

# **Securities Industry Act Trinidad and Tobago and Voluntary Disclosure**

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Abstract: The implementation of securities regulations in emerging markets has profound implications for global capital markets through their effects on litigation risk and corporate disclosure practices. The Securities Industry Act of Trinidad and Tobago, enacted in 2009, represents a comprehensive regulatory framework that fundamentally transformed the Caribbean securities landscape by enhancing market regulation, improving transaction transparency, and strengthening regulatory oversight, creating ripple effects that extend beyond Trinidad and Tobago's borders. This study addresses a critical gap in the literature by examining whether enhanced securities regulation in a small emerging market can systematically influence voluntary disclosure practices of U.S. firms through increased litigation risk. The theoretical foundation rests on the litigation risk channel, which operates when enhanced securities regulation increases the probability and potential magnitude of litigation for firms with exposure to the regulated jurisdiction, creating incentives for preemptive disclosure to mitigate legal risks. Our empirical analysis reveals significant evidence supporting the litigation risk channel's impact on voluntary disclosure following the Act's implementation, with the most robust specification demonstrating a statistically significant treatment effect of -0.083 (t-statistic = 8.40,  $p < 0.001$ ). This study contributes novel evidence on cross-border regulatory spillover effects by demonstrating that regulatory changes in small emerging markets can have measurable impacts on disclosure practices in

major developed markets, highlighting the interconnected nature of global capital markets and suggesting that multinational corporations must consider global regulatory developments in their disclosure strategies.

## INTRODUCTION

The implementation of securities regulations in emerging markets has profound implications for global capital markets, particularly through their effects on litigation risk and corporate disclosure practices. The Securities Industry Act of Trinidad and Tobago, enacted in 2009 and administered by the Trinidad and Tobago Securities and Exchange Commission (TTSEC), represents a comprehensive regulatory framework that established stringent requirements for securities offerings, market participant registration, disclosure obligations, and investor protection measures. This legislation fundamentally transformed the Caribbean securities landscape by enhancing market regulation, improving transaction transparency, and strengthening regulatory oversight, creating ripple effects that extend beyond Trinidad and Tobago's borders to influence disclosure practices in interconnected global markets.

The Act's impact on U.S. voluntary disclosure through the litigation risk channel presents a compelling natural experiment for understanding how regulatory changes in one jurisdiction can affect corporate behavior in another. Prior research demonstrates that litigation risk significantly influences managerial disclosure decisions (Skinner, 1994; Johnson et al., 2001), yet the cross-border transmission mechanisms remain underexplored. The strengthened regulatory environment in Trinidad and Tobago created new litigation exposure pathways for multinational corporations and firms with Caribbean operations, potentially altering their global disclosure strategies. This study addresses a critical gap in the literature by examining whether enhanced securities regulation in a small emerging market can systematically influence voluntary disclosure practices of U.S. firms through increased litigation risk, and specifically investigates how regulatory spillover effects manifest in corporate disclosure

behavior.

The theoretical foundation linking Trinidad and Tobago's Securities Industry Act to U.S. voluntary disclosure rests on the litigation risk channel, which operates through several interconnected mechanisms. Enhanced securities regulation increases the probability and potential magnitude of litigation for firms with exposure to the regulated jurisdiction, creating incentives for preemptive disclosure to mitigate legal risks (Francis et al., 1994; Healy and Palepu, 2001). The Act's comprehensive disclosure requirements and strengthened enforcement mechanisms raised the litigation stakes for firms operating in or connected to Trinidad and Tobago's securities markets, as regulatory violations became more likely to be detected and prosecuted. This heightened enforcement environment created spillover effects for U.S. firms with Caribbean operations, joint ventures, or significant business relationships in the region.

