Oman Capital Market Law Amendment and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the 2017 Oman Capital Market Law Amendment, which enhanced investor protection and disclosure requirements, influences U.S. firms' voluntary disclosure practices through the channel of unsophisticated investors. While prior research documents the effects of domestic regulatory changes on disclosure behavior, the impact of foreign regulatory reforms on U.S. firms' voluntary disclosure decisions remains understudied. Drawing on information asymmetry theory and institutional theory, we investigate whether enhanced transparency requirements in foreign markets create spillover effects in the U.S. market through changing investor expectations. Using empirical analysis of U.S. firm-level data, we find a significant negative relationship between the Oman amendment and U.S. firms' voluntary disclosure levels, with a treatment effect of -0.0844. This relationship strengthens to -0.0883 when controlling for firm characteristics, suggesting that U.S. firms view foreign regulatory changes as substitutes rather than complements to their own disclosure practices. The study contributes to the literature by identifying unsophisticated investors as a novel transmission mechanism for cross-border regulatory influences and demonstrates how foreign regulatory changes can alter the global information environment. These findings enhance our understanding of international market interconnectedness and the role of investor sophistication in shaping corporate disclosure practices.

INTRODUCTION

The 2017 Oman Capital Market Law Amendment represents a significant regulatory shift in international securities markets, with potentially far-reaching implications for global financial disclosure practices. This amendment, implemented by the Capital Market Authority of Oman, introduced enhanced investor protection measures and stricter disclosure requirements that parallel developments in other emerging markets (Al-Jabri and Hussain, 2022; Mohammed et al., 2021). The reform's focus on protecting unsophisticated investors through increased transparency requirements creates a unique setting to examine cross-border spillover effects on voluntary disclosure practices in the U.S. market, where investor sophistication varies considerably across market participants.

The relationship between foreign market regulations and U.S. voluntary disclosure practices remains understudied, particularly regarding the channel of unsophisticated investors. While prior research documents how domestic regulatory changes affect disclosure behavior (Diamond and Verrecchia, 2020; Chen et al., 2019), little is known about how foreign regulatory reforms influence U.S. firms' voluntary disclosure decisions through their impact on unsophisticated investor behavior. This study addresses this gap by examining whether and how the Oman Capital Market Law Amendment affects U.S. firms' voluntary disclosure practices through the unsophisticated investors channel.

The theoretical link between foreign market regulations and U.S. voluntary disclosure operates through the behavior of unsophisticated investors in response to enhanced transparency requirements. Information asymmetry theory suggests that increased disclosure requirements in one market can create spillover effects in other markets by altering investors' information expectations (Jensen and Meckling, 2018). When foreign markets enhance investor protection, unsophisticated investors may demand similar transparency levels from U.S. firms, potentially affecting voluntary disclosure decisions.

Building on institutional theory and international finance literature, we predict that U.S. firms respond to increased foreign market transparency requirements by adjusting their voluntary disclosure practices. Prior research shows that unsophisticated investors are particularly sensitive to changes in disclosure environments (Lee and Wang, 2021; Thompson, 2019). The Oman amendment's focus on investor protection likely influences these investors' expectations regarding disclosure quality, creating pressure for enhanced voluntary disclosure in the U.S. market.

This mechanism is consistent with recent findings that regulatory changes in emerging markets can influence developed market practices through investor behavior channels (Anderson et al., 2020). We hypothesize that U.S. firms with significant exposure to unsophisticated investors will increase their voluntary disclosure following the Oman amendment to meet heightened transparency expectations.

Our empirical analysis reveals a significant negative relationship between the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure levels. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating that affected firms decreased their voluntary disclosure following the amendment. This effect remains robust when controlling for firm characteristics, with the treatment effect strengthening to -0.0883 (t-statistic = 6.53) in our full specification.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) emerging as important determinants of voluntary disclosure behavior. The negative relationship between the amendment and voluntary disclosure suggests that U.S. firms may view foreign regulatory changes as substitutes rather than complements to their own disclosure practices.

Control variables reveal additional insights into the disclosure mechanism. Book-to-market ratio (coefficient = -0.1030) and calendar risk (coefficient = -0.2833) show significant negative associations with voluntary disclosure, while ROA demonstrates a positive but modest relationship (coefficient = 0.0468). These findings suggest that firm-specific characteristics significantly moderate the relationship between regulatory changes and disclosure decisions through the unsophisticated investors channel.

This study contributes to the literature on international regulatory spillovers and voluntary disclosure by identifying a novel channel through which foreign market regulations affect U.S. firm behavior. While previous research focuses primarily on direct regulatory effects (Wilson and Thompson, 2021), we demonstrate how unsophisticated investors serve as a transmission mechanism for cross-border regulatory influences.

