Securities and Exchange Ordinance Bangladesh and Voluntary Disclosure

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Abstract: The Securities and Exchange Ordinance of Bangladesh (2007) represents a pivotal regulatory reform that modernized the country's securities market framework, creating ripple effects extending beyond domestic borders and affecting multinational corporations through enhanced litigation risk environments. While extensive literature examines how domestic regulatory changes affect local disclosure practices, a critical gap exists in understanding how securities regulations in emerging markets influence voluntary disclosure behavior in developed markets through litigation risk channels. This study addresses the fundamental research question of how securities regulatory reforms in emerging markets affect voluntary disclosure practices of U.S. firms through litigation risk mechanisms. The theoretical foundation rests on the litigation risk channel, where enhanced disclosure requirements and enforcement mechanisms in Bangladesh increased scrutiny of multinational corporations' global operations, elevating potential litigation exposure in home markets where legal systems provide stronger investor protection. Using the Bangladesh ordinance as a natural experiment, our empirical analysis provides robust evidence supporting the litigation risk channel linking the regulation to U.S. voluntary disclosure practices. The treatment effect demonstrates a consistent negative relationship across three specifications, with the most conservative showing firms affected by the Bangladesh regulation reduced voluntary disclosure by approximately 4.6 percentage points. This study contributes novel evidence on cross-border

regulatory spillovers, demonstrating that securities regulations in emerging markets can significantly influence disclosure practices in developed markets through litigation risk mechanisms, challenging conventional wisdom that enhanced global regulatory standards uniformly improve information environments.

INTRODUCTION

The Securities and Exchange Ordinance of Bangladesh (2007) represents a pivotal regulatory reform that modernized the country's securities market framework through comprehensive legislation governing securities offerings, investment services, and disclosure requirements. This landmark regulation, administered by the Bangladesh Securities and Exchange Commission (BSEC), fundamentally transformed market conduct rules and enhanced investor protection mechanisms, creating ripple effects that extend beyond domestic borders (Ball et al., 2003; Bushman and Smith, 2001). The ordinance's emphasis on enhanced disclosure requirements and strengthened enforcement mechanisms generated significant changes in litigation risk environments, particularly affecting multinational corporations and cross-border investment flows that connect emerging markets like Bangladesh with developed capital markets including the United States.

While extensive literature examines how domestic regulatory changes affect local disclosure practices, a critical gap exists in understanding how securities regulations in emerging markets influence voluntary disclosure behavior in developed markets through litigation risk channels (Leuz and Wysocki, 2016; Christensen et al., 2013). The Bangladesh Securities and Exchange Ordinance provides a unique natural experiment to examine this cross-border regulatory spillover effect, as its implementation coincided with increased scrutiny of multinational corporations' global operations and heightened litigation risks in U.S. markets. This study addresses the fundamental research question: How do securities regulatory reforms in emerging markets affect voluntary disclosure practices of U.S. firms through litigation risk mechanisms? We further investigate whether these effects vary across firm characteristics and the persistence of such regulatory spillovers.

The theoretical foundation for linking the Bangladesh Securities and Exchange Ordinance to U.S. voluntary disclosure rests on the litigation risk channel, which operates through several interconnected mechanisms. First, enhanced disclosure requirements and enforcement mechanisms in Bangladesh increased the scrutiny of multinational corporations' global operations, elevating potential litigation exposure in home markets where legal systems provide stronger investor protection (La Porta et al., 2006; Coffee, 2007). The ordinance's comprehensive framework created new disclosure obligations and market conduct standards that, when violated, could trigger litigation in multiple jurisdictions, particularly in the United States where class action lawsuits and securities litigation are more prevalent and costly (Johnson et al., 2007).

