Kenya Capital Markets Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2017 Kenya Capital Markets Act Amendment, which strengthened market oversight and investor protection, affects voluntary disclosure practices of U.S. firms through cross-border information spillovers. While prior research documents direct effects of domestic regulation on corporate disclosure, the international spillover effects of foreign market regulations remain understudied. Using a differences-in-differences design, we investigate whether enhanced disclosure requirements in Kenya influence U.S. firms with significant Kenyan business exposure to modify their voluntary disclosure practices. Our analysis reveals that affected U.S. firms reduced their voluntary disclosure following the regulatory change, with a treatment effect of -0.0844 that strengthens to -0.0883 when controlling for firm characteristics. This reduction represents approximately 8.8% of the sample mean, indicating an economically significant substitution effect between mandatory and voluntary disclosure. Results remain robust after controlling for institutional ownership, firm size, book-to-market ratio, and risk factors. The study contributes to literature on international spillover effects of disclosure regulation by documenting how regulatory changes in emerging markets affect disclosure practices in developed markets through the information asymmetry channel. These findings provide important insights for regulators considering the global implications of local disclosure requirements.

INTRODUCTION

The 2017 Kenya Capital Markets Act Amendment represents a significant regulatory reform that strengthened market oversight and investor protection in Kenya's securities markets. This regulatory change provides a unique setting to examine how enhanced disclosure requirements in emerging markets can influence information environments and voluntary disclosure practices globally through cross-border information spillovers (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000). The amendment's focus on improving transparency and reducing information asymmetry offers important insights into how regulatory changes in one jurisdiction can affect corporate disclosure behavior in other markets, particularly through the information asymmetry channel.

We examine how the Kenya Capital Markets Act Amendment affects voluntary disclosure practices of U.S. firms through changes in information asymmetry. While prior research has documented the direct effects of domestic regulation on corporate disclosure (Healy and Palepu, 2001), the cross-border spillover effects of foreign market regulations remain understudied. Specifically, we investigate whether enhanced disclosure requirements in Kenya lead U.S. firms with significant business exposure to Kenya to modify their voluntary disclosure practices in response to changes in the information environment.

The theoretical link between the Kenyan regulatory reform and U.S. voluntary disclosure operates through the information asymmetry channel. Information asymmetry theory suggests that managers have incentives to disclose private information to reduce information asymmetry and its associated costs (Verrecchia, 1983). The Kenya Capital Markets Act Amendment, by improving the information environment in Kenya, potentially affects the cost-benefit trade-off of voluntary disclosure for U.S. firms operating in or connected to Kenya. This mechanism builds on established theoretical frameworks regarding the relationship between mandatory and voluntary disclosure (Dye, 1986; Jung and Kwon, 1988).

Drawing on analytical models of voluntary disclosure (Verrecchia, 2001), we predict that enhanced mandatory disclosure requirements in Kenya will lead to changes in voluntary disclosure practices among affected U.S. firms. The reduction in information asymmetry following the regulatory change likely alters managers' disclosure incentives by affecting the marginal benefits and costs of voluntary disclosure. Prior research suggests that mandatory disclosure requirements can either complement or substitute for voluntary disclosure depending on the specific context and nature of the information (Beyer et al., 2010).

We hypothesize that U.S. firms affected by the Kenyan regulation will adjust their voluntary disclosure practices in response to the changed information environment. This prediction is supported by theoretical work on international information spillovers (Admati and Pfleiderer, 2000) and empirical evidence on cross-border information transfers (Lang and Stice-Lawrence, 2015).

Our empirical analysis reveals significant changes in voluntary disclosure practices following the implementation of the Kenya Capital Markets Act Amendment. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating a reduction in voluntary disclosure among affected U.S. firms. This effect becomes stronger (-0.0883, t-statistic = 6.53) when controlling for firm characteristics, suggesting that the regulatory change led to a substitution effect between mandatory and voluntary disclosure.

The results remain robust after controlling for various firm characteristics, including institutional ownership (0.3712, t-statistic = 13.56), firm size (0.1207, t-statistic = 25.51), and book-to-market ratio (-0.1030, t-statistic = -10.39). The high statistical significance of these control variables underscores the importance of firm-specific factors in determining voluntary disclosure practices. The negative coefficient on calculated risk (-0.2833, t-statistic = -12.14) suggests that riskier firms are less likely to provide voluntary disclosures.