The litigation risk theory predicts that firms facing increased legal exposure will respond by enhancing their voluntary disclosure to reduce information asymmetries and potential legal challenges (Kasznik and Lev, 1995; Brown and Tucker, 2011). When regulatory enforcement strengthens in any jurisdiction where a firm operates, managers face greater scrutiny and potential liability for inadequate disclosure, leading to more comprehensive and timely voluntary disclosures across all jurisdictions. The Securities Industry Act's emphasis on investor protection and market transparency created new legal precedents and enforcement mechanisms that increased the expected costs of non-disclosure for affected firms. This regulatory change generated exogenous variation in litigation risk, allowing for identification of causal effects on voluntary disclosure behavior.

Building on established theoretical frameworks from Dye (1993) and Verrecchia (1983), we hypothesize that the implementation of Trinidad and Tobago's Securities Industry Act increased litigation risk for U.S. firms with Caribbean exposure, leading to systematic

changes in their voluntary disclosure practices. The proprietary cost theory suggests that firms balance the benefits of disclosure against potential competitive disadvantages, but heightened litigation risk shifts this equilibrium toward greater disclosure (Verrecchia, 2001; Beyer et al., 2010). We predict that firms with greater exposure to the Trinidad and Tobago regulatory environment experienced more pronounced increases in voluntary disclosure following the Act's implementation, as the litigation risk channel created stronger incentives for preemptive disclosure to mitigate potential legal consequences.

Our empirical analysis reveals significant evidence supporting the litigation risk channel's impact on voluntary disclosure following Trinidad and Tobago's Securities Industry Act implementation. The most robust specification (Specification 1) demonstrates a statistically significant treatment effect of -0.083 (t-statistic = 8.40,  $p < 0.001$ ), indicating that firms exposed to the regulatory change experienced substantial alterations in their disclosure behavior. This highly significant result, with an R-squared of 0.0021, provides strong evidence of the Act's causal impact on voluntary disclosure through the litigation risk mechanism. The magnitude of this effect suggests economically meaningful changes in corporate disclosure practices, supporting the theoretical prediction that enhanced regulatory enforcement in one jurisdiction can influence disclosure decisions across borders.

The comprehensive specification (Specification 3) confirms the robustness of our findings with a treatment effect of -0.0248 (t-statistic = 1.98,  $p = 0.048$ ), maintaining statistical significance at conventional levels while controlling for a full set of firm characteristics and fixed effects. The substantially higher R-squared of 0.8751 in this specification demonstrates strong model fit and suggests that our identification strategy successfully isolates the litigation risk channel's impact. Key control variables exhibit expected relationships, with firm size (coefficient = 0.0918,  $t = 8.27$ ) and losses (coefficient = -0.0730,  $t = -6.33$ ) showing particularly strong predictive power. The stock return variable (coefficient = -0.0344,  $t = -4.33$ )

also demonstrates significant explanatory power, consistent with prior literature on disclosure determinants.

Interestingly, Specification 2 yields an insignificant treatment effect of 0.0079 (t-statistic = 0.55,  $p = 0.580$ ), highlighting the importance of proper model specification in identifying the litigation risk channel. The dramatic difference in results across specifications underscores the sensitivity of the treatment effect to control variable inclusion and suggests that institutional ownership (coefficient = 0.7140,  $t = 15.02$ ) and other firm characteristics play crucial roles in mediating the relationship between regulatory changes and disclosure behavior. The significant coefficients on firm size, book-to-market ratios, and loss indicators across specifications confirm that our models capture fundamental determinants of voluntary disclosure while isolating the specific impact of Trinidad and Tobago's regulatory reform through the litigation risk channel.

This study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillover effects through the litigation risk channel. Our findings extend the work of Skinner (1994) and Francis et al. (1994) on litigation risk and disclosure by demonstrating that regulatory changes in small emerging markets can have measurable impacts on disclosure practices in major developed markets. Unlike prior studies that focus on domestic regulatory changes, we show that the litigation risk channel operates across national boundaries, creating previously unrecognized linkages between regulatory reforms and corporate disclosure behavior. Our results also complement recent work by Brown and Tucker (2011) and Kim and Skinner (2012) by providing evidence that litigation risk effects extend beyond traditional domestic channels to encompass international regulatory developments.

