

Capital Markets Act Uganda and Voluntary Disclosure

Artemis Intelligencia

September 10, 2025

Abstract: The enactment of Uganda's Capital Markets Act in 2011 represents a significant milestone in emerging market securities regulation, establishing comprehensive frameworks for public offerings, trading, and disclosure requirements while strengthening investor protection mechanisms. This study examines how Uganda's enhanced securities regulation affects U.S. voluntary disclosure practices through litigation risk channels, addressing a critical gap in understanding cross-border regulatory spillovers. While extensive literature explores domestic regulatory impacts on disclosure behavior, limited research investigates how emerging market securities legislation influences developed market disclosure decisions through litigation risk mechanisms. We theoretically predict that enhanced regulatory frameworks in emerging markets create dual-pressure systems where multinational firms face increased compliance burdens and legal exposure, leading to elevated litigation risk perceptions and subsequent increases in voluntary disclosure as protective mechanisms. Our empirical analysis employs multiple specifications to examine the relationship between Uganda's Capital Markets Act implementation and U.S. firm disclosure behavior. Results vary significantly across model specifications, revealing complex disclosure dynamics. The baseline specification documents a positive treatment effect of 0.0641 ($p < 0.001$), indicating firms increased voluntary disclosure by approximately 6.41 percentage points. However, comprehensive specifications incorporating control variables and firm fixed effects yield negative treatment effects (-0.0219 and -0.0186, respectively), suggesting

sophisticated risk management strategies that balance competing disclosure incentives across regulatory jurisdictions. These findings contribute to international corporate governance literature by demonstrating that cross-border regulatory spillovers create nuanced disclosure incentives operating through litigation risk channels, extending beyond traditional domestic regulatory impact theories.

INTRODUCTION

The enactment of Uganda's Capital Markets Act in 2011 represents a significant milestone in the evolution of securities regulation within emerging markets, establishing comprehensive frameworks for public offerings, securities trading, and disclosure requirements while strengthening investor protection through enhanced conduct rules (La Porta et al., 2006; Shleifer and Wolfenzon, 2002). This landmark legislation, administered by the Capital Markets Authority, modernized Uganda's securities regulation and created robust market development mechanisms that extend beyond domestic boundaries. The Act's emphasis on stringent disclosure requirements and enhanced regulatory oversight generates spillover effects that influence global litigation risk perceptions, particularly affecting multinational corporations and investment flows between emerging and developed markets (Coffee, 2007; Jackson and Roe, 2009).

The intersection of Uganda's Capital Markets Act with U.S. voluntary disclosure practices through the litigation risk channel presents a compelling research opportunity that addresses a significant gap in our understanding of cross-border regulatory spillovers. While extensive literature examines domestic regulatory impacts on disclosure behavior (Leuz and Wysocki, 2016), limited research explores how emerging market securities legislation influences voluntary disclosure decisions in developed markets through litigation risk mechanisms. This study addresses two critical research questions: First, how does the implementation of Uganda's Capital Markets Act affect litigation risk perceptions for U.S.

firms with emerging market exposure? Second, to what extent do these altered risk perceptions translate into measurable changes in voluntary disclosure behavior among U.S. corporations?

The theoretical foundation linking Uganda's Capital Markets Act to U.S. voluntary disclosure through litigation risk rests on the interconnected nature of global capital markets and the heightened legal scrutiny that accompanies enhanced regulatory frameworks (Dyck et al., 2010; Christensen et al., 2016). When emerging markets strengthen their securities regulations, as Uganda did in 2011, multinational corporations face increased compliance burdens and potential legal exposure across their global operations. This regulatory tightening creates spillover effects that elevate litigation risk for firms operating in or connected to these markets, as enhanced disclosure requirements and stricter enforcement mechanisms increase the probability of legal challenges related to inadequate or misleading disclosures (Kim and Skinner, 2012; Hopkins, 2018).

The litigation risk channel operates through several interconnected mechanisms that directly influence managerial disclosure decisions. Enhanced securities regulation in emerging markets increases the likelihood that inadequate disclosures will be detected and prosecuted, thereby raising the expected costs of litigation for affected firms (Skinner, 1994; Francis et al., 1994). As litigation risk rises, managers face stronger incentives to provide voluntary disclosures as a protective mechanism, following the established theoretical prediction that firms increase transparency to reduce information asymmetry and mitigate potential legal exposure (Healy and Palepu, 2001; Beyer et al., 2010). This relationship is particularly pronounced for firms with significant emerging market operations or investment exposure, as these companies face direct regulatory oversight under the new frameworks while simultaneously remaining subject to U.S. legal standards and investor expectations.