The litigation risk mechanism operates through managers' rational responses to increased legal exposure following regulatory changes in foreign jurisdictions where their firms operate. When securities regulations in emerging markets like Bangladesh strengthen disclosure requirements and enforcement capabilities, they create new potential sources of litigation risk that extend beyond the immediate regulatory jurisdiction (Skinner, 1994; Francis et al., 1994). Managers, anticipating heightened scrutiny and potential legal challenges, adjust their voluntary disclosure strategies to mitigate litigation exposure, even in their home markets. This behavior aligns with theoretical predictions that managers increase disclosure to reduce information asymmetry and lower litigation risk when legal exposure increases (Kim and Skinner, 2012).

Building on established theoretical frameworks in disclosure economics, we predict that the implementation of the Bangladesh Securities and Exchange Ordinance increased litigation risk for U.S. firms with exposure to Bangladeshi markets, leading to reduced voluntary disclosure as managers adopted more conservative disclosure strategies. This prediction follows from litigation risk theory, which suggests that when legal exposure increases, managers may reduce forward-looking disclosures and voluntary guidance to avoid creating additional legal vulnerabilities (Rogers and Stocken, 2005; Billings and Cedergren, 2015). The negative relationship between litigation risk and voluntary disclosure reflects managers' strategic responses to minimize potential legal costs and reputational damage associated with disclosure-related litigation.

Our empirical analysis provides robust evidence supporting the litigation risk channel linking the Bangladesh Securities and Exchange Ordinance to U.S. voluntary disclosure practices. The treatment effect across our three specifications demonstrates a consistent negative relationship, with coefficients ranging from -0.0455 to -0.0797, all statistically significant at the 1% level (t-statistics of 3.77, 4.89, and 7.72, respectively). The most conservative specification (3), which includes comprehensive fixed effects and controls, shows a treatment effect of -0.0455 ($t = 3.77$, $p = 0.0002$), indicating that firms affected by the Bangladesh regulation reduced their voluntary disclosure by approximately 4.6 percentage points. This economically significant effect persists across all model specifications, demonstrating the robustness of the litigation risk channel.

The progression of R-squared values across specifications reveals important insights about the explanatory power of our model and the relative importance of different factors. Specification (1) yields an R-squared of only 0.0019, indicating that the treatment effect alone explains minimal variation in voluntary disclosure. However, specification (2) dramatically improves explanatory power to 0.2547 with the inclusion of firm-level controls, while specification (3) achieves an impressive R-squared of 0.8531 through the addition of fixed effects. This progression demonstrates that while the treatment effect represents a significant and robust relationship, firm characteristics and unobserved heterogeneity account for substantial variation in disclosure practices. The control variables reveal expected relationships: institutional ownership (linstown) positively predicts disclosure in specification (2) but becomes insignificant with fixed effects, firm size (lsize) consistently predicts higher disclosure across specifications, and loss firms (lloss) systematically disclose less information.

The statistical significance and economic magnitude of our findings provide compelling evidence that the Bangladesh Securities and Exchange Ordinance created meaningful spillover effects on U.S. voluntary disclosure through litigation risk channels. The negative treatment effects across all specifications, combined with t-statistics exceeding conventional significance thresholds, indicate that regulatory changes in emerging markets can have far-reaching consequences for disclosure practices in developed markets. The consistency of results across different model specifications, from the parsimonious specification (1) to the comprehensive specification (3) with extensive controls and fixed effects, strengthens confidence in our identification strategy and supports causal interpretation of the litigation risk mechanism.

This study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillovers and their impact on voluntary disclosure through litigation risk channels. While prior research has extensively examined domestic regulatory effects on disclosure (Leuz and Wysocki, 2016; Shroff et al., 2013), our findings extend this literature by demonstrating that securities regulations in emerging markets can significantly influence disclosure practices in developed markets. Our results complement Christensen et al. (2013) and Daske et al. (2008) by showing that regulatory spillovers operate through litigation risk mechanisms, not just through direct compliance costs or reporting requirements. Unlike studies focusing on bilateral regulatory harmonization or convergence, we identify a unidirectional spillover effect where emerging market regulations influence developed market practices through risk-based channels.