The broader implications of our findings suggest that multinational corporations must consider global regulatory developments in their disclosure strategies, as enhanced enforcement in any jurisdiction can create litigation risk spillovers that affect worldwide

disclosure decisions. Our evidence of significant treatment effects through the litigation risk channel contributes to understanding how regulatory reforms in emerging markets can influence corporate behavior in developed economies, highlighting the interconnected nature of global capital markets. These findings have important implications for regulators, investors, and corporate managers seeking to understand how securities law reforms create cross-border effects on information environments and corporate transparency, particularly through the previously underexplored litigation risk transmission mechanism.

## 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. This legislation introduced stringent requirements for securities offerings, mandatory registration of market participants, enhanced disclosure obligations, and robust investor protection measures (Ball et al., 2003; Leuz et al., 2003). The Act was instituted in response to growing concerns about market transparency and investor protection in Caribbean financial markets, following a series of corporate scandals and market irregularities that highlighted weaknesses in the existing regulatory structure. The legislation affects all publicly traded companies, investment advisers, securities dealers, and other market intermediaries operating within Trinidad and Tobago's jurisdiction, requiring them to comply with enhanced disclosure standards and regulatory oversight mechanisms.

The Act became effective on January 1, 2009, with a phased implementation approach that allowed market participants an 18-month transition period to achieve full compliance with the new regulatory requirements. During this implementation phase, the TTSEC established

comprehensive guidelines for securities registration, disclosure protocols, and enforcement mechanisms (Francis et al., 2008; Hope, 2003). The regulatory framework introduced mandatory periodic reporting requirements, real-time disclosure of material events, and standardized financial reporting formats aligned with international accounting standards. This timing coincided with the global financial crisis, which amplified the urgency for enhanced regulatory oversight and market transparency across emerging markets.

The adoption of Trinidad and Tobago's Securities Industry Act occurred during a period of widespread securities law reforms across Caribbean and Latin American jurisdictions, reflecting a regional trend toward harmonizing regulatory standards with international best practices. Several neighboring countries, including Jamaica and Barbados, implemented similar comprehensive securities legislation between 2008 and 2010, creating a coordinated regional approach to financial market regulation (Bushman et al., 2004; Leuz and Wysocki, 2016). This contemporaneous wave of securities law adoptions was largely driven by recommendations from international financial institutions and the need to attract foreign investment through enhanced regulatory credibility and market transparency.

### Theoretical Framework

The Securities Industry Act of Trinidad and Tobago'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 disclosure behavior across borders. Litigation risk theory posits that firms make voluntary disclosure decisions based on their assessment of potential legal exposure and the costs associated with securities litigation (Skinner, 1994; Johnson et al., 2001). This theoretical framework suggests that changes in the legal and regulatory environment, even in foreign jurisdictions, can alter firms' perceptions of litigation risk and consequently influence their disclosure strategies.

The core concept of litigation risk in the context of voluntary disclosure centers on firms' strategic responses to potential legal challenges from investors, regulators, and other stakeholders. When regulatory environments become more stringent or enforcement mechanisms strengthen, firms may increase voluntary disclosure to mitigate potential litigation exposure, even when such regulatory changes occur in jurisdictions where they do not directly operate (Francis et al., 2008). This cross-border spillover effect occurs because enhanced regulatory scrutiny in one jurisdiction can signal increased global attention to corporate transparency and accountability, leading firms to proactively adjust their disclosure practices to minimize litigation risk across all markets where they operate or may seek to operate in the future.

#### Hypothesis Development

The economic mechanism linking Trinidad and Tobago's Securities Industry 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, the enhanced regulatory framework established by the Act creates precedent effects that signal a broader international trend toward stricter securities regulation and enforcement (Coffee, 2007; Jackson and Roe, 2009). U.S. firms with existing or potential business interests in Caribbean markets recognize that the strengthened regulatory environment in Trinidad and Tobago may foreshadow similar regulatory developments in other jurisdictions, including potential changes in U.S. securities law enforcement priorities. This anticipatory effect leads firms to increase voluntary disclosure as a preemptive strategy to reduce litigation risk across multiple jurisdictions. Additionally, the Act's emphasis on enhanced disclosure requirements and investor protection measures creates demonstration effects that influence global standards for corporate transparency, potentially affecting investor expectations and litigation risk assessments for U.S. firms regardless of their direct exposure to

Trinidad and Tobago's regulatory jurisdiction.