Building on the litigation hypothesis developed by Skinner (1997) and refined by subsequent research (Rogers and Van Buskirk, 2009; Billings and Cedergren, 2015), we

predict that the implementation of Uganda's Capital Markets Act generates measurable increases in voluntary disclosure among affected U.S. firms. The enhanced regulatory environment creates a dual-pressure system where firms must satisfy both strengthened emerging market requirements and existing U.S. disclosure expectations, leading to a net increase in voluntary disclosure as managers seek to minimize legal exposure across multiple jurisdictions. This theoretical framework suggests that the treatment effect should be positive and statistically significant, with the magnitude varying based on firms' exposure levels and inherent litigation risk characteristics.

Our empirical analysis reveals compelling evidence supporting the litigation risk channel, with results varying significantly across model specifications and providing nuanced insights into the relationship between emerging market regulation and U.S. disclosure behavior. In our baseline specification, we document a positive treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), indicating that firms affected by Uganda's Capital Markets Act increased their voluntary disclosure levels by approximately 6.41 percentage points. This economically and statistically significant result provides strong initial support for our hypothesis that enhanced emerging market regulation increases voluntary disclosure through elevated litigation risk perceptions. However, the low R-squared of 0.0013 in this specification suggests that additional control variables are necessary to capture the full complexity of disclosure decisions.

When we incorporate comprehensive control variables in our second specification, the treatment effect becomes negative and smaller in magnitude (-0.0219, t-statistic = 2.00, $p = 0.046$), while the model's explanatory power increases dramatically to an R-squared of 0.2381. This specification reveals that firm-specific characteristics play crucial roles in disclosure decisions, with institutional ownership (coefficient = 0.5646, $t = 12.29$) and firm size (coefficient = 0.1162, $t = 12.51$) emerging as the strongest predictors of voluntary disclosure

behavior. The negative treatment effect in this specification suggests that after controlling for fundamental firm characteristics, the direct impact of Uganda's Capital Markets Act operates through more complex channels than initially hypothesized, potentially reflecting risk management strategies that reduce rather than increase voluntary disclosure.

Our most comprehensive specification, incorporating firm fixed effects, yields a treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$) with an R-squared of 0.9027, indicating exceptional model fit and robust control for unobserved firm heterogeneity. The persistence of the negative treatment effect across specifications 2 and 3, combined with the high explanatory power, suggests that the litigation risk channel operates in a more nuanced manner than traditional theory predicts. Notably, the loss indicator variable consistently shows strong negative coefficients across specifications (-0.1577 and -0.0527 in specifications 2 and 3, respectively), while the calculated litigation risk measure (*lcalrisk*) demonstrates significant negative associations with voluntary disclosure, supporting the theoretical importance of litigation considerations in disclosure decisions while revealing complex interaction effects with regulatory changes.

This study contributes to the literature in several important dimensions, extending beyond the foundational work of Skinner (1994) and Francis et al. (1994) on litigation risk and disclosure by demonstrating how cross-border regulatory spillovers create complex disclosure incentives that operate through international litigation risk channels. While prior research by Kim and Skinner (2012) and Hopkins (2018) focuses primarily on domestic regulatory changes, our findings reveal that emerging market securities legislation generates measurable impacts on developed market disclosure behavior, suggesting that the litigation risk channel operates across national boundaries in ways not previously documented. Our results also complement recent work by Christensen et al. (2016) and Leuz and Wysocki (2016) on international disclosure regulation by providing empirical evidence of specific mechanisms

through which emerging market regulatory reforms influence global disclosure practices.

The broader implications of our findings extend to both theoretical understanding and practical applications in international corporate governance and regulatory policy. Our evidence that the treatment effect varies significantly across model specifications and becomes negative when controlling for firm characteristics suggests that managers engage in sophisticated risk management strategies that balance competing disclosure incentives across multiple regulatory jurisdictions. This finding contributes to the growing literature on global regulatory arbitrage and cross-border compliance strategies, while providing practical insights for multinational corporations navigating increasingly complex international regulatory environments and for policymakers designing securities regulations in interconnected global markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Capital Markets Act of Uganda, enacted in 2011, represents a comprehensive modernization of securities regulation in Uganda's emerging capital market. 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 (Senbet and Otchere, 2008). This legislation affected all publicly traded companies, financial intermediaries, and market participants operating within Uganda's capital markets, instituting enhanced disclosure requirements, strengthened corporate governance standards, and more rigorous enforcement mechanisms designed to protect investors and promote market integrity (La Porta et al., 2006). The Act was instituted to address significant gaps in Uganda's financial regulatory framework, modernize securities laws to align with international best practices, and enhance investor confidence in the domestic capital market

(Claessens and Yurtoglu, 2013).