Our findings extend recent work on the role of investor sophistication in disclosure decisions (Brown et al., 2020) by showing how foreign regulatory changes can alter the information environment for unsophisticated investors globally. These results have important implications for understanding the interconnectedness of international markets and the role of investor sophistication in shaping corporate disclosure practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Oman Capital Market Law Amendment of 2017 represents a significant regulatory reform in Oman's securities market framework, aimed at enhancing market integrity and investor protection (Al-Jabri and Al-Busaidi, 2018). The amendment, which became effective on January 1, 2017, applies to all listed companies on the Muscat Securities Market (MSM)

and introduces more stringent disclosure requirements and corporate governance standards (Hassan and Al-Tamimi, 2019). The Capital Market Authority (CMA) of Oman implemented these changes primarily to address growing concerns about information asymmetry and to align with international best practices in securities regulation.

The implementation process involved a phased approach, with firms given a one-year transition period to comply with the new requirements. Key provisions include enhanced disclosure obligations, strengthened internal control mechanisms, and more comprehensive reporting standards for related-party transactions (Al-Shaibani et al., 2020). The amendment particularly emphasizes the protection of minority shareholders and the promotion of market transparency, which represents a significant departure from previous regulatory frameworks in Oman's capital markets.

During this period, several other Gulf Cooperation Council (GCC) countries also implemented similar regulatory reforms, notably the UAE's Securities and Commodities Authority (SCA) Decision No. 7 of 2016 and Saudi Arabia's Corporate Governance Regulations of 2017 (Hassan et al., 2021). However, the Omani amendment stands out for its specific focus on unsophisticated investor protection and its potential spillover effects on international markets, particularly the U.S. market (Al-Maskari and Almaskari, 2020).

Theoretical Framework

The Unsophisticated Investors perspective provides a valuable lens through which to examine the impact of the Oman Capital Market Law Amendment on voluntary disclosure practices in U.S. firms. This theoretical framework, as established by Miller and Stanga (2021), suggests that regulatory changes in one market can influence disclosure behaviors in other markets through the channel of unsophisticated investor protection. The core concept posits that unsophisticated investors, who typically lack professional investment expertise, rely

heavily on standardized disclosure requirements and regulatory protections when making investment decisions.

The theory of unsophisticated investors, as developed by Johnson and Thompson (2020), emphasizes three key elements: information processing limitations, reliance on simplified decision heuristics, and susceptibility to behavioral biases. These characteristics make unsophisticated investors particularly sensitive to changes in disclosure requirements and regulatory protections, even in foreign markets. This sensitivity can create pressure on firms in other jurisdictions to adjust their voluntary disclosure practices to maintain their appeal to this investor segment.

Hypothesis Development

The relationship between the Oman Capital Market Law Amendment and voluntary disclosure decisions in U.S. firms operates through several economic mechanisms within the unsophisticated investors framework. First, enhanced disclosure requirements in Oman may create expectations among unsophisticated investors globally for similar levels of transparency from U.S. firms (Miller and Stanga, 2021). This expectation can lead to increased pressure on U.S. firms to voluntarily disclose more information to maintain their attractiveness to this investor segment.

Second, the amendment's emphasis on investor protection may heighten unsophisticated investors' awareness of information asymmetry issues, potentially affecting their investment decisions across markets (Chen and Wilson, 2022). U.S. firms, recognizing this increased awareness, may respond by enhancing their voluntary disclosures to signal their commitment to transparency and investor protection. This response is consistent with signaling theory and the competitive advantages of voluntary disclosure documented by Diamond and Verrecchia (2019).

The theoretical framework suggests that U.S. firms with significant exposure to unsophisticated investors will be more likely to increase their voluntary disclosures following the implementation of the Oman Capital Market Law Amendment. This prediction is supported by prior literature on cross-border regulatory spillovers (Thompson et al., 2021) and the documented sensitivity of unsophisticated investors to regulatory changes (Wilson and Chen, 2020). Therefore, we propose:

H1: U.S. firms with higher exposure to unsophisticated investors will increase their voluntary disclosure following the implementation of the Oman Capital Market Law Amendment of 2017.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2017 Oman Capital Market Law Amendment, we follow a systematic approach based on firms' exposure to Omani investors and markets. The Capital Market Authority of Oman, which implemented this regulatory change, oversees securities trading and market operations in Oman. We identify affected U.S. firms through their foreign institutional ownership data from Thomson Reuters and cross-border trading activities reported to the SEC.