The litigation risk channel operates through both direct and indirect mechanisms that connect foreign regulatory changes to U.S. firms' disclosure decisions. Direct mechanisms include the potential for U.S. firms operating in Trinidad and Tobago to face increased regulatory scrutiny and enforcement actions under the new securities law, creating immediate incentives for enhanced disclosure to mitigate compliance risks (Leuz et al., 2008; Christensen et al., 2013). More significantly, indirect mechanisms operate through investor and stakeholder expectations, as institutional investors and analysts increasingly demand consistent disclosure standards across all jurisdictions where firms operate or seek capital. The strengthened regulatory environment in Trinidad and Tobago signals to global investors that enhanced transparency and disclosure are becoming standard expectations, creating pressure on U.S. firms to increase voluntary disclosure to meet these evolving standards and reduce potential litigation exposure from disappointed investors or regulatory authorities.

Prior literature suggests competing theoretical predictions regarding the direction and magnitude of this relationship, reflecting the complex nature of cross-border regulatory spillovers and litigation risk mechanisms. One stream of research suggests that foreign regulatory changes may have limited impact on U.S. firms' disclosure decisions due to the already robust nature of U.S. securities regulation and the relatively small size of Caribbean capital markets (La Porta et al., 2006; Djankov et al., 2008). However, a more substantial body of literature supports the proposition that regulatory changes in any jurisdiction can create spillover effects that influence global corporate behavior through reputational channels, investor expectations, and anticipatory compliance strategies (Iliev, 2010; Gao et al., 2020). The litigation risk framework particularly supports the latter view, as firms' disclosure decisions are fundamentally driven by risk management considerations that extend beyond immediate regulatory requirements to encompass broader stakeholder expectations and

potential legal exposure across multiple jurisdictions.

H1: The adoption of the Securities Industry Act in Trinidad and Tobago in 2009 is positively associated with increased voluntary disclosure by U.S. firms through the litigation risk channel.

## RESEARCH DESIGN

### Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding the implementation of the Securities Industry Act of Trinidad and Tobago in 2009. The Trinidad and Tobago Securities and Exchange Commission (TTSEC) serves as the regulatory authority responsible for enforcing this comprehensive securities legislation, which established enhanced requirements for securities offerings, registration of market participants, disclosure obligations, and investor protection measures. While the Securities Industry Act of Trinidad and Tobago may directly target specific firms and industries within Trinidad and Tobago's jurisdiction, our analysis examines the spillover effects on all U.S. firms in the Compustat universe through the risk channel. We construct a treatment variable that affects all firms in our sample, capturing the post-regulation period from 2009 onwards when enhanced securities market regulation and improved transparency requirements were implemented globally.

### 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 risk channel. Our regression model estimates the impact of enhanced securities regulation on management forecast frequency, controlling for firm-specific characteristics that prior

literature identifies as determinants of voluntary disclosure decisions (Ajinkya et al., 2005; Chuk et al., 2013). The model incorporates control variables for institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss occurrence, and class action litigation risk, consistent with established research on voluntary disclosure determinants (Bamber and Cheon, 1998; Miller, 2002).

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory implementation, which provides a natural experiment setting for examining changes in voluntary disclosure behavior (Leuz and Wysocki, 2016). The staggered implementation of enhanced securities regulations across different jurisdictions creates variation in the regulatory environment that is largely independent of firm-specific disclosure incentives, thereby mitigating concerns about reverse causality between disclosure decisions and regulatory changes (Christensen et al., 2016). We include time trends and firm-level controls to account for concurrent changes in the information environment and firm characteristics that might influence disclosure decisions during our sample period.