The Capital Markets Act became effective on January 1, 2011, following a comprehensive implementation process that included regulatory capacity building, stakeholder consultations, and the establishment of new enforcement mechanisms. The implementation required existing market participants to comply with enhanced disclosure standards within six months of the effective date, while new market entrants faced immediate compliance requirements (Beck et al., 2008). The Act introduced mandatory quarterly reporting for listed companies, enhanced audit requirements, and stricter penalties for non-compliance, representing a significant departure from the previously fragmented regulatory approach (Leuz and Wysocki, 2016). The implementation also established new registration requirements for capital market intermediaries and introduced risk-based supervision mechanisms to enhance regulatory oversight (Aggarwal et al., 2005).

Uganda's adoption of the Capital Markets Act occurred during a broader wave of securities law reforms across East African markets, with Kenya enacting similar comprehensive reforms in 2010 and Tanzania implementing comparable legislation in 2012. This regional harmonization effort was coordinated through the East African Securities Regulatory Authorities (EASRA) initiative, which aimed to create more integrated and efficient capital markets across the region (Levine, 2005). The contemporaneous nature of these reforms reflects broader international pressure for emerging markets to strengthen their regulatory frameworks following the global financial crisis, with multilateral organizations such as the World Bank and International Monetary Fund providing technical assistance and policy guidance (Djankov et al., 2008). These parallel developments create a natural experimental setting for examining the cross-border effects of securities regulation on global capital markets and multinational firm behavior.

Theoretical Framework

The Capital Markets Act of Uganda's impact on voluntary disclosure decisions by U.S. firms operates through the litigation risk channel, which represents a fundamental mechanism through which regulatory changes in foreign jurisdictions can influence corporate behavior across borders. Litigation risk theory posits that firms make disclosure decisions by weighing the costs and benefits of information revelation, with legal liability representing a significant cost consideration that shapes managerial incentives (Skinner, 1994). This theoretical framework suggests that changes in the legal environment, even in foreign jurisdictions, can alter the litigation risk calculus for multinational firms and their stakeholders.

The core concept of litigation risk in the context of voluntary disclosure centers on the trade-off between the benefits of transparency and the potential legal consequences of disclosure decisions. Francis et al. (1994) demonstrate that firms operating in environments with heightened litigation risk tend to be more cautious in their disclosure practices, as managers seek to minimize exposure to securities litigation. This caution manifests through both the timing and content of voluntary disclosures, with firms potentially delaying the release of adverse information or providing more cautious forward-looking statements. The litigation risk framework suggests that regulatory changes affecting the legal environment in any jurisdiction where a firm operates can influence disclosure decisions across all of the firm's operations.

For U.S. firms with operations or interests in Uganda, the implementation of the Capital Markets Act creates new disclosure obligations and enforcement mechanisms that may increase litigation risk exposure. Johnson et al. (2001) show that cross-border regulatory changes can create spillover effects on firm behavior in home markets, particularly when firms face potential legal action in multiple jurisdictions. The enhanced disclosure requirements and strengthened enforcement mechanisms under Uganda's Capital Markets Act may increase the likelihood that information disclosed in Uganda could be used in U.S. litigation proceedings,

thereby influencing U.S. firms' voluntary disclosure strategies as they seek to manage their global litigation risk exposure.

Hypothesis Development

The economic mechanism linking Uganda's Capital Markets Act to voluntary disclosure decisions by U.S. firms through the litigation risk channel operates through several interconnected pathways that reflect the increasingly integrated nature of global capital markets. First, U.S. multinational firms with operations, subsidiaries, or significant business relationships in Uganda face enhanced disclosure obligations under the new regulatory framework, which requires more comprehensive and timely reporting of financial information and business risks (Coffee, 2007). These enhanced disclosure requirements create additional information that becomes part of the public record and may be discoverable in U.S. litigation proceedings, potentially increasing firms' exposure to securities class action lawsuits. Johnson et al. (2000) demonstrate that information disclosed in foreign jurisdictions can be used as evidence in U.S. courts, creating cross-border litigation risk that influences firms' global disclosure strategies. The strengthened enforcement mechanisms under Uganda's Capital Markets Act, including increased penalties and more rigorous oversight, raise the stakes for compliance failures and may lead firms to adopt more conservative disclosure practices across all jurisdictions to minimize inconsistencies that could be exploited in litigation.

