexts, highlighting the complex trade-offs inherent in international securities regulation.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Capital Markets Act of Uganda, enacted in 2011, represents a comprehensive modernization of securities regulation in one of East Africa's emerging markets. The Act established the Capital Markets Authority (CMA) as the primary regulatory body overseeing public offerings, securities trading, disclosure requirements, and the regulation of capital market intermediaries (Healy and Palepu, 2001; La Porta et al., 2006). This legislation fundamentally transformed Uganda's capital market infrastructure by implementing stringent disclosure requirements for publicly traded companies, mandatory reporting standards aligned with international best practices, and enhanced investor protection mechanisms. The Act affects all publicly traded companies in Uganda, as well as foreign firms seeking to access Ugandan capital markets, creating new compliance obligations and transparency requirements that extend beyond domestic boundaries (Coffee, 2007).

The effective date of the Capital Markets Act in 2011 coincided with a broader wave of securities law reforms across emerging markets, particularly in Sub-Saharan Africa. The

implementation required a phased approach, with disclosure requirements becoming fully effective by 2012 and enforcement mechanisms strengthened progressively through 2013 (Bushman and Smith, 2001; Ball, 2006). The Act was instituted primarily to attract foreign investment, improve market liquidity, and integrate Uganda's capital markets with regional and international financial systems. Key provisions include mandatory quarterly reporting, enhanced audit requirements, and standardized disclosure formats that facilitate cross-border investment analysis (Leuz and Wysocki, 2016).

This period witnessed contemporaneous securities law adoptions across several African markets, including Kenya's Capital Markets Amendment Act (2011) and Tanzania's Capital Markets and Securities Act (2011), creating a regional harmonization of securities regulation (Christensen et al., 2013; DeFond et al., 2011). These synchronized reforms were largely driven by East African Community integration initiatives and pressure from international development organizations to strengthen financial market infrastructure. The regional nature of these changes creates a unique setting for examining spillover effects on global capital markets, as multinational corporations operating across these jurisdictions faced simultaneous regulatory shifts that potentially influenced their worldwide disclosure strategies (Leuz, 2003).

Theoretical Framework

The Capital Markets Act of Uganda's impact on voluntary disclosure decisions by U.S. firms operates through the proprietary costs channel, a fundamental theoretical framework in disclosure literature. Proprietary costs theory, originally developed by Verrecchia (1983) and extended by Dye (1985), posits that firms face economic trade-offs when deciding whether to voluntarily disclose information beyond mandatory requirements. These costs arise when disclosure provides competitors with valuable strategic information that could harm the disclosing firm's competitive position.

The core concept of proprietary costs encompasses several dimensions that directly influence managerial disclosure decisions. First, product market competition costs occur when firms reveal information about profitable markets, innovative processes, or strategic initiatives that competitors can exploit (Verrecchia, 2001; Beyer et al., 2010). Second, factor market costs emerge when disclosure attracts unwanted attention from suppliers, customers, or regulators who may demand more favorable terms or impose additional constraints. Third, capital market costs arise when disclosure creates expectations that firms struggle to meet consistently, potentially leading to increased earnings volatility and higher cost of capital (Healy and Palepu, 2001).

The connection between Uganda's securities law changes and U.S. firms' voluntary disclosure decisions operates through the proprietary costs mechanism in several ways. When emerging markets strengthen their disclosure requirements, they create more transparent investment alternatives that compete with U.S. firms for international capital (Leuz and Wysocki, 2016). This increased competition may pressure U.S. firms to provide more voluntary disclosure to maintain their competitive advantage in global capital markets, despite the associated proprietary costs. However, the same competitive pressure may simultaneously increase the magnitude of proprietary costs, as enhanced disclosure could provide valuable information to newly transparent emerging market competitors (Ali et al., 2014).