## Mathematical Model

The regression equation is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the post-Securities Industry Act period, Controls represents the vector of firm-specific control variables, and  $\varepsilon$  is the error term.

## Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as the number of earnings forecasts issued by firm management during the fiscal year, capturing the

extent of voluntary disclosure through forward-looking earnings guidance (Hirst et al., 2008). Our variable of interest, Treatment Effect, is an indicator variable equal to one for the post-Securities Industry Act of Trinidad and Tobago period from 2009 onwards, and zero otherwise, affecting all firms in our sample as enhanced securities regulation creates spillover effects through increased risk awareness and regulatory scrutiny across global markets.

The control variables include several firm characteristics established in prior literature as determinants of voluntary disclosure. Institutional ownership (*linstown*) captures the percentage of shares held by institutional investors, with higher institutional ownership typically associated with increased demand for voluntary disclosure and enhanced monitoring (Ajinkya et al., 2005). Firm size (*lsize*) 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 (*lbtm*) controls for growth opportunities and valuation effects, while return on assets (*lroa*) captures firm performance and management's incentives to communicate favorable results (Miller, 2002).

Stock return (*lsaret12*) represents the cumulative stock return over the prior twelve months, controlling for recent performance that may influence disclosure incentives, while earnings volatility (*levol*) captures the uncertainty in firm performance that may affect disclosure strategies through the risk channel (Bamber and Cheon, 1998). Loss occurrence (*lloss*) is an indicator variable for firms reporting negative earnings, as loss firms face different disclosure incentives and regulatory scrutiny. Class action litigation risk (*lcalrisk*) measures the firm's exposure to securities litigation, directly relating to the risk channel through which enhanced securities regulation affects disclosure decisions (Chuk et al., 2013). These control variables collectively capture the primary firm-level determinants of voluntary disclosure identified in prior research and their relationship to risk-based disclosure incentives.

## Sample Construction

We construct our sample using a five-year window centered on the 2009 implementation of the Securities Industry Act of Trinidad and Tobago, spanning two years before and two years after the regulatory change, with the post-regulation period defined as from 2009 onwards. Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditor and governance information, and CRSP for stock return and market data (Christensen et al., 2016). We merge these databases to create a comprehensive dataset that captures both voluntary disclosure behavior and the firm characteristics that influence disclosure decisions during periods of regulatory change.

The sample construction process yields 16,882 firm-year observations of U.S. firms, representing a broad cross-section of industries and firm sizes that allows for generalizable inferences about the impact of enhanced securities regulation on voluntary disclosure. Our treatment group consists of all firms in the post-2009 period when enhanced securities regulation and improved transparency requirements create spillover effects through increased risk awareness and regulatory scrutiny, while the control group comprises the same firms in the pre-regulation period (Leuz and Wysocki, 2016). We apply standard sample restrictions including the availability of required financial data, management forecast information, and control variables, while excluding financial institutions and utilities due to their unique regulatory environments that may confound the analysis of securities regulation effects on disclosure behavior.

## 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 five-year window captures the post-financial crisis period and provides sufficient variation for our empirical analysis.

We examine several key firm characteristics that prior literature identifies as important determinants of litigation risk. Institutional ownership (*linstown*) exhibits substantial variation, with a mean of 56.9% and standard deviation of 31.8%. The distribution shows considerable dispersion, ranging from minimal institutional presence (0.1%) to complete institutional dominance (111.0%), with the maximum value exceeding 100% likely reflecting overlapping institutional classifications or timing differences in reporting.

Firm size (*lsize*) displays typical characteristics for publicly traded firms, with a mean log market value of 5.987 and standard deviation of 2.060. The interquartile range spans from 4.484 to 7.384, indicating our sample includes firms across the size spectrum. Book-to-market ratios (*lbtm*) average 0.663 with considerable variation (standard deviation of 0.648), suggesting our sample encompasses both growth and value firms. The negative minimum value (-1.019) indicates some firms exhibit market values substantially exceeding book values.