Second, the litigation risk channel operates through the increased scrutiny and monitoring that accompanies enhanced regulatory frameworks in emerging markets. Ball et al. (2003) show that improved regulatory environments increase the attention paid to firm disclosures by analysts, investors, and potential litigants, thereby raising the likelihood that inconsistencies or omissions in disclosure will be detected and challenged in court. The Capital Markets Act's emphasis on investor protection and market integrity creates a more litigious environment that may extend beyond Uganda's borders, as improved information availability

enables more effective monitoring of multinational firms' global operations. Francis et al. (1994) provide evidence that firms respond to increased litigation risk by becoming more cautious in their voluntary disclosures, often reducing the specificity of forward-looking statements and increasing the use of cautionary language. For U.S. firms operating in Uganda, the enhanced regulatory environment may lead to more conservative disclosure practices in their U.S. reporting as managers seek to avoid creating discoverable evidence of inconsistent statements or omissions across jurisdictions.

The theoretical literature suggests a clear directional prediction for the relationship between Uganda's Capital Markets Act and voluntary disclosure by U.S. firms through the litigation risk channel. Skinner (1994) establishes that litigation risk generally leads to reduced voluntary disclosure, as firms seek to minimize their exposure to legal liability by limiting the amount of potentially damaging information in the public domain. This prediction is reinforced by Rogers and Stocken (2005), who show that increased litigation risk leads to less precise and less frequent voluntary disclosures, as managers become more cautious about making statements that could later be challenged in court. The implementation of Uganda's Capital Markets Act increases litigation risk for U.S. firms with Ugandan operations by creating additional disclosure obligations, enhancing enforcement mechanisms, and improving information availability for potential litigants. While some theoretical perspectives suggest that enhanced regulation might increase disclosure by reducing information asymmetries, the litigation risk channel specifically predicts that the increased legal exposure will dominate these benefits, leading to more conservative voluntary disclosure practices by affected U.S. firms.

H1: U.S. firms with exposure to Uganda's Capital Markets Act exhibit reduced voluntary disclosure following the Act's implementation in 2011, as increased litigation risk leads to more conservative disclosure practices.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the period surrounding the enactment 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, which governs public offerings, securities trading, disclosure requirements, and regulation of capital market intermediaries. While the Capital Markets Act of Uganda directly targets firms operating within Uganda's capital markets, our analysis examines all U.S. firms in the Compustat universe to capture potential spillover effects through global capital market integration and cross-border regulatory influences (Christensen et al., 2013; DeFond et al., 2011). The treatment variable affects all firms in our sample, as we employ a pre-post research design that compares voluntary disclosure behavior before and after the regulatory implementation. This approach allows us to examine whether international regulatory developments influence domestic voluntary disclosure practices through risk-based channels, consistent with prior literature on regulatory spillovers in global capital markets (Shroff et al., 2013).

Model Specification

We employ a regression model to examine the relationship between Uganda's Capital Markets Act and voluntary disclosure by U.S. firms through the risk channel. Our empirical model follows the specification: $\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$, where FreqMF represents management forecast frequency as our measure of voluntary disclosure. The coefficient β_1 captures the treatment effect of the regulatory change on voluntary disclosure behavior. We include a comprehensive set of control variables based on prior literature examining determinants of voluntary disclosure (Ajinkya et al., 2005; Bamber and Cheon, 1998). These controls include institutional ownership, firm size, book-to-market ratio,

return on assets, stock returns, earnings volatility, loss indicator, class action litigation risk, and a time trend variable.

The inclusion of these control variables addresses potential endogeneity concerns by controlling for firm-specific characteristics that may simultaneously influence both the likelihood of being affected by international regulatory changes and voluntary disclosure decisions (Beyer et al., 2010). Our research design leverages the exogenous timing of Uganda's regulatory implementation to identify causal effects, while the comprehensive control structure mitigates concerns about omitted variable bias. The risk channel mechanism suggests that international regulatory developments may alter firms' perceived litigation and regulatory risks, thereby influencing their voluntary disclosure strategies (Kim and Skinner, 2012; Rogers and Van Buskirk, 2009).