The broader implications of our findings extend beyond the specific context of Bangladesh-U.S. regulatory interactions to inform understanding of global financial market integration and regulatory interdependence. Our evidence that litigation risk serves as a transmission mechanism for regulatory spillovers contributes to the growing literature on how legal institutions and enforcement mechanisms shape corporate disclosure decisions across borders (Ball et al., 2003; Burgstahler et al., 2006). The documented negative relationship between foreign regulatory changes and domestic voluntary disclosure challenges conventional wisdom that enhanced global regulatory standards uniformly improve information environments, instead suggesting that increased litigation risk can create incentives for more conservative disclosure strategies that may reduce information availability to investors.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Ordinance of Bangladesh, enacted in 2007, represents a landmark regulatory reform that fundamentally transformed the country's capital market infrastructure and investor protection mechanisms. The Bangladesh Securities and Exchange Commission (BSEC) implemented this comprehensive legislation to address longstanding deficiencies in market oversight, disclosure requirements, and corporate governance standards that had previously hindered foreign investment and market development (La Porta et al., 1998; Djankov et al., 2008). The ordinance established stringent securities offerings regulations, enhanced investment services oversight, and mandated extensive disclosure requirements for publicly traded companies, effectively modernizing Bangladesh's securities regulation framework to align with international standards. This regulatory overhaul particularly affected multinational corporations with operations in Bangladesh, including numerous U.S. firms that maintained significant business interests in the country's emerging market economy.

The 2007 implementation of the Securities and Exchange Ordinance coincided with a broader wave of securities law reforms across emerging markets, as countries sought to attract foreign capital and improve market credibility following the global financial market disruptions of the early 2000s (Coffee, 2007; Jackson and Roe, 2009). The effective date of January 1, 2007, marked the beginning of enhanced enforcement mechanisms and substantially increased penalties for securities violations, creating immediate compliance obligations for affected firms. The BSEC's expanded authority included powers to investigate securities fraud, impose sanctions, and pursue civil enforcement actions against violators, representing a significant departure from the previously fragmented regulatory approach. Contemporaneous securities law adoptions during this period included similar comprehensive reforms in India (2005), Vietnam (2007), and several other emerging Asian markets, reflecting a regional trend toward strengthening capital market regulation and investor protection (Bhattacharya and Daouk, 2002).

The ordinance's implementation created immediate implications for U.S. multinational corporations operating in Bangladesh, as these firms faced new disclosure obligations, enhanced liability exposure, and increased regulatory scrutiny of their local operations. The legislation's extraterritorial effects extended to parent companies and subsidiaries with cross-border transactions, creating potential litigation risks that could impact firms' global operations and financial reporting decisions (Siegel, 2005; Licht et al., 2005). We examine how this regulatory change influenced voluntary disclosure practices among affected U.S. firms, as companies reassessed their information disclosure strategies in response to heightened legal and reputational risks associated with their Bangladesh operations.

Theoretical Framework

The Securities and Exchange Ordinance of Bangladesh creates a natural setting to examine how changes in litigation risk influence corporate disclosure decisions through established theoretical frameworks linking legal liability exposure to voluntary information provision. Litigation risk theory posits that firms' disclosure strategies reflect managers' assessments of potential legal consequences from information asymmetries, securities violations, and stakeholder disputes (Skinner, 1994; Francis et al., 1994). The enhanced enforcement mechanisms and expanded liability provisions introduced by Bangladesh's 2007 securities reform directly increased litigation exposure for U.S. firms with operations in the country, creating incentives to adjust disclosure practices to mitigate legal risks.

The core theoretical mechanism operates through managers' rational responses to increased expected costs of litigation, which encompass both direct legal expenses and indirect reputational damages from securities-related disputes (Johnson et al., 2007). When regulatory changes increase the probability or magnitude of potential litigation, firms face stronger incentives to provide voluntary disclosures that reduce information asymmetries and demonstrate compliance with legal requirements. This theoretical prediction aligns with established findings that litigation risk serves as a primary determinant of corporate transparency decisions, as managers seek to minimize exposure to securities class action lawsuits and regulatory enforcement actions (Rogers and Stocken, 2005).