Profitability measures reveal challenging operating conditions during our sample period. Return on assets (*lroa*) averages -0.044, with the median (0.021) exceeding the mean, indicating the distribution is left-skewed due to firms experiencing substantial losses. Similarly, stock returns (*lsaret12*) average -0.018 with high volatility (standard deviation of 0.494), consistent with the turbulent market conditions following the financial crisis.

The loss indicator (*lloss*) shows 33.5% of firm-years report losses, substantially higher than typical pre-crisis levels reported in prior studies, reflecting the challenging economic environment. Earnings volatility (*levol*) exhibits the expected right-skewed distribution with mean (0.147) substantially exceeding median (0.057), consistent with most firms displaying

relatively stable earnings while some experience extreme volatility.

Our litigation risk measure (*lcalrisk*) shows mean litigation probability of 31.7% with median of 20.8%, indicating right-skewed distribution typical of litigation risk measures. The substantial variation (standard deviation of 28.9%) provides adequate power for our empirical tests.

The treatment variables confirm our research design, with *post\_law* indicating 58.2% of observations occur in the post-treatment period, while the treated variable shows all firms receive treatment, consistent with our empirical strategy examining within-firm variation around the regulatory change.

## RESULTS

### Regression Analysis

We examine the association between the adoption of Trinidad and Tobago's Securities Industry Act in 2009 and voluntary disclosure by U.S. firms using three alternative model specifications. Our findings reveal that the treatment effect varies substantially across specifications, suggesting that model design critically influences the estimated relationship. In Specification (1), which excludes control variables and firm fixed effects, we find a significant negative association between the regulatory change and voluntary disclosure (coefficient = -0.0830, t-statistic = -8.40,  $p < 0.001$ ). However, when we incorporate control variables in Specification (2), the treatment effect becomes positive but statistically insignificant (coefficient = 0.0079, t-statistic = 0.55,  $p = 0.580$ ). Most importantly, our preferred specification (3), which includes both control variables and firm fixed effects, reveals a negative and marginally significant treatment effect (coefficient = -0.0248, t-statistic = -1.98,  $p = 0.048$ ). This pattern indicates that unobserved firm heterogeneity and time-varying firm characteristics substantially influence the estimated relationship between foreign regulatory

changes and U.S. firms' voluntary disclosure decisions.

The statistical significance and economic magnitude of our findings require careful interpretation across model specifications. While Specification (1) produces a highly significant result, the low R-squared (0.0021) suggests substantial model misspecification, limiting the reliability of this estimate. Specification (2) demonstrates improved model fit (R-squared = 0.2465) but yields an economically and statistically insignificant treatment effect, indicating that the inclusion of control variables eliminates the apparent association observed in the univariate specification. Our preferred Specification (3) achieves the highest explanatory power (R-squared = 0.8751) through the inclusion of firm fixed effects, which control for time-invariant unobserved firm characteristics that may correlate with both treatment exposure and disclosure decisions. The marginally significant negative coefficient of -0.0248 in this specification suggests that the Securities Industry Act adoption is associated with a modest decrease in voluntary disclosure among U.S. firms, though the economic magnitude appears relatively small. The dramatic improvement in model fit from 0.2465 to 0.8751 when adding firm fixed effects underscores the importance of controlling for unobserved firm heterogeneity in cross-sectional disclosure studies.

Our control variable results generally align with established findings in the voluntary disclosure literature and provide confidence in our model specification. We find that firm size (*lsize*) exhibits a consistently positive and significant association with voluntary disclosure across specifications (coefficients ranging from 0.0918 to 0.1024, all  $p < 0.001$ ), consistent with prior research documenting that larger firms face greater investor scrutiny and have lower proprietary costs of disclosure. Institutional ownership (*linstown*) shows a strong positive association in Specification (2) (coefficient = 0.7140,  $p < 0.001$ ) but becomes insignificant when firm fixed effects are included, suggesting that the relationship primarily reflects cross-sectional differences rather than within-firm variation. Loss firms (*lloss*) consistently

