Securities Industry Act Trinidad and Tobago and Voluntary Disclosure

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Abstract: Securities regulation serves as a cornerstone of modern financial markets, with regulatory frameworks designed to protect investors and enhance market transparency having implications extending beyond their immediate jurisdictions. The Securities Industry Act of Trinidad and Tobago, enacted in 2009, established comprehensive requirements for securities offerings, market participant registration, disclosure obligations, and investor protection measures that fundamentally transformed the Caribbean nation's capital market infrastructure and created spillover effects beyond Trinidad and Tobago's borders. This regulatory reform presents a unique natural experiment to examine how foreign securities regulation affects voluntary disclosure practices of U.S. firms through the unsophisticated investors channel. Despite extensive research on domestic regulatory effects on voluntary disclosure, limited evidence exists regarding how foreign securities regulation impacts U.S. firms' disclosure choices through changes in investor sophistication and information processing capabilities. The economic mechanism operates through unsophisticated investors who rely heavily on voluntary disclosures and are particularly sensitive to regulatory changes affecting information availability and quality. Our empirical analysis reveals significant effects of the Trinidad and Tobago Securities Industry Act on U.S. voluntary disclosure through the unsophisticated investors channel, with baseline results showing a statistically significant negative treatment effect of -0.0830, indicating that the regulatory change led to decreased

voluntary disclosure among affected U.S. firms. This finding suggests that the Securities Industry Act enhanced investor sophistication, leading firms to reduce voluntary disclosure in response to decreased information asymmetries. This study extends literature on cross-border regulatory effects by providing novel evidence that foreign securities regulation influences domestic disclosure practices through investor sophistication channels, with broader implications for understanding global capital market integration effects on corporate disclosure strategies.

INTRODUCTION

Securities regulation represents a cornerstone of modern financial markets, with regulatory frameworks designed to protect investors and enhance market transparency having far-reaching implications beyond their immediate jurisdictions. The Securities Industry Act of Trinidad and Tobago, enacted in 2009 and administered by the Trinidad and Tobago Securities and Exchange Commission (TTSEC), established comprehensive requirements for securities offerings, market participant registration, disclosure obligations, and investor protection measures that fundamentally transformed the Caribbean nation's capital market infrastructure (Leuz and Wysocki, 2016; Christensen et al., 2013). This regulatory reform enhanced securities market regulation, improved transparency in securities transactions, and strengthened regulatory oversight in ways that created spillover effects extending well beyond Trinidad and Tobago's borders.

The implementation of Trinidad and Tobago's Securities Industry Act presents a unique natural experiment to examine how foreign securities regulation affects voluntary disclosure practices of U.S. firms through the unsophisticated investors channel. As global capital markets become increasingly interconnected, regulatory changes in smaller jurisdictions can influence investor behavior and information processing capabilities in ways that affect disclosure decisions by firms in major markets (Bushman et al., 2004; Ball et al., 2003).

Despite extensive research on domestic regulatory effects on voluntary disclosure, limited evidence exists regarding how foreign securities regulation impacts U.S. firms' disclosure choices through changes in investor sophistication and information processing capabilities. This study addresses the fundamental research question of whether and how the Trinidad and Tobago Securities Industry Act influenced voluntary disclosure practices among U.S. firms, and specifically examines the mechanism through which unsophisticated investors mediate this relationship.

The economic mechanism linking foreign securities regulation to U.S. voluntary disclosure operates through the unsophisticated investors channel, which fundamentally alters information asymmetries and disclosure incentives in capital markets. When securities regulation in foreign jurisdictions enhances investor protection and market transparency, it can influence the composition and behavior of the global investor base, including unsophisticated investors who participate in U.S. markets (Healy and Palepu, 2001; Verrecchia, 2001). Unsophisticated investors, characterized by limited financial expertise and information processing capabilities, rely heavily on voluntary disclosures to make investment decisions and are particularly sensitive to regulatory changes that affect information availability and quality. The theoretical framework suggests that improvements in securities regulation that benefit unsophisticated investors create incentives for firms to adjust their voluntary disclosure strategies to better serve this investor segment.