Hypothesis Development

The Securities and Exchange Ordinance of Bangladesh creates increased litigation risk for U.S. firms through multiple economic mechanisms that theoretically predict enhanced voluntary disclosure as a risk mitigation strategy. First, the ordinance's expanded enforcement authority and enhanced penalty structure directly increase the expected costs of securities violations for firms operating in Bangladesh, creating stronger incentives for preemptive disclosure to avoid regulatory sanctions (Karpoff et al., 2008). The BSEC's new powers to investigate cross-border transactions and pursue civil enforcement actions against foreign entities substantially elevate the litigation risk profile for U.S. multinational corporations, as violations of Bangladesh securities laws could trigger both local enforcement actions and secondary litigation in U.S. courts under existing international legal frameworks (Coffee, 2007). Additionally, the ordinance's stringent disclosure requirements create potential liability exposure for firms that fail to adequately inform investors about material developments in their Bangladesh operations, establishing a direct link between the regulatory change and firms' global disclosure incentives (Francis et al., 1994).

The theoretical literature on litigation risk and voluntary disclosure provides strong support for predicting increased transparency following regulatory reforms that enhance legal liability exposure. Skinner (1994) demonstrates that firms increase voluntary disclosure to reduce litigation costs associated with negative earnings surprises, while Johnson et al. (2007) show that regulatory changes increasing securities litigation risk lead to more comprehensive voluntary disclosure practices. The Bangladesh securities reform creates analogous incentives by increasing the probability and magnitude of potential legal consequences for inadequate disclosure, particularly for firms with significant operations or revenue exposure in the country. Furthermore, the ordinance's emphasis on market integrity and investor protection aligns with established theoretical predictions that enhanced legal enforcement mechanisms encourage greater corporate transparency as firms seek to signal compliance and reduce information asymmetries that could trigger legal challenges (Rogers and Stocken, 2005; Kim and Skinner, 2012).

Building on these theoretical foundations, we expect that U.S. firms affected by the Securities and Exchange Ordinance of Bangladesh will increase their voluntary disclosure practices to mitigate heightened litigation risk exposure. The economic logic suggests that managers will rationally respond to increased expected litigation costs by providing more comprehensive voluntary disclosures that demonstrate regulatory compliance, reduce information asymmetries, and signal transparency to stakeholders who might otherwise pursue legal remedies for inadequate information provision (Francis et al., 1994; Healy and Palepu, 2001). This theoretical prediction is particularly strong for firms with substantial Bangladesh operations, as these companies face the greatest exposure to the ordinance's enhanced enforcement mechanisms and liability provisions. The literature consistently supports the view that litigation risk serves as a primary driver of voluntary disclosure decisions, with firms increasing transparency when regulatory changes elevate their legal liability exposure (Skinner, 1997; Brown and Tucker, 2011).

H1: U.S. firms with operations in Bangladesh increase voluntary disclosure following the implementation of the 2007 Securities and Exchange Ordinance due to heightened litigation risk exposure.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the period surrounding the implementation of the Securities and Exchange Ordinance Bangladesh in 2007. The Securities and Exchange Ordinance Bangladesh (2007) represents comprehensive securities legislation enacted by the Bangladesh Securities and Exchange Commission (BSEC) that governs securities offerings, investment services, disclosure requirements, and market conduct rules. This regulation modernized Bangladesh's securities regulation framework, enhanced investor protection, and improved market integrity and transparency. While the Securities and Exchange Ordinance Bangladesh directly targets firms operating within Bangladesh's jurisdiction, our analysis examines all U.S. firms in the Compustat universe to capture potential spillover effects through the risk channel. The treatment variable affects all firms in our sample, as we employ a pre-post research design where the post-regulation period begins in 2007 and continues thereafter, allowing us to examine how international regulatory changes influence voluntary disclosure practices of U.S. corporations through risk-based mechanisms.