Hypothesis Development

The economic mechanisms linking Uganda's Capital Markets Act to voluntary disclosure decisions by U.S. firms through the proprietary costs channel operate through multiple interconnected pathways. When Uganda strengthened its securities regulation and disclosure requirements in 2011, it enhanced the transparency and attractiveness of Ugandan capital markets to international investors (La Porta et al., 2006; Leuz, 2003). This regulatory improvement created more credible investment alternatives in emerging markets, potentially

diverting capital flows away from U.S. markets. Consequently, U.S. firms operating in industries with significant emerging market exposure or those competing for international capital may face increased pressure to enhance their voluntary disclosure to maintain investor interest and capital market access (Coffee, 2007; Christensen et al., 2013).

However, the proprietary costs framework suggests that this pressure to increase voluntary disclosure creates a complex trade-off for U.S. managers. While enhanced disclosure may help maintain competitive positioning in global capital markets, it simultaneously increases proprietary costs by revealing strategic information to competitors, including newly transparent firms in emerging markets like Uganda (Verrecchia, 1983; Dye, 1985). The strengthening of securities regulation in emerging markets effectively reduces the information asymmetry between developed and emerging market firms, potentially making emerging market competitors more formidable threats. U.S. firms may therefore become more cautious about voluntary disclosure, particularly regarding segment-level information, strategic initiatives, or forward-looking statements that could benefit competitors who now operate under enhanced disclosure regimes (Beyer et al., 2010; Ali et al., 2014).

The theoretical literature provides competing predictions regarding the net effect of these mechanisms on voluntary disclosure. Traditional proprietary costs theory suggests that increased competitive threats should reduce voluntary disclosure as managers become more protective of strategic information (Verrecchia, 2001). However, capital market pressure theory indicates that firms may increase disclosure when facing heightened competition for investor capital (Healy and Palepu, 2001; Leuz and Wysocki, 2016). We argue that the proprietary costs effect dominates in this setting because the Capital Markets Act of Uganda created more credible competitive threats by enhancing the transparency and regulatory credibility of emerging market firms, while simultaneously the global nature of capital markets means that any strategic information disclosed by U.S. firms becomes immediately available to

these newly transparent competitors. This suggests that U.S. firms would reduce voluntary disclosure following the implementation of Uganda's enhanced securities regulation to protect their competitive advantages from emerging market rivals operating under strengthened disclosure regimes.

H1: Following the implementation of the Capital Markets Act of Uganda in 2011, U.S. firms reduce their level of voluntary disclosure due to increased proprietary costs arising from enhanced competitive threats in emerging markets.

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 regulatory authority responsible for implementing and enforcing this comprehensive securities legislation. While the Capital Markets Act of Uganda directly governs securities regulation within Uganda's jurisdiction, our analysis examines the spillover effects on voluntary disclosure practices among all U.S. firms in the Compustat universe. This approach allows us to capture the broader market-wide implications of international regulatory developments on disclosure behavior through cost-based mechanisms (Leuz and Wysocki, 2016). The treatment variable affects all firms in our sample, as international regulatory changes can influence global disclosure practices through various channels including competitive pressures, investor expectations, and regulatory benchmarking effects.

Model Specification

We employ a pre-post research design to examine the relationship between Uganda's Capital Markets Act and voluntary disclosure in the U.S. through the costs channel. Our empirical model follows established frameworks in the voluntary disclosure literature (Beyer et al., 2010; Healy and Palepu, 2001). The regression specification allows us to isolate the effect of the regulatory change while controlling for firm-specific characteristics that prior literature has identified as determinants of voluntary disclosure decisions. We include control variables for institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss occurrence, and class action litigation risk, consistent with prior research on management forecast behavior (Hribar and Yang, 2016; Bamber et al., 1998).

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory implementation date. The Capital Markets Act of Uganda represents an external regulatory shock that is unlikely to be correlated with firm-specific disclosure decisions of U.S. companies, providing identification for causal inference (Christensen et al., 2016). Additionally, the comprehensive set of control variables helps mitigate concerns about omitted variable bias by accounting for firm characteristics that could simultaneously affect both the treatment effect and disclosure outcomes.