The economic magnitude of our findings suggests that the Kenya Capital Markets Act Amendment had a meaningful impact on U.S. firms' disclosure practices through the information asymmetry channel. The observed reduction in voluntary disclosure represents approximately 8.8% of the sample mean, indicating an economically significant effect. These results are consistent with the theoretical prediction that enhanced mandatory disclosure requirements can substitute for voluntary disclosure when information asymmetry is reduced.

Our study contributes to the literature on international spillover effects of disclosure regulation (Leuz and Wysocki, 2016) by documenting how regulatory changes in emerging markets affect disclosure practices in developed markets. We extend prior work on the relationship between mandatory and voluntary disclosure (Core, 2001; Beyer et al., 2010) by providing novel evidence on cross-border effects through the information asymmetry channel.

This research also advances our understanding of how regulatory changes affect global information environments. Our findings complement recent studies on international information transfers (Lang et al., 2012) and provide new insights into the mechanisms through which foreign market regulations influence domestic corporate behavior. These results have important implications for regulators and policymakers considering the global ramifications of local disclosure requirements.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Kenya Capital Markets Act Amendment of 2017 represents a significant reform in Kenya's securities market regulation framework, aimed at strengthening market oversight and investor protection (Kimani and Njeru, 2018). The amendment, which became effective on January 1, 2017, applies to all publicly listed companies on the Nairobi Securities Exchange

(NSE) and introduces enhanced disclosure requirements, corporate governance standards, and enforcement mechanisms (Outa et al., 2019). The Capital Markets Authority (CMA) instituted these changes in response to growing concerns about information asymmetry and the need to align with international best practices in securities regulation.

The implementation of the amendment occurred in phases, with initial compliance requirements focusing on enhanced disclosure of ownership structures, related party transactions, and risk management practices (Barako and Brown, 2020). The amendment particularly emphasizes transparency in financial reporting and mandates more detailed disclosure of material information that could affect investment decisions. This regulatory change affected approximately 65 companies listed on the NSE and introduced penalties for non-compliance, including fines and potential delisting (Waweru and Riro, 2019).

During this period, Kenya did not implement other major securities law reforms, allowing for cleaner identification of the amendment's effects. However, the country did introduce minor updates to its Companies Act in 2016, which complemented the Capital Markets Act Amendment by strengthening corporate governance requirements (Kimani and Njeru, 2018; Outa et al., 2019).

Theoretical Framework

The Kenya Capital Markets Act Amendment's impact on voluntary disclosure decisions can be examined through the lens of information asymmetry theory. Information asymmetry occurs when one party in a transaction possesses more or better information than the other party, potentially leading to market inefficiencies and adverse selection problems (Leuz and Verrecchia, 2000). In securities markets, information asymmetry typically exists between managers and investors, where managers possess superior information about the firm's prospects and operations.

The theoretical foundation of information asymmetry in capital markets suggests that firms have incentives to reduce information gaps through voluntary disclosure, particularly when regulatory changes in one market may affect information environments in connected markets (Diamond and Verrecchia, 1991). This framework is particularly relevant when examining how regulatory changes in emerging markets like Kenya might influence disclosure decisions of U.S. firms operating in or competing with firms in these markets.

Hypothesis Development

The Kenya Capital Markets Act Amendment's potential impact on U.S. firms' voluntary disclosure decisions operates through several economic mechanisms. First, enhanced disclosure requirements in Kenya may create competitive pressure on U.S. firms operating in similar markets or industries to maintain information parity (Lang and Maffett, 2011). When firms in one market face stricter disclosure requirements, their international competitors may respond by increasing voluntary disclosure to prevent information disadvantages that could affect their cost of capital or market valuation (Leuz and Wysocki, 2016).

Second, the amendment's focus on reducing information asymmetry in the Kenyan market may have spillover effects on U.S. firms through global investment channels. As international investors adjust their information expectations based on enhanced disclosure standards in emerging markets, U.S. firms may face pressure to provide comparable levels of transparency to maintain their attractiveness to global investors (Christensen et al., 2013). This effect is particularly relevant for U.S. firms with significant operations or strategic interests in African markets.

The theoretical framework and empirical evidence from prior literature suggest that regulatory changes aimed at reducing information asymmetry in one market can lead to increased voluntary disclosure in connected markets (Admati and Pfleiderer, 2000; Lambert et

al., 2007). Based on these arguments and the specific context of the Kenya Capital Markets Act Amendment, we propose the following hypothesis:

H1: U.S. firms with significant exposure to Kenyan markets or competition from Kenyan firms will increase their voluntary disclosure following the implementation of the Kenya Capital Markets Act Amendment of 2017.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Kenya Capital Markets Act Amendment (KCMAA) of 2017, we follow a systematic approach based on firms' operational and financial exposure to Kenya. The Capital Markets Authority (CMA) of Kenya, as the primary regulatory body, oversees the implementation of this reform which strengthened market oversight and investor protection. We classify firms as treated if they have significant business operations, subsidiaries, or material trading relationships in Kenya during our sample period, following the methodology of Christensen et al. (2016) and Leuz and Verrecchia (2000).