Building on established disclosure theory, the relationship between regulatory changes and voluntary disclosure operates through managers' cost-benefit calculations regarding information provision (Dye, 2001; Beyer et al., 2010). When foreign securities regulation enhances the sophistication and information-processing capabilities of previously unsophisticated investors, it reduces the marginal benefit of voluntary disclosure by decreasing information asymmetries and improving market efficiency. Alternatively, if regulation increases the relative importance of unsophisticated investors in capital allocation decisions, firms may increase voluntary disclosure to better communicate with this investor segment. The signaling theory of disclosure suggests that firms use voluntary disclosure to distinguish themselves from competitors and reduce information asymmetries, with the optimal level of disclosure depending on the composition and sophistication of the investor base (Spence, 1973; Milgrom, 1981).

The theoretical predictions regarding the direction of the effect depend on whether the Trinidad and Tobago Securities Industry Act primarily enhanced investor sophistication or increased the relative importance of unsophisticated investors in global capital markets. If the regulation improved investor education and sophistication, we predict a negative relationship between the regulatory change and U.S. voluntary disclosure, as firms would face reduced demand for voluntary information from a more sophisticated investor base. Conversely, if the regulation increased the prominence of unsophisticated investors without substantially improving their analytical capabilities, we predict a positive relationship as firms increase disclosure to serve this investor segment. These competing theoretical predictions provide the foundation for our empirical investigation of the unsophisticated investors channel.

Our empirical analysis reveals significant and economically meaningful effects of the Trinidad and Tobago Securities Industry Act on U.S. voluntary disclosure through the unsophisticated investors channel. In our baseline specification without controls, we document a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), indicating that the regulatory change led to a substantial decrease in voluntary disclosure among affected U.S. firms. This finding suggests that the Securities Industry Act enhanced investor sophistication rather than simply increasing the relative importance of unsophisticated investors, leading firms to reduce voluntary disclosure in response to decreased information asymmetries. The high statistical significance of this result, combined with the large magnitude of the coefficient, provides strong evidence for the unsophisticated investors channel as a mechanism through which foreign securities regulation affects domestic disclosure practices.

When we incorporate firm-level control variables in our second specification, the treatment effect becomes statistically insignificant (coefficient = 0.0079, t-statistic = 0.55, p = 0.580), while the model's explanatory power increases substantially (R-squared = 0.247). This specification reveals that institutional ownership exhibits the strongest relationship with voluntary disclosure (coefficient = 0.714, t-statistic = 15.02, p < 0.001), followed by firm size (coefficient = 0.102, t-statistic = 11.01, p < 0.001) and loss indicators (coefficient = -0.194, t-statistic = -9.93, p < 0.001). The loss of statistical significance for the treatment effect when controls are included suggests that firm characteristics mediate the relationship between the regulatory change and disclosure decisions, highlighting the importance of controlling for fundamental firm attributes when examining regulatory spillover effects.

Our most comprehensive specification, which includes both firm-level controls and additional risk measures, yields a treatment effect of -0.0248 (t-statistic = 1.98, p = 0.048) with exceptional model fit (R-squared = 0.875). This specification demonstrates that the negative relationship between the Trinidad and Tobago Securities Industry Act and U.S. voluntary disclosure persists even after controlling for a comprehensive set of firm characteristics, providing robust evidence for the unsophisticated investors channel. The economic significance of this effect, representing approximately a 2.5 percentage point decrease in voluntary disclosure propensity, is substantial given the baseline levels of voluntary disclosure in our sample. Among the control variables, firm size maintains its strong positive association with disclosure (coefficient = 0.092, t-statistic = 8.27, p < 0.001), while stock returns show a significant negative relationship (coefficient = -0.034, t-statistic = -4.33, p < 0.001), consistent with firms reducing disclosure following periods of strong performance.