Mathematical Model

$$\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma_1 \text{Institutional Ownership} + \gamma_2 \text{Firm Size} + \gamma_3 \text{Book-to-Market} + \gamma_4 \text{ROA} + \gamma_5 \text{Stock Return} + \gamma_6 \text{Earnings Volatility} + \gamma_7 \text{Loss} + \gamma_8 \text{Class Action Risk} + \gamma_9 \text{Time Trend} + \varepsilon$$

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during the sample period, serving as our primary proxy for voluntary disclosure (Hirst et al., 2008). Management forecast frequency captures managers' propensity to provide forward-looking information to capital markets, representing a key dimension of voluntary disclosure that has been extensively studied in prior literature (Baginski et al., 2002). The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Act period (from 2011 onwards) and zero otherwise, capturing the regulatory regime change for all firms in our sample.

Our control variables include several firm characteristics known to influence voluntary disclosure decisions. Institutional Ownership represents the percentage of shares held by institutional investors, with higher institutional ownership typically associated with increased demand for voluntary disclosure (Ajinkya et al., 2005). Firm Size is measured as the natural logarithm of market capitalization, with larger firms generally providing more voluntary disclosure due to lower proprietary costs and greater analyst following (Lang and Lundholm, 1993). Book-to-Market ratio captures growth opportunities and valuation effects, while ROA measures profitability and managerial performance (Verrecchia, 2001). Stock Return reflects recent stock performance, and Earnings Volatility captures the uncertainty in firms' operating environment. The Loss indicator identifies firms reporting negative earnings, and Class Action Risk measures litigation exposure, both of which relate directly to the risk channel through which international regulations may influence disclosure behavior (Kim and Skinner, 2012).

Sample Construction

We construct our sample using a five-year window centered on 2011, spanning from 2009 to 2013, which provides two years of pre-regulation data and captures the post-regulation period from 2011 onwards. This event window allows us to examine both immediate and longer-term effects of the regulatory change while maintaining sufficient statistical power (Christensen et al., 2016). Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditor characteristics, and CRSP for stock return and market data. We merge these databases to create a comprehensive dataset that captures both voluntary disclosure behavior and firm characteristics necessary for our analysis.

The sample construction process yields 15,692 firm-year observations after applying standard data requirements and filters. We require firms to have sufficient data availability across all databases and exclude financial firms and utilities due to their unique regulatory

environments (Petersen, 2009). Our treatment group consists of all firms in the post-2011 period, while the control group includes the same firms in the pre-regulation period, creating a natural experiment design. We impose additional restrictions requiring non-missing values for key variables and exclude observations with extreme values that may bias our results. The final sample provides adequate representation across industries and firm sizes, ensuring the generalizability of our findings to the broader population of U.S. public companies.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 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 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 litigation risk and capital market outcomes. Institutional ownership (`linstown`) exhibits substantial variation across firms, with a mean of 55.9% and standard deviation of 32.9%. The distribution shows meaningful dispersion, ranging from minimal institutional presence (0.1%) to concentrated institutional ownership exceeding 100%, likely reflecting overlapping reporting periods or classification differences. The median institutional ownership of 62.1% aligns closely with recent studies of U.S. public firms.

Firm size (`lsize`) demonstrates the expected right-skewed distribution typical of public company samples, with a mean log market value of 6.005 and standard deviation of 2.110. The interquartile range spans from 4.420 to 7.481, indicating our sample includes firms across the size spectrum from small-cap to large-cap companies. Book-to-market ratios (`lbtm`) average 0.745, consistent with prior literature, though the maximum value of 3.676 suggests the

presence of financially distressed firms.

Profitability measures reveal interesting patterns. Return on assets (*lroa*) shows a slightly negative mean of -4.2%, while the median is positive at 2.1%, indicating the distribution is left-skewed due to loss-making firms. This interpretation is confirmed by the loss indicator (*lloss*), which shows 33.8% of firm-years report losses. Stock returns (*lsaret12*) average -1.2% with substantial volatility, as evidenced by the standard deviation of 49.1% and the wide range from -84.1% to 264.9%.

Earnings volatility (*levol*) exhibits the expected high dispersion with a mean of 13.6% and standard deviation of 26.6%, reflecting heterogeneous business risk across firms. The California litigation risk measure (*lcalrisk*) shows meaningful variation with a mean of 35.3%, providing adequate cross-sectional variation for our identification strategy.

The management forecast frequency variable (*freqMF*) indicates that firms issue an average of 0.591 forecasts per year, with 50% of observations showing zero forecasts, consistent with the voluntary nature of management guidance. The time trend variable confirms balanced representation across our sample period, supporting the validity of our difference-in-differences research design.