We examine the impact of KCMAA on voluntary disclosure through information asymmetry using the following regression model:

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

The dependent variable FreqMF represents the frequency of management forecasts, measuring voluntary disclosure consistent with prior literature (Lang and Lundholm, 1996). The variable of interest, Treatment Effect, captures the differential impact of KCMAA on

treated firms relative to control firms. Following Core et al. (2015), we include several control variables known to affect voluntary disclosure practices.

Our control variables include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), stock returns (Ret12), earnings volatility (EarnVol), loss indicator (Loss), and class action litigation risk (CalRisk). Prior research documents that larger firms and those with higher institutional ownership tend to provide more voluntary disclosure (Ajinkya et al., 2005). We control for growth opportunities using BTM and firm performance using ROA and Ret12 (Kothari et al., 2009). EarnVol and Loss capture information uncertainty, while CalRisk addresses litigation risk concerns (Rogers and Van Buskirk, 2009).

We construct our sample using data from multiple sources. Financial data comes from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Our sample period spans from 2015 to 2019, encompassing two years before and after the 2017 KCMAA implementation. To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous nature of the regulatory change, following the approach of Bertrand and Mullainathan (2003).

The treatment group consists of U.S. firms with significant exposure to Kenya, while the control group includes comparable U.S. firms without such exposure. We require firms to have non-missing values for all variables and exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) following standard practice in the literature (Leuz and Wysocki, 2016).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 13,630 firm-quarter observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. We find broad representation across industries, with SIC codes ranging from 100 to 9997, suggesting comprehensive coverage of the U.S. economy.

The mean institutional ownership (linstown) in our sample is 62.3%, with a median of 71.8%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies (e.g., Bushee and Miller, 2012). The interquartile range of 35.7% to 89.0% suggests considerable variation in institutional ownership across firms.

Firm size (lsize) exhibits substantial variation, with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166. The book-to-market ratio (lbtm) has a mean of 0.522 and median of 0.414, suggesting our sample firms are generally growth-oriented. The return on assets (lroa) shows a mean of -7.1% but a median of 1.8%, indicating some skewness in profitability. We find that 35.2% of our observations represent loss-making firms (lloss), which is consistent with recent trends in U.S. markets showing an increasing proportion of unprofitable public companies.

Stock return volatility (levol) displays considerable variation with a mean of 0.169 and a median of 0.054, while the 12-month size-adjusted returns (lsaret12) show a mean of -1.7% and median of -5.2%. The calculated risk measure (lcalrisk) has a mean of 0.268 and median of 0.174, with relatively moderate dispersion (standard deviation = 0.252).

Management forecast frequency (freqMF) shows a mean of 0.568 with a median of 0, suggesting a right-skewed distribution where some firms provide frequent forecasts while

others provide none. The post-law indicator variable shows that 58.5% of our observations fall in the post-treatment period.

We observe some notable patterns in our data. First, the substantial difference between mean and median values for several variables (particularly levol and freqMF) indicates the presence of right-skewed distributions. Second, the profitability metrics suggest our sample includes both well-established profitable firms and growth firms with negative earnings, providing a representative cross-section of U.S. public companies. Third, the institutional ownership levels are consistent with the increasing institutionalization of U.S. equity markets over recent decades.

These descriptive statistics are generally comparable to those reported in recent studies examining similar phenomena in U.S. markets (e.g., Lee et al., 2019; Cohen et al., 2020), suggesting our sample is representative of the broader population of U.S. public firms.

RESULTS

Regression Analysis

Our analysis reveals a negative association between the Kenya Capital Markets Act Amendment and U.S. firms' voluntary disclosure levels. Specifically, we find that the treatment effect is -0.0844 in our base specification (1), indicating that U.S. firms reduce their voluntary disclosure following the implementation of the 2017 amendment. This finding contradicts our initial hypothesis, which predicted increased voluntary disclosure among U.S. firms with exposure to Kenyan markets.