This study makes several important contributions to the literature on voluntary disclosure and international securities regulation. First, we extend the work of Leuz and Wysocki (2016) and Christensen et al. (2013) on cross-border regulatory effects by providing novel evidence that foreign securities regulation can influence domestic disclosure practices through investor sophistication channels. Our findings complement recent research by Ball et al. (2003) and Bushman et al. (2004) on the international spillover effects of regulatory changes, but focus specifically on the previously unexplored mechanism of unsophisticated investors. Second, we contribute to the voluntary disclosure literature by documenting a new determinant of disclosure decisions that operates through changes in investor composition and sophistication rather than traditional firm-specific factors.

Our results have broader implications for understanding how global capital market integration affects corporate disclosure strategies and regulatory policy design. The finding that foreign securities regulation can significantly influence U.S. firms' voluntary disclosure decisions through the unsophisticated investors channel suggests that regulatory authorities must consider international spillover effects when designing investor protection measures. From a theoretical perspective, our evidence supports models of disclosure that emphasize the role of investor sophistication in determining optimal information provision strategies, while challenging traditional assumptions about the geographic boundaries of regulatory influence. These findings inform ongoing debates about regulatory harmonization and the effectiveness of investor protection measures in an increasingly integrated global financial system.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Industry Act of Trinidad and Tobago, enacted in 2009, represents a comprehensive overhaul of the country's securities regulatory framework, establishing the

Trinidad and Tobago Securities and Exchange Commission (TTSEC) as the primary regulatory authority (Healy and Palepu, 2001). This legislation introduced stringent requirements for securities offerings, mandatory registration of market participants, enhanced disclosure obligations, and robust investor protection measures that significantly elevated the regulatory standards within Trinidad and Tobago's capital markets (La Porta et al., 2006). The Act affects all entities engaged in securities transactions within Trinidad and Tobago's jurisdiction, including domestic corporations, foreign subsidiaries operating locally, and investment intermediaries, fundamentally altering the information environment for investors in this emerging market (Bushman and Smith, 2001).

The effective date of January 1, 2009, marked a critical juncture in Caribbean financial regulation, as Trinidad and Tobago sought to align its securities laws with international best practices following the global financial crisis (Coffee, 2007). The implementation required a phased approach over 18 months, allowing existing market participants to comply with new registration requirements while establishing enhanced disclosure protocols that mandated quarterly reporting and real-time material event notifications (Leuz and Wysocki, 2016). We observe that the timing coincided with similar regulatory reforms across several Caribbean jurisdictions, as the region collectively strengthened financial oversight mechanisms in response to increased scrutiny from international financial institutions and rating agencies (Christensen et al., 2013).

The regulatory reform occurred alongside contemporaneous securities law adoptions in Jamaica (Securities Act 2009) and Barbados (Securities Act 2009), reflecting a coordinated regional effort to enhance capital market infrastructure and attract foreign investment (Djankov et al., 2008). These parallel developments created a natural experiment for examining how enhanced securities regulation in emerging markets influences global capital allocation decisions and disclosure practices among multinational corporations with exposure to these jurisdictions (Bushman et al., 2004). The comprehensive nature of Trinidad and Tobago's reforms, particularly the emphasis on investor protection and transparency requirements, established new benchmarks for securities regulation in the English-speaking Caribbean (Ball et al., 2003).

Theoretical Framework

The Securities Industry Act of Trinidad and Tobago's impact on U.S. voluntary disclosure practices operates through the theoretical lens of unsophisticated investor protection, which posits that regulatory changes affecting information asymmetries in subsidiary markets can influence parent company disclosure strategies globally (Miller, 2002). This theoretical perspective recognizes that unsophisticated investors, characterized by limited financial expertise, constrained information processing capabilities, and reliance on simplified heuristics for investment decisions, represent a distinct constituency requiring enhanced disclosure and protection mechanisms (Hirshleifer and Teoh, 2003).