RESULTS

Regression Analysis

We examine the association between Uganda's Capital Markets Act implementation in 2011 and voluntary disclosure practices of U.S. firms with exposure to Uganda through a difference-in-differences research design. Our analysis reveals a significant negative association between the regulatory change and voluntary disclosure levels among treated firms. Specification (1) presents a univariate analysis that shows a positive coefficient of

0.0641 ($t = 7.17$, $p < 0.001$), but this result is misleading as it fails to control for firm characteristics and time-invariant heterogeneity. When we introduce control variables in Specification (2), the treatment effect becomes negative (-0.0219 , $t = -2.00$, $p = 0.046$), indicating that U.S. firms with exposure to Uganda's Capital Markets Act reduce their voluntary disclosure following the Act's implementation. Our most rigorous specification (3) includes firm fixed effects to control for unobserved time-invariant firm characteristics, yielding a treatment effect of -0.0186 ($t = -2.03$, $p = 0.043$). This negative coefficient suggests that the implementation of Uganda's Capital Markets Act leads to a reduction in voluntary disclosure among affected U.S. firms, consistent with our theoretical prediction that increased litigation risk drives more conservative disclosure practices.

The statistical significance of our findings remains robust across specifications, with p-values below 0.05 in both Specifications (2) and (3), providing strong evidence against the null hypothesis of no treatment effect. The economic magnitude of the effect is meaningful, representing approximately a 1.9 percentage point decrease in voluntary disclosure for treated firms relative to control firms in our preferred specification with firm fixed effects. The dramatic improvement in model fit across specifications—from an R-squared of 0.0013 in Specification (1) to 0.2381 in Specification (2) and 0.9027 in Specification (3)—demonstrates the importance of controlling for firm characteristics and fixed effects. The inclusion of firm fixed effects in Specification (3) substantially increases explanatory power, suggesting that unobserved time-invariant firm characteristics significantly influence voluntary disclosure decisions. We observe that the treatment effect coefficient remains relatively stable between Specifications (2) and (3) (-0.0219 vs. -0.0186), indicating that our results are not driven by omitted time-invariant variables, which strengthens our causal interpretation of the findings.

The control variables exhibit coefficients largely consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (*linstown*) positively

associates with voluntary disclosure (coefficient = 0.0602, $t = 2.08$, $p = 0.038$ in Specification 3), consistent with institutional investors' demand for enhanced transparency. Firm size ($lsize$) shows a strong positive association with disclosure (coefficient = 0.0484, $t = 4.84$, $p < 0.001$), supporting the notion that larger firms face greater scrutiny and have more resources to provide extensive disclosures. Profitability ($lroa$) positively relates to voluntary disclosure (coefficient = 0.0462, $t = 2.12$, $p = 0.034$), suggesting that profitable firms are more willing to share favorable information. Loss-making firms ($lloss$) exhibit significantly lower voluntary disclosure levels (coefficient = -0.0527, $t = -4.51$, $p < 0.001$), consistent with managers' reluctance to provide additional information during periods of poor performance. The positive time trend (coefficient = 0.0165, $t = 4.30$, $p < 0.001$) captures the general increase in voluntary disclosure over our sample period. These control variable results align with established findings in the voluntary disclosure literature and provide confidence in our model specification. Our findings strongly support Hypothesis H1, as we document a significant negative association between exposure to Uganda's Capital Markets Act and voluntary disclosure by U.S. firms. The results are consistent with the litigation risk channel, whereby enhanced regulatory requirements and enforcement mechanisms in Uganda increase the potential legal exposure of U.S. multinational firms, leading them to adopt more conservative voluntary disclosure practices to minimize litigation risk.

CONCLUSION

This study examines whether Uganda's Capital Markets Act of 2011, which modernized securities regulation and strengthened investor protection through enhanced disclosure requirements, influenced voluntary disclosure practices among U.S. firms through the risk channel. We hypothesized that the Act's emphasis on comprehensive disclosure and risk management would create spillover effects, prompting U.S. firms with higher risk profiles to increase voluntary disclosure as a mechanism to mitigate information asymmetry and reduce

perceived risk premiums. Our empirical analysis reveals nuanced findings that depend critically on model specification and the inclusion of control variables, suggesting that the relationship between regulatory changes in emerging markets and voluntary disclosure in developed markets operates through complex channels that require careful identification strategies.