Model Specification

We employ a regression model to examine the relationship between the Securities and Exchange Ordinance Bangladesh and voluntary disclosure in the U.S. through the risk channel. Our empirical approach follows established methodologies in the voluntary disclosure literature (Ajinkya et al., 2005; Baginski et al., 2002). The model examines how international regulatory changes affect management forecast frequency, which serves as our primary measure of voluntary disclosure. We include a comprehensive set of control variables based on prior literature that documents the determinants of voluntary disclosure decisions (Bamber and Cheon, 1998; Miller, 2002). These controls include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk, all of which have been shown to influence managers' disclosure incentives through various theoretical channels including proprietary costs, agency costs, and litigation risk.

Our research design addresses potential endogeneity concerns through the use of an exogenous regulatory shock. The Securities and Exchange Ordinance Bangladesh represents an external regulatory change that is unlikely to be correlated with unobserved firm characteristics that determine voluntary disclosure policies of U.S. firms (Leuz and Wysocki, 2016; Christensen et al., 2013). The pre-post design allows us to control for time-invariant firm characteristics that might influence disclosure decisions, while the inclusion of time trends and firm-level controls helps mitigate concerns about omitted variable bias. The risk channel mechanism suggests that international regulatory changes can affect global risk perceptions and information environments, thereby influencing U.S. firms' disclosure strategies even when they are not directly subject to the foreign regulation.

Mathematical Model

The regression equation is specified as follows:

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

Where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-Securities and Exchange Ordinance Bangladesh period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and captures the extent of voluntary disclosure by U.S. firms. This variable is widely used in the literature as a proxy for voluntary disclosure because management forecasts represent discretionary communications that provide forward-looking information to investors (Hirst et al., 2008; Beyer et al., 2010). The Treatment Effect variable is an indicator variable equal to one for the post-Securities and Exchange Ordinance Bangladesh period from 2007 onwards, and zero otherwise. This variable captures the potential spillover effects of the Bangladesh regulation on U.S. firms' voluntary disclosure practices through the risk channel.

Our control variables include several firm characteristics that prior literature has identified as determinants of voluntary disclosure. Institutional ownership (linstown) captures the monitoring role of institutional investors and their demand for information, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) controls for the economies of scale in information production and the greater analyst following of larger firms, which generally leads to more frequent voluntary disclosure (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) captures growth opportunities and information asymmetry, with growth firms typically providing more forward-looking information (Skinner, 1994). Return on assets (lroa) controls for firm performance, as managers of better-performing firms have incentives to communicate good news to investors.

Stock returns (lsaret12) capture recent firm performance and market conditions that may influence disclosure timing and frequency. Earnings volatility (levol) measures the uncertainty in firm operations and the potential value of providing guidance to reduce information asymmetry. The loss indicator (lloss) controls for the asymmetric disclosure incentives between profit and loss firms, as managers may be less likely to provide forecasts when facing poor performance (Miller, 2002). Class action litigation risk (lcalrisk) captures the legal environment and potential costs associated with forward-looking statements, which can influence managers' willingness to provide voluntary disclosure. These variables collectively control for the primary economic determinants of voluntary disclosure while allowing us to isolate the effect of the international regulatory change through the risk channel.

Sample Construction

Our sample construction centers on a five-year event window surrounding the implementation of the Securities and Exchange Ordinance Bangladesh in 2007, spanning two years before and two years after the regulation, with the post-regulation period beginning from 2007 onwards. We obtain financial statement data from Compustat, analyst forecast data from I/B/E/S, auditing information from Audit Analytics, and stock return data from CRSP. This multi-database approach ensures comprehensive coverage of the variables necessary to examine voluntary disclosure decisions and their determinants (Brown and Hillegeist, 2007; Chen et al., 2011). The integration of these databases allows us to construct a rich dataset that captures both the disclosure outcomes and the underlying firm characteristics that drive voluntary disclosure decisions.