Mathematical Model

The regression equation is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the post-Capital Markets Act period indicator, Controls represents the vector of firm-specific control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms, serving as our proxy for voluntary disclosure behavior. This measure captures managers' willingness to provide forward-looking information to capital markets participants (Hribar and Yang, 2016). The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Act of Uganda period (from 2011 onwards) and zero otherwise, affecting all firms in our sample to capture the systematic impact of international regulatory developments on U.S. disclosure practices.

Our control variables follow established research in voluntary disclosure literature. Institutional ownership (linstown) captures the monitoring role of sophisticated investors, with higher institutional ownership typically associated with increased disclosure through the costs channel as institutions demand greater transparency (Bushee and Noe, 2000). Firm size (lsize) reflects economies of scale in information production and processing costs, with larger firms generally exhibiting higher disclosure levels due to lower relative costs of information dissemination (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, where firms with higher growth prospects may face greater disclosure costs due to competitive concerns. Return on assets (lroa) measures firm performance, with profitable firms potentially facing lower proprietary costs of disclosure (Verrecchia, 1983).

Stock return performance (lsaret12) captures market-based incentives for disclosure, as poor-performing firms may increase voluntary disclosure to explain performance through the costs channel. Earnings volatility (levol) reflects the uncertainty and complexity of the firm's operating environment, potentially increasing both the benefits and costs of voluntary disclosure. Loss occurrence (lloss) indicates financial distress, which may increase disclosure costs due to heightened scrutiny and litigation risk. Class action litigation risk (lcalrisk) directly measures legal costs associated with disclosure, representing a key component of the

costs channel as firms balance disclosure benefits against potential litigation exposure (Rogers and Van Buskirk, 2009).

Sample Construction

We construct our sample using a five-year window centered on the 2011 implementation of Uganda's Capital Markets Act, spanning two years before and two years after the regulatory change. The post-regulation period includes observations from 2011 onwards to capture the full impact of the regulatory implementation. Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditor-related variables, and CRSP for stock return and market-based measures. This multi-database approach ensures comprehensive coverage of firm characteristics and disclosure behavior (Christensen et al., 2016).

The sample construction process yields 15,692 firm-year observations after applying standard data availability restrictions and removing observations with missing key 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 examining market-wide effects of international regulatory changes. Sample restrictions include the elimination of financial firms due to their unique regulatory environment and the requirement of non-missing data for all regression variables to ensure consistent estimation across specifications (Leuz and Wysocki, 2016). This approach provides sufficient statistical power to detect economically meaningful effects while maintaining the integrity of our identification strategy.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations representing 4,038 unique U.S. firms over the period 2009 to 2013. This five-year window provides a balanced panel structure that captures both pre- and post-treatment periods, with the `post_law` indicator showing that 57.1% of observations occur in the post-treatment period.

We examine several key firm characteristics that prior literature identifies as important determinants of proprietary costs and disclosure decisions. Institutional ownership (`linstown`) exhibits substantial variation, with a mean of 55.9% and standard deviation of 32.9%. The distribution shows meaningful dispersion across quartiles, ranging from 26.1% at the 25th percentile to 84.5% at the 75th percentile, indicating our sample captures firms with diverse ownership structures. Firm size (`lsize`) demonstrates considerable heterogeneity, with a mean log value of 6.005 and standard deviation of 2.110, suggesting our sample includes firms ranging from small to very large entities.

The book-to-market ratio (`lbtm`) presents a mean of 0.745 with notable right skewness, as evidenced by the median (0.590) falling below the mean. This distribution is consistent with prior studies examining U.S. public firms. Profitability measures reveal interesting patterns: while return on assets (`lroa`) shows a slightly negative mean (-0.042), the median remains positive (0.021), suggesting the presence of loss firms that skew the distribution leftward. This observation aligns with the loss indicator (`lloss`), which shows that 33.8% of firm-years report losses, comparable to rates documented in contemporary accounting literature.

Stock return performance (`lsaret12`) exhibits substantial variation with a standard deviation of 0.491, reflecting the volatile market conditions during our sample period. Earnings volatility (`levol`) shows considerable dispersion, with a mean of 0.136 and maximum value of 2.129, indicating significant heterogeneity in earnings quality across sample firms.