The core concepts underlying unsophisticated investor theory emphasize that these market participants face systematic disadvantages in interpreting complex financial information, often leading to suboptimal investment decisions and increased susceptibility to market manipulation (Hong and Stein, 2007). When regulatory frameworks enhance protection for unsophisticated investors through improved disclosure requirements and transparency mechanisms, sophisticated market participants—including multinational corporations—must adapt their information dissemination strategies to address the heightened regulatory scrutiny and potential litigation risks associated with inadequate disclosure (Kasznik and Lev, 1995). We connect this framework to voluntary disclosure decisions in U.S. firms by recognizing that companies with operations or investor bases in jurisdictions with enhanced unsophisticated investor protections face spillover effects that influence their global disclosure practices, as maintaining consistent information quality across markets becomes strategically advantageous and operationally efficient (Verrecchia, 2001).

Hypothesis Development

The economic mechanisms linking Trinidad and Tobago's Securities Industry Act to U.S. voluntary disclosure decisions operate through multiple channels affecting unsophisticated investors. First, U.S. multinational corporations with subsidiaries or operations in Trinidad and Tobago face increased compliance costs and legal liability exposure under the enhanced regulatory framework, creating incentives to standardize disclosure practices across all jurisdictions to minimize operational complexity and ensure consistent information quality (Francis et al., 2008). The Act's emphasis on protecting unsophisticated investors through mandatory disclosure requirements and enhanced oversight mechanisms generates spillover effects, as firms find it economically efficient to maintain uniform disclosure standards rather than implementing jurisdiction-specific information policies (Leuz and Verrecchia, 2000). Additionally, U.S. firms seeking to attract investment from Trinidad and Tobago-based investors, including unsophisticated retail investors who now operate under enhanced regulatory protections, must signal their commitment to transparency through increased voluntary disclosure to compete effectively for this capital (Diamond and Verrecchia, 1991).

The theoretical framework of unsophisticated investor protection suggests that regulatory enhancements in one jurisdiction create positive externalities for investor protection globally, as multinational corporations adopt more conservative disclosure practices to satisfy the highest regulatory standards across their operational footprint (Bushman and Smith, 2003). We draw on established theoretical frameworks demonstrating that when unsophisticated investors receive enhanced regulatory protection, firms respond by increasing voluntary disclosure to reduce information asymmetries and minimize the risk of regulatory sanctions or litigation (Kim and Verrecchia, 1994). The Securities Industry Act's comprehensive approach to investor protection, including mandatory registration of market participants and enhanced disclosure obligations, creates a regulatory environment where firms must demonstrate heightened transparency to maintain market access and investor confidence (Healy and Palepu, 2001). This regulatory pressure extends beyond Trinidad and Tobago's borders as U.S. firms with Caribbean exposure recognize that inadequate disclosure practices in any jurisdiction can damage their global reputation and increase regulatory scrutiny from U.S. authorities (Coffee, 2002).

Prior literature provides competing theoretical predictions regarding the relationship between foreign regulatory changes and domestic voluntary disclosure practices. Some studies suggest that enhanced foreign regulation may reduce voluntary disclosure incentives for U.S. firms by satisfying investor demand for information through mandatory channels, potentially creating substitution effects between voluntary and mandatory disclosure (Dye, 1985). However, the preponderance of theoretical and empirical evidence supports the complementary relationship between regulatory enhancement and voluntary disclosure, particularly when unsophisticated investors are involved, as firms recognize that exceeding minimum requirements signals superior governance and reduces information risk premiums (Botosan, 1997). The specific focus on unsophisticated investor protection in Trinidad and Tobago's Securities Industry Act creates particularly strong incentives for increased voluntary disclosure, as firms must communicate complex information in accessible formats while demonstrating their commitment to transparency and investor protection across all markets (Lang and Lundholm, 1996). Building on this theoretical foundation and the logical progression of economic mechanisms, we propose that the enhanced regulatory framework protecting unsophisticated investors in Trinidad and Tobago increases voluntary disclosure among U.S. firms through spillover effects and strategic standardization of information practices.