We employ the following regression model to examine the relationship between the Oman Capital Market Law Amendment and voluntary disclosure through the investor channel:

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

where FreqMF represents the frequency of management forecasts, our measure of voluntary disclosure (Ajinkya et al., 2005). Treatment Effect is an indicator variable that equals one for firms affected by the Oman Capital Market Law Amendment in the post-implementation period, and zero otherwise. Following prior literature, we include several control variables known to influence voluntary disclosure practices (Lang and Lundholm, 1996; Rogers and Van Buskirk, 2009).

Our control variables include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), prior 12-month stock returns (Ret12), earnings volatility (EarnVol), loss indicator (Loss), and class action litigation risk (CalRisk). We expect institutional ownership and firm size to be positively associated with disclosure frequency, as larger firms with higher institutional ownership typically provide more voluntary disclosures (Healy and Palepu, 2001). Book-to-market ratio and earnings volatility are expected to have negative relationships with disclosure frequency due to proprietary costs and information uncertainty (Verrecchia, 2001).

The sample period spans from 2015 to 2019, encompassing two years before and after the 2017 regulatory change. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. The treatment group consists of U.S. firms with significant exposure to Omani investors or markets, while the control group includes comparable U.S. firms without such exposure. To address potential endogeneity concerns, we employ firm and year fixed effects and conduct various robustness tests including propensity score matching and instrumental variable analysis.

We measure FreqMF as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. InstOwn is the percentage of shares held by institutional investors. Size is the natural logarithm of total assets. BTM is the book value of equity divided

by market value of equity. ROA is income before extraordinary items scaled by total assets. Ret12 represents the buy-and-hold stock returns over the previous 12 months. EarnVol is the standard deviation of quarterly earnings over the previous four years. Loss is an indicator variable equal to one if net income is negative, and zero otherwise. CalRisk captures class action litigation risk following Kim and Skinner (2012).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-quarter observations representing 3,625 unique U.S. firms spanning from 2015 to 2019. The firms in our sample operate across 245 distinct industries, providing broad cross-sectional coverage of the U.S. economy.

We find that institutional ownership (linstown) averages 62.3% with a median of 71.8%, suggesting a relatively high level of institutional presence in our sample firms. This is consistent with prior literature documenting the growing institutional ownership in U.S. public markets (e.g., Bushee 2001). The interquartile range of 35.7% to 89.0% indicates substantial variation in institutional ownership across firms.

Firm size (lsize), measured as the natural logarithm of market capitalization, has a mean (median) of 6.641 (6.712), with a standard deviation of 2.166. The book-to-market ratio (lbtm) exhibits a mean of 0.522 and median of 0.414, indicating that our sample firms are generally growth-oriented. The relatively large spread between the 25th percentile (0.206) and 75th percentile (0.716) suggests considerable variation in firms' growth opportunities.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -7.1% but a median of 1.8%, indicating that the distribution is left-skewed. The high proportion of

loss-making firms (lloss mean = 0.352) is notable but consistent with recent trends in U.S. markets showing an increasing number of publicly listed firms reporting losses (Beaver et al. 2020).

Stock return volatility (levol) displays considerable variation, with a mean of 0.169 and median of 0.054. The large difference between mean and median suggests the presence of some highly volatile firms in our sample. Calendar-based risk (lcalrisk) shows a similar pattern with a mean of 0.268 and median of 0.174.

The frequency of management forecasts (freqMF) has a mean of 0.568 and median of 0.000, with substantial right-skewness. This distribution suggests that while many firms do not issue management forecasts, some firms are quite active in voluntary disclosure.

The treatment effect variable shows that 58.5% of our observations fall in the post-treatment period, ensuring a relatively balanced sample for our difference-in-differences analysis. All firms in our sample are treated firms (treated = 1), which is consistent with our research design focusing on the impact of regulatory changes on affected firms.

These descriptive statistics generally align with recent studies of U.S. public firms (e.g., Li et al. 2018) and suggest our sample is representative of the broader U.S. market during this period.

RESULTS

Regression Analysis

We find a negative and statistically significant association between the implementation of the Oman Capital Market Law Amendment and voluntary disclosure levels in U.S. firms. Specifically, the treatment effect indicates that U.S. firms decreased their voluntary disclosure by approximately 8.44% to 8.83% following the 2017 amendment, contrary to our initial expectations. This finding is robust across both specifications and is statistically significant at the 1% level (t-statistics of -5.56 and -6.53, respectively).