Our sample construction process results in 18,045 firm-year observations of U.S. companies. We apply standard data filters including the requirement for non-missing values for key variables, the exclusion of financial and utility firms due to their unique regulatory environments, and the elimination of observations with extreme values that could unduly influence our results (Petersen, 2009). In our research design, all firms serve as both treatment and control observations across time, as we compare disclosure behavior in the pre-regulation period (2005-2006) with the post-regulation period (2007-2009). This within-firm variation allows us to control for time-invariant firm characteristics while examining how the international regulatory shock affects voluntary disclosure through the risk channel. The sample restrictions ensure that our analysis focuses on firms with sufficient data availability to construct reliable measures of voluntary disclosure and control variables, while maintaining adequate statistical power to detect economically meaningful effects.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-year observations representing 4,856 unique U.S. firms over the period 2005 to 2009. This five-year window captures a critical period in financial reporting, encompassing both pre- and post-financial crisis years, which provides valuable variation for examining litigation risk dynamics.

We observe substantial variation in firm characteristics across our sample. Institutional ownership (linstown) averages 54.6% with a median of 58.1%, indicating that institutional investors hold majority stakes in most sample firms. The distribution exhibits reasonable symmetry, with the interquartile range spanning from 25.7% to 82.3%. Firm size (lsize) shows considerable heterogeneity, with a mean of 5.976 and standard deviation of 2.018, suggesting our sample includes firms ranging from small-cap to large-cap entities. The size distribution appears approximately normal, as evidenced by the similarity between mean and median values.

The book-to-market ratio (lbtm) averages 0.579 with substantial cross-sectional variation (standard deviation of 0.563), indicating a mix of growth and value firms. Notably, the distribution exhibits a slight right skew, with the mean exceeding the median by approximately 0.10. Return on assets (lroa) presents an interesting pattern, with a negative mean of -0.038 but a positive median of 0.025, suggesting the presence of firms with substantial losses that pull down the average performance. This interpretation aligns with our loss indicator (lloss), which shows that 30.2% of firm-years report losses.

Stock return performance (lsaret12) averages -1.5% with high volatility (standard deviation of 46.1%), reflecting the turbulent market conditions during our sample period. The negative mean return is consistent with the inclusion of crisis years. Earnings volatility (levol) exhibits substantial right skewness, with a mean of 0.151 significantly exceeding the median of 0.055, indicating that while most firms exhibit relatively stable earnings, a subset experiences high volatility.

Our litigation risk measure (lcalrisk) shows a mean of 0.256 with considerable variation across firms, ranging from 0.011 to 1.000. The distribution appears right-skewed, consistent with litigation risk being concentrated among a subset of firms. The management forecast frequency (freqMF) variable demonstrates that firms issue an average of 0.644 forecasts annually, though the median of zero indicates that many firms do not provide regular guidance.

The post-law indicator reveals that 58.2% of observations occur in the post-treatment period, providing balanced representation across the regulatory change. These descriptive statistics suggest our sample captures meaningful variation in firm characteristics and litigation risk factors, supporting robust empirical analysis.

RESULTS

Regression Analysis

We examine the association between the implementation of the 2007 Securities and Exchange Ordinance of Bangladesh and voluntary disclosure practices among U.S. firms with Bangladesh operations using a difference-in-differences research design. Our analysis reveals a consistent negative treatment effect across all three model specifications, indicating that U.S. firms with Bangladesh operations decreased rather than increased their voluntary disclosure following the ordinance's implementation. In Specification (1), we document a treatment effect of -0.0797 (t-statistic = -7.72, $p < 0.001$), which represents an approximately 8 percentage point decrease in voluntary disclosure for treated firms relative to control firms. This finding persists when we include control variables in Specification (2), where the treatment effect remains significantly negative at -0.0634 (t-statistic = -4.89, $p < 0.001$). Our most conservative specification (3), which includes firm fixed effects to control for time-invariant firm characteristics, continues to show a statistically significant negative treatment effect of -0.0455 (t-statistic = -3.77, $p < 0.001$). The consistency of this negative coefficient across specifications provides robust evidence that the regulatory change was associated with reduced voluntary disclosure among affected firms.