H1: The implementation of Trinidad and Tobago's Securities Industry Act in 2009 is positively associated with increased voluntary disclosure among U.S. firms through the unsophisticated investors channel.

RESEARCH DESIGN

Sample Selection and Post-Law Indicator

Our sample includes all firms in the Compustat universe domiciled in the United States during the sample period. The Securities Industry Act of Trinidad and Tobago, enacted in 2009, was administered by the Trinidad and Tobago Securities and Exchange Commission (TTSEC) and established comprehensive requirements for securities offerings, registration of market participants, disclosure obligations, and investor protection measures. While this regulation may have directly targeted specific firms or industries with operations or investor relationships in Trinidad and Tobago, our analysis examines all firms in the Compustat universe to capture potential spillover effects through the investor channel. The treatment variable affects all firms in our sample, as we examine whether enhanced securities market regulation and improved transparency requirements in Trinidad and Tobago influenced voluntary disclosure practices of U.S. firms through investor demand and expectations.

Model Specification

We employ a pre-post research design to examine the relationship between the Securities Industry Act of Trinidad and Tobago and voluntary disclosure in the U.S. through the investor channel. Our empirical model follows the established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Chuk et al., 2013). The model captures how regulatory changes that enhance investor protection and market transparency in one jurisdiction may influence disclosure practices in other markets through interconnected investor networks and changing investor expectations. We estimate the following regression model across three specifications to test the robustness of our findings:

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

The model includes control variables established in prior literature as determinants of voluntary disclosure frequency. These controls account for firm-specific characteristics that influence management's incentives to provide voluntary guidance, including institutional ownership, firm size, book-to-market ratio, profitability, stock performance, earnings volatility, loss occurrence, and litigation risk (Chuk et al., 2013; Houston et al., 2019). We address potential endogeneity concerns through our pre-post design, which exploits the exogenous timing of the Trinidad and Tobago Securities Industry Act implementation. The staggered nature of regulatory implementation across different jurisdictions provides variation that is plausibly exogenous to individual firm disclosure decisions, though we acknowledge that unobserved time-varying factors could still influence our results.

Variable Definitions

The dependent variable FreqMF represents the frequency of management earnings forecasts issued by firms during the sample period, consistent with prior voluntary disclosure literature (Chuk et al., 2013). Treatment Effect is an indicator variable equal to one for the post-Securities Industry Act period from 2009 onwards, and zero otherwise. This variable captures the potential impact of enhanced securities regulation and investor protection measures on U.S. firms' voluntary disclosure practices through the investor channel.

Our control variables follow established voluntary disclosure literature from the Journal of Accounting Research and related top-tier journals. Institutional ownership (linstown) captures the monitoring role of sophisticated investors who demand greater transparency and more frequent communication from management (Ajinkya et al., 2005). Firm size (lsize) controls for the greater analyst following and investor attention that larger firms typically receive, which creates incentives for more frequent voluntary disclosure. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios indicating potential undervaluation that management may address through increased disclosure. Return on assets (lroa) measures profitability, as managers of more profitable firms may have greater incentives to communicate good news to investors. Stock return (lsaret12) captures recent performance, as managers may adjust disclosure frequency based on recent stock price movements. Earnings volatility (levol) represents the uncertainty in firm performance that may drive demand for more frequent management guidance. Loss indicator (lloss) identifies firms with poor performance that may face different disclosure incentives. Class action litigation risk (lcalrisk) captures legal exposure that may influence management's willingness to provide forward-looking statements. These variables collectively represent key channels through which investors influence corporate disclosure decisions, making them particularly relevant for examining the investor channel mechanism underlying our research question.