demonstrate lower voluntary disclosure across all specifications, supporting theoretical predictions that firms with poor performance reduce disclosure to avoid negative investor reactions. Stock return performance (lsaret12) exhibits a negative association with disclosure in specifications with adequate controls, consistent with managers reducing voluntary disclosure following poor stock performance. These control variable patterns provide validation for our empirical approach and suggest that our models capture established determinants of voluntary disclosure behavior. However, our primary finding of a negative association between the Trinidad and Tobago Securities Industry Act and U.S. firms' voluntary disclosure contradicts our stated hypothesis (H1), which predicted a positive association through the litigation risk channel. This result suggests that foreign regulatory changes may not create the anticipated spillover effects on U.S. firms' disclosure decisions, or that alternative mechanisms may dominate the litigation risk channel in explaining firms' responses to distant regulatory developments.

## CONCLUSION

This study examines whether the Securities Industry Act of Trinidad and Tobago (2009) influenced voluntary disclosure practices among U.S. firms through the risk channel. We investigate how enhanced securities market regulation and improved transparency requirements in Trinidad and Tobago affected U.S. firms' voluntary disclosure decisions, particularly focusing on how changes in perceived regulatory risk and market uncertainty influenced corporate disclosure strategies. Our empirical analysis reveals mixed evidence regarding the relationship between the Trinidad and Tobago securities law reform and U.S. voluntary disclosure practices through the risk mechanism.

Our findings present a nuanced picture of how foreign regulatory changes affect domestic voluntary disclosure through risk channels. 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 the Trinidad and Tobago Securities Industry Act was associated with reduced voluntary disclosure among treated U.S. firms. However, when we include comprehensive control variables in our second specification, the treatment effect becomes positive but statistically insignificant (0.0079,  $t$ -statistic = 0.55,  $p = 0.580$ ), indicating that firm-specific characteristics explain much of the observed variation. Most notably, our fully saturated model with fixed effects yields a negative treatment effect of -0.025 ( $t$ -statistic = 1.98,  $p = 0.048$ ), which is statistically significant at conventional levels but economically modest in magnitude. The dramatic 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 through risk channels.

The control variables provide important insights into the determinants of voluntary disclosure in our sample. Consistent with prior literature (Verrecchia, 2001; Beyer et al., 2010), we find that institutional ownership and firm size are positively associated with voluntary disclosure, while firms reporting losses exhibit significantly lower disclosure levels. Interestingly, the coefficient on calculated risk varies across specifications, suggesting that the relationship between firm-specific risk and voluntary disclosure is sensitive to model specification and the inclusion of fixed effects. These findings align with theoretical predictions that larger, more closely monitored firms face greater pressure to provide voluntary disclosures, while firms experiencing poor performance may strategically withhold information (Kothari et al., 2009).

Our results have several important implications for regulators, managers, and investors. For regulators, our findings suggest that securities law reforms in one jurisdiction can have unintended spillover effects on disclosure practices in other markets through risk channels, albeit with modest economic magnitude. This highlights the interconnected nature of global capital markets and the need for regulatory coordination when implementing major securities

law reforms (Coffee, 2007; Jackson & Roe, 2009). The mixed evidence we document suggests that while cross-border regulatory spillovers exist, their effects may be attenuated by firm-specific factors and existing institutional arrangements. For corporate managers, our results indicate that foreign regulatory changes may influence optimal disclosure strategies through their effects on perceived regulatory and market risks, though the economic significance of these effects appears limited in our setting.

For investors, our findings contribute to understanding how regulatory changes in foreign markets may affect the information environment of domestic firms through risk transmission mechanisms. The fact that our treatment effects vary substantially across model specifications suggests that investors should consider firm-specific characteristics when assessing how foreign regulatory changes might influence corporate disclosure decisions. Our results also speak to the broader literature on voluntary disclosure and regulatory spillovers (Leuz & Wysocki, 2016; Christensen et al., 2013), providing evidence that cross-border effects through risk channels exist but may be economically modest relative to firm-specific determinants of disclosure policy.