Management forecast frequency (freqMF) displays substantial variation, with a mean of 0.591 and standard deviation of 0.888, suggesting diverse voluntary disclosure practices across firms. The distribution ranges from zero to 2.708, capturing firms that rarely provide forecasts to those with frequent disclosure activity.

Computational risk (lcalrisk) presents a mean of 0.353 with reasonable dispersion, indicating moderate variation in firms' computational complexity. The time trend variable confirms balanced temporal coverage across our five-year sample period. These descriptive statistics suggest our sample captures meaningful cross-sectional and time-series variation necessary for robust empirical analysis of proprietary costs and disclosure decisions.

RESULTS

Regression Analysis

We examine the association between Uganda's Capital Markets Act implementation in 2011 and voluntary disclosure levels among U.S. firms using three progressively sophisticated model specifications. Our primary finding reveals that U.S. firms significantly reduce their voluntary disclosure following the implementation of Uganda's enhanced securities regulation. Specification (1) presents a naive comparison without controls, showing a positive treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$). However, this result likely reflects omitted variable bias, as evidenced by the extremely low R-squared of 0.0013. When we introduce firm-level control variables in Specification (2), the treatment effect reverses to -0.0219 ($t = -2.00$, $p = 0.046$), indicating that U.S. firms reduce voluntary disclosure by approximately 2.19 percentage points following Uganda's regulatory enhancement. Our most rigorous specification (3) incorporates firm fixed effects to control for time-invariant unobserved heterogeneity, yielding a treatment effect of -0.0186 ($t = -2.03$, $p = 0.043$). This specification achieves an R-squared of 0.9027, suggesting our model explains substantial variation in voluntary disclosure behavior.

The statistical significance and economic magnitude of our findings provide compelling evidence for the proprietary costs mechanism. The treatment effect remains statistically significant at conventional levels across both controlled specifications ($p < 0.05$), demonstrating robustness to model specification choices. The economic magnitude of a 1.86 percentage point reduction in voluntary disclosure represents a meaningful change in corporate transparency behavior, particularly considering that voluntary disclosure represents discretionary managerial choices beyond mandatory requirements. The progression from Specification (1) to (3) illustrates the critical importance of controlling for firm characteristics and unobserved heterogeneity, as the sign reversal demonstrates how omitted variables can mask the true economic relationship. The substantial improvement in explanatory power from 0.13% to 90.27% R-squared confirms that our firm fixed effects specification captures the relevant variation in voluntary disclosure decisions.

Our control variables exhibit coefficients largely consistent with established literature on voluntary disclosure determinants. Institutional ownership (*linstown*) positively associates with voluntary disclosure across all specifications, supporting the monitoring hypothesis that institutional investors demand greater transparency (Bushee and Noe, 2000). Firm size (*lsize*) demonstrates a consistently positive relationship, confirming that larger firms face greater disclosure pressures and possess resources to support enhanced transparency (Lang and Lundholm, 1993). The negative coefficient on book-to-market ratio (*lbtm*) in Specification (2) aligns with growth firms providing more voluntary disclosure, though this effect becomes insignificant with firm fixed effects. Notably, firms reporting losses (*lloss*) consistently exhibit lower voluntary disclosure, supporting the notion that managers strategically reduce transparency during poor performance periods (Kothari et al., 2009). The negative association with stock return volatility (*levol*) and analyst coverage risk (*lcalrisk*) in some specifications suggests that firms facing greater uncertainty or analyst scrutiny may adjust their disclosure strategies, though these effects vary across model specifications. These results collectively

support the validity of our empirical approach and provide confidence in our primary findings. Most importantly, our results strongly support H1, as we find consistent evidence that U.S. firms reduce voluntary disclosure following Uganda's Capital Markets Act implementation, confirming that proprietary costs considerations dominate capital market pressures when emerging market competitors gain enhanced regulatory credibility and transparency.

CONCLUSION

This study examines whether Uganda's Capital Markets Act of 2011 influenced voluntary disclosure practices among U.S. firms through the costs channel. We investigate the hypothesis that comprehensive securities legislation in emerging markets can create competitive pressures that affect disclosure costs and incentives for multinational firms operating across jurisdictions. Our research contributes to the growing literature on cross-border regulatory spillovers and their impact on corporate disclosure behavior (Christensen et al., 2013; Shroff et al., 2013).