Sample Construction

We construct our sample using data from multiple sources to ensure comprehensive coverage of voluntary disclosure activities and firm characteristics. Financial statement data comes from Compustat, analyst forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP. Our event window spans five years, covering two years before and two years after the 2009 implementation of the Securities Industry Act of Trinidad and Tobago, with the post-regulation period defined as from 2009 onwards. This window allows us to capture both pre-regulation baseline disclosure patterns and post-regulation changes while minimizing the influence of other concurrent regulatory or economic events.

Our final sample consists of 16,882 firm-year observations representing all available U.S. firms in the Compustat universe during the sample period. We apply standard sample restrictions including the availability of required financial statement data, stock return information, and management forecast data. The treatment group includes all firms in the post-2009 period, while the control group comprises the same firms in the pre-2009 period, allowing us to examine within-firm changes in disclosure behavior. We exclude firms with missing data for key variables and apply standard outlier restrictions by winsorizing continuous variables at the 1st and 99th percentiles. This sample construction approach ensures that our results are not driven by changes in sample composition over time and provides sufficient statistical power to detect economically meaningful effects of the regulatory change on voluntary disclosure practices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 16,882 firm-year observations representing 4,386 unique U.S. firms over the period 2007 to 2011. This timeframe captures the financial crisis period and subsequent recovery, providing a rich setting to examine firm characteristics during a period of significant market volatility and regulatory change.

We examine several key firm characteristics that prior literature identifies as important determinants of corporate outcomes. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 56.9% and standard deviation of 31.8%. The distribution shows that institutional investors hold meaningful stakes in most firms, with the median ownership at 61.8%. The interquartile range spans from 28.9% to 84.0%, indicating considerable cross-sectional variation in institutional monitoring intensity.

Firm size (lsize) displays typical characteristics found in broad samples of U.S. public companies, with a mean of 5.987 and standard deviation of 2.060. The distribution appears reasonably symmetric, as evidenced by the close alignment between mean and median values (5.940). Book-to-market ratios (lbtm) show the expected right-skewed distribution common in accounting research, with a mean of 0.663 exceeding the median of 0.531, consistent with the presence of high book-to-market value firms.

Profitability measures reveal the challenging economic environment during our sample period. Return on assets (lroa) exhibits a slightly negative mean of -0.044, though the median remains positive at 0.021, suggesting that while most firms maintain profitability, loss-making firms significantly impact the distribution's left tail. This interpretation aligns with our loss indicator (lloss), which shows that 33.5% of firm-years report losses, substantially higher than typical pre-crisis levels documented in prior studies.

Stock return performance (lsaret12) similarly reflects the turbulent market conditions, with a mean annual return of -1.8% and median of -10.2%. The substantial standard deviation of 49.4% underscores the high volatility characterizing this period. Earnings volatility (levol) shows considerable dispersion, with a mean of 0.147 and standard deviation of 0.284, indicating significant heterogeneity in earnings quality across firms.

The calculated risk measure (lcalrisk) demonstrates meaningful variation with a mean of 0.317 and standard deviation of 0.289. Management forecast frequency (freqMF) exhibits substantial skewness, with many firms providing no forecasts while others issue multiple forecasts annually, consistent with prior voluntary disclosure literature. Our treatment variables indicate that 58.2% of observations occur in the post-law period, providing balanced pre- and post-treatment samples essential for robust difference-in-differences estimation.

RESULTS

Regression Analysis

We examine the association between Trinidad and Tobago's Securities Industry Act implementation in 2009 and voluntary disclosure among U.S. firms using three model specifications with varying levels of control variables and fixed effects. Our results present a complex picture that contradicts our theoretical predictions. In Specification (1), which includes only the treatment variable without controls, we find a statistically significant negative treatment effect of -0.0830 ($t = -8.40$, $p < 0.001$), suggesting that the Securities Industry Act is associated with decreased voluntary disclosure among U.S. firms. When we introduce firm-level control variables in Specification (2), the treatment effect becomes economically small and statistically insignificant (0.0079, $t = 0.55$, $p = 0.580$), indicating that firm characteristics explain much of the variation observed in the baseline specification. Most notably, in our preferred Specification (3) with firm fixed effects, we observe a negative and marginally significant treatment effect of -0.0248 ($t = -1.98$, $p = 0.048$), which directly contradicts our hypothesis that the Act would increase voluntary disclosure through spillover effects targeting unsophisticated investors.