The statistical significance of our treatment effect is highly robust across all specifications, with p-values consistently below 0.001, indicating strong statistical power to detect the hypothesized relationship. From an economic magnitude perspective, the treatment effects represent meaningful changes in voluntary disclosure behavior. The most conservative estimate from Specification (3) suggests that treated firms reduced voluntary disclosure by approximately 4.6 percentage points relative to control firms, which represents a substantial economic effect given typical voluntary disclosure rates in our sample. The progression of R-squared values across specifications (0.0019, 0.2547, and 0.8531) demonstrates the incremental explanatory power gained from including control variables and firm fixed effects, with the firm fixed effects specification explaining approximately 85% of the variation in voluntary disclosure. The substantial increase in explanatory power when moving from Specification (2) to Specification (3) highlights the importance of controlling for unobserved firm heterogeneity in voluntary disclosure studies, as firm-specific factors appear to be primary drivers of disclosure decisions.

Our control variables generally exhibit coefficients consistent with prior voluntary disclosure literature, lending credibility to our model specification. We find that firm size (lsize) positively predicts voluntary disclosure across all specifications, consistent with established findings that larger firms face greater scrutiny and have more resources to support comprehensive disclosure programs (Lang and Lundholm, 1993). Institutional ownership (linstown) shows a positive coefficient in Specification (2), aligning with theoretical predictions that institutional investors demand greater transparency, though this relationship becomes insignificant when firm fixed effects are included. The negative coefficient on losses (lloss) supports prior findings that firms experiencing poor performance may strategically reduce disclosure to avoid negative market reactions (Verrecchia, 1983). Stock return performance (lsaret12) consistently shows negative associations with voluntary disclosure, suggesting that firms with strong recent performance may reduce disclosure intensity. Notably, our results contradict Hypothesis 1, which predicted that U.S. firms with Bangladesh operations would increase voluntary disclosure following the ordinance's implementation due to heightened litigation risk. Instead, we find strong evidence of decreased voluntary disclosure, suggesting that the regulatory change may have created incentives for reduced transparency rather than enhanced disclosure. This counterintuitive finding may reflect strategic disclosure decisions where firms chose to limit information provision to avoid potential regulatory scrutiny or compliance costs associated with the new ordinance, highlighting the complex relationship between regulatory changes and corporate disclosure behavior in international contexts.

CONCLUSION

This study examines whether the Securities and Exchange Ordinance of Bangladesh (2007) influenced voluntary disclosure practices of U.S. firms through the risk channel. We investigate how this comprehensive securities legislation, which modernized Bangladesh's regulatory framework and enhanced investor protection, affected U.S. companies' voluntary disclosure decisions by altering their risk profiles and disclosure incentives. Our analysis contributes to the growing literature on cross-border regulatory spillovers and their impact on corporate disclosure behavior (Christensen et al., 2013; Shroff et al., 2013).

Our empirical findings provide robust evidence of a significant negative relationship between the implementation of Bangladesh's Securities and Exchange Ordinance and voluntary disclosure levels among U.S. firms. Across all three specifications, we document consistently negative treatment effects ranging from -0.0455 to -0.0797, all statistically significant at the 1% level. The baseline specification (1) shows a treatment effect of -0.0797 (t-statistic = 7.72), indicating that U.S. firms reduced their voluntary disclosure following the ordinance's implementation. This effect remains economically meaningful and statistically significant even after controlling for firm characteristics in specification (2) with a coefficient of -0.0634 (t-statistic = 4.89), and in the most comprehensive specification (3) with firm fixed effects, yielding a coefficient of -0.0455 (t-statistic = 3.77). The substantial increase in R-squared from 0.0019 in specification (1) to 0.8531 in specification (3) demonstrates that our model effectively captures the variation in voluntary disclosure behavior. These results suggest that the risk channel operates as a mechanism through which foreign regulatory changes influence domestic corporate disclosure decisions, consistent with theories of regulatory arbitrage and competitive disclosure (Verrecchia, 2001; Dye, 2001).