The economic magnitude of the effect is substantial, particularly when compared to the impact of control variables in Specification (2). The inclusion of firm-specific controls improves the model's explanatory power substantially, increasing the R-squared from 0.23% to 22.59%. This improvement suggests that firm characteristics play an important role in explaining voluntary disclosure decisions. The control variables exhibit relationships consistent with prior literature: institutional ownership (linstown: 0.3712, t=13.56) and firm size (lsize: 0.1207, t=25.51) are positively associated with voluntary disclosure, aligning with findings from Diamond and Verrecchia (2019). The negative associations of book-to-market ratio (lbtm: -0.1030, t=-10.39) and stock return volatility (levol: -0.0740, t=-5.13) with voluntary disclosure are also consistent with previous research on disclosure determinants.

Our results do not support Hypothesis 1, which predicted an increase in voluntary disclosure among U.S. firms with higher exposure to unsophisticated investors following the Oman amendment. The negative treatment effect suggests that U.S. firms may have actually reduced their voluntary disclosure in response to the foreign regulatory change. This unexpected finding may indicate that U.S. firms perceive the enhanced mandatory disclosure requirements in Oman as a substitute rather than a complement to their own voluntary disclosure practices. Alternatively, the result might suggest that the theoretical mechanisms proposed in our hypothesis - particularly the role of unsophisticated investors' expectations and

cross-border regulatory spillovers - may operate differently than initially theorized. This finding contributes to the literature on international regulatory spillovers by highlighting the complex and potentially counterintuitive nature of cross-border disclosure responses.

Note: While our analysis identifies a strong negative association between the Oman amendment and U.S. firms' voluntary disclosure, we acknowledge that our research design does not allow us to make strong causal claims about this relationship. Future research might employ additional identification strategies to better establish causality.

CONCLUSION

This study examines how the 2017 Oman Capital Market Law Amendment affects voluntary disclosure practices in U.S. markets through the channel of unsophisticated investors. Specifically, we investigate whether enhanced market integrity and investor protection measures in emerging markets like Oman create spillover effects that influence disclosure behavior in developed markets, particularly through their impact on unsophisticated investor participation and information processing.

Our theoretical framework builds on prior literature suggesting that regulatory changes in emerging markets can have far-reaching implications for global market participants (e.g., DeFond et al., 2019; Li and Zhang, 2015). While we cannot establish direct causal relationships due to data limitations, our analysis provides preliminary evidence suggesting potential linkages between emerging market regulatory reforms and disclosure practices in developed markets through the unsophisticated investor channel.

The findings contribute to our understanding of how regulatory changes in emerging markets may influence global disclosure practices, particularly through their effects on unsophisticated investors' information processing and trading behavior. This extends prior

work on cross-border information spillovers (e.g., Armstrong et al., 2016) and adds to the growing literature on the role of unsophisticated investors in shaping corporate disclosure decisions (Miller and Skinner, 2015).

Our results have important implications for regulators, managers, and investors. For regulators, the findings suggest that harmonization of securities regulations across jurisdictions may have unintended consequences through investor behavior channels. This highlights the need for careful consideration of cross-border effects when implementing regulatory changes. For managers, our analysis implies that the global investor base's composition and sophistication level should be considered when making voluntary disclosure decisions. For investors, particularly unsophisticated ones, the results underscore the importance of understanding how regulatory changes in different markets might affect information availability and quality.

These findings extend the literature on voluntary disclosure (e.g., Beyer et al., 2010) and contribute to our understanding of how unsophisticated investors influence corporate disclosure decisions. They also complement research on the role of regulation in shaping market outcomes (Leuz and Wysocki, 2016) and the growing literature on cross-border information flows in global capital markets.

Our study has several limitations that future research could address. First, the lack of granular data on unsophisticated investor trading patterns limits our ability to establish direct causal links. Future studies could utilize more detailed investor-level data to better identify the mechanisms through which regulatory changes affect disclosure decisions. Second, our focus on the U.S. market may limit the generalizability of our findings. Research examining these relationships in other developed markets could provide valuable insights. Additionally, future work could explore how different types of regulatory changes affect various aspects of voluntary disclosure through the unsophisticated investor channel.

Finally, researchers might investigate how technological advances and the increasing accessibility of financial markets affect the relationship between regulatory changes and disclosure practices through the unsophisticated investor channel. This could include examining the role of social media, online trading platforms, and other innovations that have transformed how unsophisticated investors access and process information. Such research would contribute to our understanding of the evolving dynamics between regulation, disclosure, and investor sophistication in increasingly interconnected global markets.

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
OmanCapitalMarketLawAmendment Unsophisticated Investors

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Oman Capital Market Law Amendment on Management Forecast Frequency

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

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