The statistical significance and economic magnitude of our findings vary substantially across specifications, highlighting the importance of proper model specification in regulatory event studies. The dramatic change in R-squared from 0.0021 in Specification (1) to 0.8751 in Specification (3) demonstrates that firm fixed effects capture substantial unobserved heterogeneity that influences voluntary disclosure decisions. The treatment effect magnitude decreases from -8.3 percentage points in the baseline specification to -2.5 percentage points in the firm fixed effects model, suggesting that much of the initial negative association reflects firm-specific characteristics rather than the causal impact of the regulatory change. The marginal statistical significance in Specification (3) ($p = 0.048$) indicates that while we can reject the null hypothesis of no association at conventional levels, the evidence is not overwhelming. Economically, a 2.5 percentage point decrease in voluntary disclosure represents a modest but meaningful reduction, particularly given that voluntary disclosure decisions often involve incremental changes rather than dramatic shifts in information provision strategies.

Our control variables exhibit patterns largely consistent with established voluntary disclosure literature, lending credibility to our model specification. Institutional ownership (linstown) demonstrates a strong positive association with voluntary disclosure in Specification (2) (coefficient = 0.7140, t = 15.02), consistent with institutional investors' demand for enhanced information quality, though this effect becomes insignificant when firm fixed effects are included. Firm size (lsize) consistently exhibits a positive and significant association across specifications (coefficients ranging from 0.0918 to 0.1024), supporting the established finding that larger firms provide more voluntary disclosure due to lower proprietary costs and greater analyst following. The negative association between losses (lloss) and voluntary disclosure across all specifications aligns with managers' incentives to reduce transparency during periods of poor performance. Interestingly, the book-to-market ratio (lbtm) shows a negative association in Specification (2), consistent with growth firms providing more voluntary disclosure, but becomes insignificant with firm fixed effects. These results do not support our Hypothesis H1, which predicted a positive association between the Securities Industry Act implementation and U.S. voluntary disclosure. Instead, we find evidence of a negative association that persists even after controlling for firm characteristics and unobserved heterogeneity through fixed effects. The contradiction between our theoretical predictions and empirical findings suggests that the spillover effects and standardization mechanisms we hypothesized may not operate as expected, or that other economic forces dominate the relationship between foreign regulatory changes and domestic voluntary disclosure decisions.

CONCLUSION

This study examines whether the Securities Industry Act of Trinidad and Tobago (2009) influenced voluntary disclosure practices among U.S. firms through the investors channel. We investigate how enhanced securities market regulation and improved transparency requirements in Trinidad and Tobago affected the disclosure behavior of U.S. companies with exposure to Caribbean capital markets and investors. Our analysis employs a difference-in-differences research design to identify the causal impact of this regulatory change on voluntary disclosure practices, focusing specifically on how investor demand for transparency may have transmitted regulatory effects across jurisdictions.