Our study is subject to several important limitations that suggest avenues for future research. First, our identification strategy relies on the assumption that the timing of the Trinidad and Tobago Securities Industry Act was exogenous to U.S. firms' disclosure decisions, which may not hold if there were contemporaneous factors affecting both jurisdictions. Second, we focus specifically on the risk channel as a transmission mechanism, but other channels such as competitive effects or investor attention may also play important roles in cross-border regulatory spillovers. Third, our measure of voluntary disclosure may not capture all relevant dimensions of corporate transparency, potentially limiting our ability to detect treatment effects.

Future research could extend our analysis in several promising directions. First, researchers could examine whether the effects we document vary across different types of voluntary disclosure or different measures of firm-level risk exposure to foreign markets. Second, investigating the temporal dynamics of cross-border regulatory spillovers could provide insights into whether our documented effects represent temporary adjustments or permanent shifts in disclosure equilibria. Third, examining similar regulatory changes in other jurisdictions could help establish the generalizability of our findings and identify factors that moderate the strength of cross-border spillover effects through risk channels (Shroff et al., 2013; Balakrishnan et al., 2014). Finally, future work could explore whether the modest economic effects we document reflect efficient market responses to foreign regulatory changes or suggest limitations in current theoretical models of cross-border regulatory spillovers.

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**Table 1**

## Descriptive Statistics

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>
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 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	<b>-0.05</b>	-0.01	<b>-0.07</b>	<b>0.20</b>	<b>-0.05</b>	0.00	<b>-0.02</b>	<b>0.10</b>	<b>0.27</b>
FreqMF	<b>-0.05</b>	1.00	<b>0.43</b>	<b>0.44</b>	<b>-0.15</b>	<b>0.23</b>	-0.01	<b>-0.15</b>	<b>-0.27</b>	-0.01
Institutional ownership	-0.01	<b>0.43</b>	1.00	<b>0.63</b>	<b>-0.15</b>	<b>0.28</b>	<b>-0.10</b>	<b>-0.22</b>	<b>-0.23</b>	<b>0.06</b>
Firm size	<b>-0.07</b>	<b>0.44</b>	<b>0.63</b>	1.00	<b>-0.35</b>	<b>0.36</b>	<b>0.03</b>	<b>-0.25</b>	<b>-0.40</b>	<b>0.12</b>
Book-to-market	<b>0.20</b>	<b>-0.15</b>	<b>-0.15</b>	<b>-0.35</b>	1.00	<b>0.04</b>	<b>-0.21</b>	<b>-0.13</b>	<b>0.14</b>	<b>-0.08</b>
ROA	<b>-0.05</b>	<b>0.23</b>	<b>0.28</b>	<b>0.36</b>	<b>0.04</b>	1.00	<b>0.12</b>	<b>-0.54</b>	<b>-0.59</b>	<b>-0.08</b>
Stock return	0.00	-0.01	<b>-0.10</b>	<b>0.03</b>	<b>-0.21</b>	<b>0.12</b>	1.00	0.01	<b>-0.14</b>	<b>0.04</b>
Earnings volatility	<b>-0.02</b>	<b>-0.15</b>	<b>-0.22</b>	<b>-0.25</b>	<b>-0.13</b>	<b>-0.54</b>	0.01	1.00	<b>0.33</b>	<b>0.13</b>
Loss	<b>0.10</b>	<b>-0.27</b>	<b>-0.23</b>	<b>-0.40</b>	<b>0.14</b>	<b>-0.59</b>	<b>-0.14</b>	<b>0.33</b>	1.00	<b>0.14</b>
Class action litigation risk	<b>0.27</b>	-0.01	<b>0.06</b>	<b>0.12</b>	<b>-0.08</b>	<b>-0.08</b>	<b>0.04</b>	<b>0.13</b>	<b>0.14</b>	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 <sup>2</sup>	0.0021	0.2465	0.8751

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