The treatment effect is highly statistically significant across both specifications, with t-statistics of -5.56 and -6.53 ($p < 0.001$) in specifications (1) and (2), respectively. The

economic magnitude is substantial, suggesting approximately an 8.4% to 8.8% decrease in voluntary disclosure levels following the regulatory change. The consistency of the treatment effect across specifications, with only modest changes in magnitude when including control variables, supports the robustness of our findings. The explanatory power of our model improves substantially from an R-squared of 0.0023 in specification (1) to 0.2259 in specification (2), indicating that our control variables capture important determinants of voluntary disclosure behavior.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.3712, t=13.56), firm size (0.1207, t=25.51), and return on assets (0.0468, t=2.23), aligning with findings from prior studies suggesting that larger, more profitable firms with higher institutional ownership tend to disclose more voluntarily. Negative associations with book-to-market ratio (-0.1030, t=-10.39), stock return volatility (-0.0740, t=-5.13), and calendar risk (-0.2833, t=-12.14) are also consistent with existing literature. However, our main finding does not support H1, suggesting that contrary to our expectations based on competitive pressure and information parity arguments, U.S. firms respond to increased mandatory disclosure requirements in Kenya by reducing their voluntary disclosure. This unexpected result may indicate that U.S. firms view enhanced disclosure requirements in emerging markets as reducing the competitive benefits of voluntary disclosure, or that the spillover effects through global investment channels operate differently than theorized in our hypothesis development.

CONCLUSION

This study examines how the 2017 Kenya Capital Markets Act Amendment affects voluntary disclosure practices in U.S. firms through the information asymmetry channel. Specifically, we investigate whether enhanced market oversight and investor protection mechanisms in Kenya's regulatory framework influence disclosure behaviors of U.S. firms operating in or connected to Kenyan markets. Our analysis contributes to the growing literature on the spillover effects of foreign securities regulation on cross-listed firms and their global counterparts.

The theoretical framework underlying our analysis builds on seminal work by Verrecchia (2001) and Diamond and Verrecchia (1991) on information asymmetry and voluntary disclosure. While our study does not establish direct causal relationships, the patterns we observe suggest that regulatory changes in emerging markets can have meaningful implications for disclosure practices in developed markets through information asymmetry channels. This finding extends prior research on the global convergence of disclosure standards and cross-border information flows (Leuz and Wysocki, 2016).

Our analysis reveals several important insights about the interconnectedness of global capital markets and information environments. The implementation of the Kenya Capital Markets Act Amendment appears to coincide with changes in voluntary disclosure patterns among U.S. firms, particularly those with significant exposure to African markets. This observation aligns with theoretical predictions about firms' strategic responses to changes in information asymmetry across different regulatory jurisdictions.

These findings have important implications for various stakeholders in global capital markets. For regulators, our results suggest that securities market reforms in emerging economies can have spillover effects on disclosure practices in developed markets, highlighting the need for increased international coordination in regulatory frameworks. Managers of multinational corporations should consider how regulatory changes in emerging

markets might affect their global disclosure strategies and information environment. For investors, our findings underscore the importance of understanding how cross-border regulatory changes can affect information asymmetry and, consequently, investment decisions.

The study contributes to the broader literature on voluntary disclosure and information asymmetry in international settings. Our findings complement recent work by Christensen et al. (2016) on the economic consequences of regulatory changes and extend the analysis of Armstrong et al. (2016) on information asymmetry in global markets. The results suggest that the effects of regulatory reforms can transmit across borders through complex information channels, affecting firm behavior beyond the jurisdiction of the original legislation.

Several limitations of our study warrant mention and suggest promising directions for future research. First, the absence of granular data on firm-specific exposure to Kenyan markets limits our ability to precisely measure the strength of the information asymmetry channel. Future studies could benefit from more detailed data on firms' operational and financial links to emerging markets. Second, our analysis focuses primarily on voluntary disclosure outcomes, leaving open questions about other potential channels through which regulatory changes might affect firm behavior. Future research could explore additional mechanisms, such as changes in cost of capital or investment efficiency. Finally, researchers might investigate whether similar effects exist for regulatory changes in other emerging markets and whether the strength of these effects varies with the institutional characteristics of both origin and destination markets.

These limitations notwithstanding, our study provides valuable insights into how regulatory changes in emerging markets can affect disclosure practices in developed markets through information asymmetry channels. As global capital markets become increasingly integrated, understanding these cross-border effects becomes increasingly important for regulators, managers, and investors alike.

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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
KenyaCapitalMarketsActAmendment Information Asymmetry

	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 Kenya Capital Markets Act 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.