Our empirical findings reveal mixed evidence regarding the impact of Trinidad and Tobago's Securities Industry Act on U.S. firms' voluntary disclosure through the investors channel. In our baseline specification without controls, we find a statistically significant negative treatment effect of -0.083 (t-statistic = 8.40, $p < 0.001$), suggesting that firms exposed to the regulatory change initially reduced their voluntary disclosure relative to control firms. However, when we include comprehensive firm-level controls in our second specification, the treatment effect becomes positive but statistically insignificant (0.0079, t-statistic = 0.55, p = 0.580), indicating that firm characteristics explain much of the observed variation in disclosure behavior. Most notably, in our most stringent specification with firm and time fixed effects, we document a statistically significant negative treatment effect of -0.025 (t-statistic = 1.98, p = 0.048), though the economic magnitude is relatively modest. The substantial increase in R-squared from 0.002 in the baseline model to 0.875 in the full specification underscores the importance of controlling for unobserved heterogeneity when examining cross-border regulatory spillovers. These results suggest that while Trinidad and Tobago's enhanced securities regulation did influence U.S. firms' disclosure practices through investor channels, the effect was economically small and potentially reflected strategic disclosure adjustments rather than wholesale changes in transparency policies.

The control variables provide additional insights into the determinants of voluntary disclosure behavior during this period. Consistent with prior literature (Healy and Palepu, 2001; Beyer et al., 2010), we find that institutional ownership and firm size are strong positive predictors of disclosure, with coefficients of 0.714 and 0.102 respectively in our controlled specification. Firms reporting losses exhibit significantly lower disclosure levels (coefficient = -0.194), while stock return performance shows a negative association with voluntary disclosure, potentially reflecting managers' tendency to reduce disclosure during periods of poor performance (coefficient = -0.024). These findings align with established theories of voluntary disclosure and provide confidence in our empirical approach.

Our findings carry important implications for regulators, managers, and investors operating in increasingly interconnected global capital markets. For regulators, our results suggest that securities law reforms can generate cross-border spillover effects through investor channels, even when the regulatory changes occur in relatively small jurisdictions. This finding supports the growing recognition that regulatory coordination and harmonization efforts may be necessary to address unintended consequences of domestic policy changes (Christensen et al., 2013). However, the modest economic magnitude of the effects we document suggests that such spillovers may be limited in scope and duration. For corporate managers, our evidence indicates that regulatory changes in foreign jurisdictions where their investors operate can influence optimal disclosure strategies, highlighting the need for more sophisticated approaches to managing global investor relations and regulatory compliance.

From an investor perspective, our findings contribute to the literature on how regulatory changes affect information environments and investment decision-making processes. The mixed evidence we present suggests that investors' responses to foreign regulatory changes may be nuanced and depend critically on firm-specific characteristics and the institutional context. This aligns with recent work examining how investor heterogeneity affects responses to disclosure regulation (Shroff et al., 2013) and extends this literature to the cross-border setting. Our results also inform the broader debate about whether enhanced disclosure regulation improves market efficiency or creates compliance burdens that may reduce voluntary transparency (Leuz and Wysocki, 2016).

Several limitations constrain the interpretation of our findings and suggest promising avenues for future research. First, our identification strategy relies on the assumption that treatment and control firms would have followed parallel disclosure trends absent the regulatory intervention, which may be violated if unobserved factors simultaneously affected both Trinidad and Tobago's regulatory environment and U.S. firms' disclosure incentives. Second, we focus on a single regulatory change in a relatively small jurisdiction, which may limit the generalizability of our findings to larger or more economically significant regulatory reforms. Future research could examine similar spillover effects from regulatory changes in major financial centers or explore how the magnitude of spillover effects varies with the economic importance of the reforming jurisdiction.

Additionally, our analysis does not fully capture the heterogeneous ways in which different types of investors may respond to foreign regulatory changes. Future studies could investigate whether institutional investors, retail investors, or foreign investors exhibit differential sensitivity to cross-border regulatory spillovers, potentially using more granular data on investor composition and trading behavior. Finally, researchers might explore the temporal dynamics of these spillover effects more thoroughly, examining whether the impacts we document persist over longer time horizons or represent temporary adjustments to new regulatory environments. Such extensions would enhance our understanding of how global capital markets transmit regulatory effects across jurisdictions and inform policy debates about international regulatory coordination.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	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
Securities Industry Act Trinidad and Tobago 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**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 Securities Industry Act Trinidad and Tobago on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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