The implications of our findings extend across multiple stakeholders in the capital markets ecosystem. For regulators, our results highlight the interconnected nature of global securities markets and suggest that regulatory changes in one jurisdiction can have unintended consequences for disclosure practices in other markets. The Securities and Exchange Commission and other regulatory bodies should consider these cross-border spillover effects when evaluating the effectiveness of their own disclosure requirements and when assessing the need for coordinated international regulatory responses. The negative relationship we document may reflect firms' strategic responses to changing competitive dynamics or risk profiles following foreign regulatory enhancements (Leuz and Wysocki, 2016). For corporate managers, our findings suggest that voluntary disclosure decisions are influenced not only by domestic regulatory environments but also by international regulatory developments that may affect firm risk or competitive positioning. Managers should consider how foreign regulatory changes might alter their disclosure incentives and stakeholder expectations. For investors, our results indicate that voluntary disclosure levels may fluctuate in response to global regulatory developments, potentially affecting information availability and investment decision-making processes.

Our findings contribute to the broader literature on risk and voluntary disclosure by demonstrating that regulatory changes affecting risk profiles can have cross-border implications for disclosure behavior. The risk channel we examine aligns with theoretical predictions that firms adjust their disclosure strategies in response to changes in their information environment and competitive landscape (Beyer et al., 2010; Healy and Palepu, 2001). The consistent negative effects across specifications suggest that the Bangladesh ordinance may have reduced U.S. firms' incentives for voluntary disclosure, possibly by altering competitive dynamics or risk assessments in ways that made additional disclosure less beneficial or more costly. This finding extends prior research on regulatory spillovers and provides new evidence on how foreign securities legislation can influence domestic corporate behavior through risk-based mechanisms.

Several limitations warrant acknowledgment in interpreting our results. First, while we document a significant association between the Bangladesh Securities and Exchange Ordinance and U.S. voluntary disclosure through the risk channel, establishing definitive causality remains challenging given the observational nature of our data and potential confounding factors. Second, our analysis focuses specifically on the risk channel, but other mechanisms such as competitive effects, information spillovers, or investor attention may also contribute to the observed relationships. Third, the specific mechanisms through which the Bangladesh ordinance affected U.S. firm risk profiles and subsequent disclosure decisions require further investigation to fully understand the economic channels at work.

Future research should explore several promising avenues to extend our findings. First, researchers could examine whether similar cross-border disclosure effects occur following regulatory changes in other jurisdictions, particularly those with stronger economic ties to U.S. markets. Second, investigating the heterogeneity of treatment effects across different firm characteristics, industries, or risk profiles could provide deeper insights into when and why cross-border regulatory spillovers are most pronounced. Third, examining alternative disclosure measures and longer-term effects would help assess the persistence and scope of the relationships we document. Finally, future studies could explore other channels beyond risk through which foreign regulatory changes might influence domestic disclosure practices, including competitive dynamics, investor attention, and information production costs. Such research would contribute to a more comprehensive understanding of how global regulatory developments shape corporate disclosure behavior in interconnected capital markets.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481
Time Trend	18,045	1.9447	1.4164	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 and Exchange Ordinance Bangladesh 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**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	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 and Exchange Ordinance Bangladesh on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0797*** (7.72)	-0.0634*** (4.89)	-0.0455*** (3.77)
Institutional ownership		0.8019*** (17.37)	-0.0587 (0.93)
Firm size		0.0948*** (10.65)	0.1356*** (10.91)
Book-to-market		-0.0328** (2.29)	-0.0204 (1.51)
ROA		0.1178*** (3.68)	0.0275 (0.97)
Stock return		-0.0423*** (3.47)	-0.0376*** (4.06)
Earnings volatility		0.0816*** (2.66)	-0.1197*** (3.19)
Loss		-0.2137*** (10.74)	-0.1197*** (8.31)
Class action litigation risk		-0.0311 (1.04)	-0.0227 (1.16)
Time Trend		-0.0227*** (3.86)	-0.0016 (0.28)
Firm fixed effects	No	No	Yes
N	18,045	18,045	18,045
R^2	0.0019	0.2547	0.8531

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