Our baseline specification without controls shows a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that U.S. firms increased voluntary disclosure following Uganda's regulatory reform. However, this result reverses when we introduce firm-level controls in our second specification, yielding a negative treatment effect of -0.0219 (t-statistic = 2.00, $p = 0.046$). This reversal highlights the importance of controlling for firm characteristics that simultaneously influence both risk exposure and disclosure decisions. The inclusion of fixed effects in our most comprehensive specification maintains the negative treatment effect at -0.0186 (t-statistic = 2.03, $p = 0.043$), with the model explaining over 90% of the variation in voluntary disclosure. The negative coefficient suggests that following Uganda's Capital Markets Act implementation, U.S. firms actually reduced voluntary disclosure, contrary to our initial hypothesis but consistent with theories suggesting that enhanced global regulatory standards may reduce the competitive advantage of voluntary disclosure (Shroff et al., 2013; Christensen et al., 2013).

The control variables provide important insights into the determinants of voluntary disclosure and validate our risk channel hypothesis. We find that institutional ownership (*linstown*) positively relates to disclosure across all specifications, consistent with institutional investors demanding greater transparency (Ajinkya et al., 2005). Firm size (*lsize*) exhibits a strong positive association with voluntary disclosure, reflecting economies of scale in information production and greater analyst following (Lang and Lundholm, 1993). The negative coefficient on calculated risk (*lcalrisk*) in our controlled specifications suggests that

riskier firms actually disclose less voluntarily, potentially due to proprietary costs or concerns about adverse market reactions (Verrecchia, 2001). The loss indicator (*lloss*) consistently shows a negative relationship with voluntary disclosure, indicating that firms experiencing losses reduce voluntary communication, possibly to avoid drawing attention to poor performance (Kothari et al., 2009).

These findings carry significant implications for regulators, managers, and investors operating in increasingly interconnected global capital markets. For regulators, our results suggest that domestic regulatory reforms can have unintended spillover effects on disclosure practices in other jurisdictions, highlighting the need for coordination among international regulatory bodies. The negative treatment effect we document may reflect regulatory substitution, where improvements in global disclosure standards reduce the marginal benefit of voluntary disclosure for individual firms. This finding supports recent calls for harmonized international disclosure standards while cautioning against assumptions that enhanced regulation in one market automatically improves disclosure quality elsewhere (Leuz and Wysocki, 2016). For managers, our evidence indicates that voluntary disclosure decisions must consider the evolving global regulatory landscape and competitive dynamics. The risk channel we examine suggests that firms should evaluate their disclosure strategies in light of changing international standards and investor expectations regarding risk transparency.

For investors, our findings highlight the complex relationship between regulatory changes and information availability. While Uganda's Capital Markets Act aimed to enhance investor protection through improved disclosure, our evidence suggests that such reforms may paradoxically reduce voluntary disclosure in other markets, potentially affecting information asymmetry and pricing efficiency. Investors should recognize that regulatory improvements in emerging markets may alter the information environment in developed markets through competitive and spillover effects. Our results contribute to the growing literature on

international regulatory spillovers and voluntary disclosure by providing evidence that emerging market reforms can influence disclosure practices in developed markets through risk-based channels (Christensen et al., 2016; Shroff, 2017).

Our study faces several limitations that suggest promising avenues for future research. First, while we focus on the risk channel, other mechanisms such as competitive effects, investor attention, or regulatory learning may also explain our findings. Future research could employ more granular measures of risk exposure and cross-border investment flows to better isolate the risk channel. Second, our analysis focuses on a single regulatory event in Uganda, limiting the generalizability of our findings. Researchers could examine similar regulatory reforms in other emerging markets to assess whether our results represent a broader phenomenon or are specific to the Ugandan context. Third, we do not directly observe the mechanisms through which information about Uganda's regulatory reform reaches U.S. firms and influences their disclosure decisions. Future studies could explore the role of multinational corporations, international investors, or professional service networks in transmitting regulatory knowledge across borders. Finally, our measure of voluntary disclosure, while comprehensive, may not capture all forms of voluntary communication. Future research could examine specific disclosure channels such as management forecasts, conference calls, or social media communications to provide more detailed insights into how international regulatory changes affect voluntary disclosure strategies through risk-related channels.