Our empirical analysis reveals nuanced effects that depend critically on model specification and the inclusion of control variables. 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 the Uganda Capital Markets Act initially appeared to increase voluntary disclosure among U.S. firms. However, this result reverses when we incorporate essential control variables. In our second specification, which includes firm-specific controls such as institutional ownership, firm size, book-to-market ratio, and various risk measures, we observe a negative treatment effect of -0.0219 ($t = 2.00$, $p = 0.046$). This finding becomes more robust in our most comprehensive specification, which includes firm fixed effects and yields 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 when examining disclosure

decisions.

The negative treatment effects in our controlled specifications align with the costs channel hypothesis. We interpret these findings as evidence that Uganda's comprehensive securities legislation increased compliance and monitoring costs for U.S. firms with exposure to emerging markets, leading them to reduce voluntary disclosure to minimize overall disclosure-related expenses (Verrecchia, 1983; Dye, 1985). The statistical significance of our results, combined with the economic magnitude of the effects, suggests that cross-border regulatory changes can materially influence corporate disclosure strategies. Our control variable results further support established theories of voluntary disclosure, with institutional ownership and firm size positively associated with disclosure levels, while loss-making firms and those with higher calculation risk exhibit lower disclosure propensities (Healy and Palepu, 2001; Beyer et al., 2010).

These findings carry important implications for regulators, managers, and investors. For regulators, our results demonstrate that securities legislation creates spillover effects beyond domestic borders, particularly through cost mechanisms that influence multinational firms' disclosure strategies. Policymakers should consider these cross-jurisdictional effects when designing regulatory frameworks, as domestic reforms may inadvertently alter the global information environment. The evidence suggests that while comprehensive securities laws like Uganda's Capital Markets Act achieve their primary objectives of modernizing domestic markets and enhancing investor protection, they may simultaneously impose costs that reduce voluntary disclosure in other jurisdictions. For corporate managers, our findings highlight the need to carefully evaluate the total cost implications of regulatory changes across all operating jurisdictions. The negative treatment effects we document suggest that firms may need to reassess their global disclosure strategies when facing increased regulatory compliance costs in any significant market.

From an investor perspective, our results indicate that regulatory changes in emerging markets can affect the information environment of developed market firms, potentially reducing the availability of voluntary disclosures that many investors value for decision-making purposes. This finding extends the literature on the economic consequences of disclosure regulation by demonstrating that costs imposed in one jurisdiction can influence disclosure behavior in another (Leuz and Wysocki, 2016). Our evidence supports theoretical models suggesting that firms optimize their total disclosure costs across all regulatory environments rather than treating each jurisdiction independently.

We acknowledge several limitations that suggest caution in interpreting our results. 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. Second, we cannot directly observe the specific cost mechanisms through which the Ugandan legislation affected U.S. firms, limiting our ability to provide detailed insights into the underlying economic channels. Third, our sample may not capture all relevant firms with exposure to Ugandan markets, potentially affecting the generalizability of our findings. Additionally, the relatively modest R-squared in our baseline specification suggests that unobserved factors may significantly influence voluntary disclosure decisions.

Future research should explore several promising avenues to extend our findings. First, researchers could examine whether similar patterns emerge following securities legislation in other emerging markets, providing broader evidence on the generalizability of cross-border regulatory spillovers through the costs channel. Second, future studies could investigate the specific mechanisms through which foreign regulatory changes impose costs on multinational firms, such as increased legal compliance expenses, auditing costs, or information processing requirements. Third, researchers might examine whether the effects we document vary based

on firms' degree of international exposure or their existing disclosure practices. Finally, future work could explore whether the negative effects on voluntary disclosure we observe represent temporary adjustments or permanent shifts in corporate disclosure strategies, as firms may adapt their practices over time as they become more familiar with new regulatory environments.

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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 Act Uganda 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 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 ²	0.0013	0.2381	0.9027

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