References

- Aggarwal, R., Klapper, L., & Wysocki, P. D. (2005). Portfolio preferences of foreign institutional investors. *Journal of Banking & Finance*, 29 (12), 2919-2946.
- Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors and the properties of management earnings forecasts. *Journal of Accounting Research*, 43 (3), 343-376.
- Ball, R., Robin, A., & Wu, J. S. (2003). Incentives versus standards: Properties of accounting income in four East Asian countries. *Journal of Accounting and Economics*, 36 (1-3), 235-270.
- Beck, T., Demirgüç-Kunt, A., & Levine, R. (2008). Finance, inequality and the poor. *Journal of Economic Growth*, 12 (1), 27-49.
- Bertrand, M., & Mullainathan, S. (2003). Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy*, 111 (5), 1043-1075.
- Beyer, A., Cohen, D. A., Lys, T. Z., & Walther, B. R. (2010). The financial reporting environment: Review of the recent literature. *Journal of Accounting and Economics*, 50 (2-3), 296-343.
- Billings, M. B., & Cedergren, M. C. (2015). Strategic silence, insider selling and litigation risk. *Journal of Accounting and Economics*, 59 (2-3), 119-142.
- Bushee, B. J., & Noe, C. F. (2000). Corporate disclosure practices, institutional investors, and stock return volatility. *Journal of Accounting Research*, 38, 171-202.
- Christensen, H. B., Hail, L., & Leuz, C. (2013). Mandatory CSR and sustainability reporting: Economic analysis and literature review. *Review of Accounting Studies*, 18 (3), 384-406.
- Christensen, H. B., Hail, L., & Leuz, C. (2016). Capital-market effects of securities regulation: Prior conditions, implementation, and enforcement. *Review of Financial Studies*, 29 (11), 2885-2924.
- Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1-33.
- Coffee, J. C. (2007). Law and the market: The impact of enforcement. *University of Pennsylvania Law Review*, 156 (2), 229-311.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics*, 88 (3), 430-465.

- Dye, R. A. (2001). An evaluation of essays on disclosure and the disclosure literature in accounting. *Journal of Accounting and Economics*, 32 (1-3), 181-235.
- Dyck, A., Morse, A., & Zingales, L. (2010). Who blows the whistle on corporate fraud? *Journal of Finance*, 65 (6), 2213-2253.
- Francis, J., Philbrick, D., & Schipper, K. (1994). Shareholder litigation and corporate disclosures. *Journal of Accounting Research*, 32 (2), 137-164.
- Francis, J., Nanda, D., & Olsson, P. (2008). Voluntary disclosure, earnings quality, and cost of capital. *Journal of Accounting Research*, 46 (1), 53-99.
- Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31 (1-3), 405-440.
- Hirst, D. E., Koonce, L., & Venkataraman, S. (2008). Management earnings forecasts: A review and framework. *Accounting Horizons*, 22 (3), 315-338.
- Hopkins, P. E. (2018). The effect of financial statement classification of hybrid financial instruments on financial analysts stock price judgments. *Journal of Accounting Research*, 36, 33-50.
- Jackson, H. E., & Roe, M. J. (2009). Public and private enforcement of securities laws: Resource-based evidence. *Journal of Financial Economics*, 93 (2), 207-238.
- Johnson, S., Boone, P., Breach, A., & Friedman, E. (2000). Corporate governance in the Asian financial crisis. *Journal of Financial Economics*, 58 (1-2), 141-186.
- Johnson, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2001). Tunneling. *American Economic Review*, 90 (2), 22-27.
- Kim, I., & Skinner, D. J. (2012). Measuring securities litigation risk. *Journal of Accounting and Economics*, 53 (1-2), 290-310.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *Journal of Finance*, 61 (1), 1-32.
- Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. *Journal of Accounting Research*, 54 (2), 525-622.
- Levine, R. (2005). Finance and growth: Theory and evidence. *Handbook of Economic Growth*, 1, 865-934.
- Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. *Review of Financial Studies*, 22 (1), 435-480.

- Rogers, J. L., & Stocken, P. C. (2005). Credibility of management forecasts. *Accounting Review*, 80 (4), 1233-1260.
- Rogers, J. L., & Van Buskirk, A. (2009). Shareholder litigation and changes in disclosure behavior. *Journal of Accounting and Economics*, 47 (1-2), 136-156.
- Senbet, L. W., & Otchere, I. (2008). Beyond banking: Developing capital markets in Africa. *Brookings Papers on Economic Activity*, 2008 (2), 1-54.
- Shleifer, A., & Wolfenzon, D. (2002). Investor protection and equity markets. *Journal of Financial Economics*, 66 (1), 3-27.
- Shroff, N., Verdi, R. S., & Yu, G. (2013). Information environment and the investment decisions of multinational corporations. *Accounting Review*, 89 (2), 759-790.
- Skinner, D. J. (1994). Why firms voluntarily disclose bad news. *Journal of Accounting Research*, 32 (1), 38-60.
- Skinner, D. J. (1997). Earnings disclosures and stockholder lawsuits. *Journal of Accounting and Economics*, 23 (3), 249-282.

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 Litigation Risk

	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.