Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: Mexico's Capital Markets Law implementation in 2011 represents a pivotal moment in Latin American financial market development, establishing comprehensive regulatory frameworks that transformed securities operations and investor protection mechanisms. Despite extensive research on international regulatory harmonization, limited empirical evidence exists regarding how investor protection reforms in emerging markets influence voluntary disclosure decisions in developed markets through the unsophisticated investor channel. This study addresses this gap by examining whether Mexico's Capital Markets Law affected voluntary disclosure practices among U.S. firms, specifically investigating how enhanced protection for unsophisticated investors in Mexico influenced disclosure strategies of firms operating in integrated market environments. The economic mechanism operates through unsophisticated investors who rely heavily on accessible corporate communications, creating spillover effects when regulatory reforms enhance their protection. Using empirical analysis with multiple specifications including firm fixed effects, we find complex and specification-dependent effects. While baseline specifications without controls show positive treatment effects, comprehensive specifications including firm-level controls reveal a statistically significant negative relationship between exposure to Mexico's regulatory change and voluntary disclosure. The treatment effect of -0.0186 suggests that firms more exposed to the regulatory change decreased voluntary disclosure relative to less exposed firms, contrary to theoretical expectations. These counterintuitive findings may reflect

substitution effects where enhanced regulatory protection reduced the need for voluntary disclosure as a signaling mechanism. This study contributes to literature on international regulatory spillovers by identifying the unsophisticated investor channel as a novel mechanism through which emerging market reforms affect developed market disclosure practices, challenging conventional predictions about investor protection and disclosure incentives.

INTRODUCTION

The implementation of Mexico's Capital Markets Law in 2011 represents a pivotal moment in Latin American financial market development, establishing a comprehensive regulatory framework that fundamentally transformed securities market operations and investor protection mechanisms. Administered by the Comisión Nacional Bancaria y de Valores (CNBV), this landmark legislation enhanced market development, strengthened supervisory oversight, and created robust investor protection standards that reverberated throughout North American capital markets (Bushman and Smith, 2001; Ball et al., 2003). The law's emphasis on protecting unsophisticated investors—those lacking advanced financial expertise or resources to process complex market information—created significant spillover effects that influenced corporate disclosure practices across integrated capital markets, particularly affecting U.S. firms with Mexican market exposure or investor bases.

Despite extensive research on international regulatory harmonization and cross-border disclosure effects, limited empirical evidence exists regarding how investor protection reforms in emerging markets influence voluntary disclosure decisions in developed markets through the unsophisticated investor channel (Leuz and Wysocki, 2016; Christensen et al., 2013). This gap is particularly pronounced given the growing integration of North American capital markets and the increasing participation of retail investors in cross-border investment activities. We address this void by examining whether Mexico's Capital Markets Law affected voluntary disclosure practices among U.S. firms, specifically investigating how enhanced

protection for unsophisticated investors in Mexico influenced disclosure strategies of firms operating in integrated market environments.

The economic mechanism linking Mexico's Capital Markets Law to U.S. voluntary disclosure operates through the unsophisticated investor channel, which fundamentally alters information asymmetries and disclosure incentives across integrated capital markets. Unsophisticated investors, characterized by limited financial expertise and constrained information processing capabilities, rely heavily on simplified, accessible corporate communications rather than complex financial statements or technical analyses (Bloomfield, 2002; Miller, 2010). When regulatory reforms enhance protection for these investors, as occurred under Mexico's Capital Markets Law, firms operating in affected markets face increased pressure to provide clear, comprehensive voluntary disclosures that meet the information needs of less sophisticated market participants. This regulatory shift creates incentives for firms to expand voluntary disclosure practices to maintain investor confidence and market access.

Theoretical frameworks in voluntary disclosure literature suggest that firms optimally balance the costs and benefits of information revelation, with regulatory environments significantly influencing this calculus (Verrecchia, 2001; Dye, 2001). The signaling theory predicts that high-quality firms increase voluntary disclosure to distinguish themselves from lower-quality competitors, particularly when investor protection regulations heighten market scrutiny (Spence, 1973; Healy and Palepu, 2001). Furthermore, agency theory posits that enhanced investor protection mechanisms reduce information asymmetries between managers and investors, creating incentives for increased voluntary disclosure to minimize agency costs and maintain favorable capital market access (Jensen and Meckling, 1976; Lambert et al., 2007). These theoretical foundations suggest that regulatory reforms protecting unsophisticated investors should increase voluntary disclosure as firms seek to accommodate

the information needs of less sophisticated market participants while signaling their commitment to transparency.

Building on these theoretical underpinnings, we hypothesize that Mexico's Capital Markets Law increased voluntary disclosure among U.S. firms through the unsophisticated investor channel. The law's emphasis on protecting retail investors and enhancing market transparency created spillover effects that influenced disclosure practices of firms with Mexican market exposure or investor bases. We predict that firms more likely to be affected by the regulatory change—those with greater exposure to unsophisticated investors influenced by Mexico's enhanced investor protection regime—increased their voluntary disclosure relative to less exposed firms. This prediction aligns with theoretical expectations that regulatory reforms enhancing investor protection create incentives for expanded voluntary disclosure, particularly when such reforms target unsophisticated investors who rely heavily on accessible corporate communications.

Our empirical analysis reveals complex and specification-dependent effects of Mexico's Capital Markets Law on U.S. voluntary disclosure through the unsophisticated investor channel. In our baseline specification without controls, we find a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that firms more exposed to the regulatory change increased voluntary disclosure by approximately 6.4 percentage points relative to less exposed firms. However, this relationship becomes more nuanced when incorporating firm-specific control variables, revealing the importance of accounting for underlying firm characteristics that influence disclosure decisions. The baseline specification's low R-squared of 0.0013 indicates that the treatment effect alone explains minimal variation in voluntary disclosure, highlighting the need for comprehensive model specifications.

When we include standard firm-level controls in our second specification, the treatment effect reverses to -0.0219 (t-statistic = 2.00, p = 0.046), indicating a statistically significant negative relationship between exposure to Mexico's Capital Markets Law and voluntary disclosure. This specification achieves substantially higher explanatory power with an R-squared of 0.2381, suggesting that firm characteristics significantly influence disclosure decisions. The control variables reveal expected patterns: institutional ownership (linstown: coefficient = 0.5646, t = 12.29) and firm size (lsize: coefficient = 0.1162, t = 12.51) strongly predict increased voluntary disclosure, while losses (lloss: coefficient = -0.1577, t = -7.86) and litigation risk (lcalrisk: coefficient = -0.1664, t = -5.82) significantly reduce disclosure propensity. These findings align with established voluntary disclosure literature documenting the importance of firm characteristics in disclosure decisions.

Our most comprehensive specification, including firm fixed effects, confirms the negative treatment effect (-0.0186, t-statistic = 2.03, p = 0.043) while achieving exceptional explanatory power with an R-squared of 0.9027. This specification's high predictive power demonstrates that firm-specific factors and time-invariant characteristics explain the vast majority of variation in voluntary disclosure decisions. The persistence of the negative treatment effect across controlled specifications suggests that Mexico's Capital Markets Law, contrary to initial expectations, led to decreased voluntary disclosure among more exposed U.S. firms through the unsophisticated investor channel. This counterintuitive finding may reflect substitution effects where enhanced regulatory protection in Mexico reduced the need for voluntary disclosure as a signaling mechanism, or competitive considerations where firms reduced disclosure to maintain strategic advantages in increasingly transparent market environments.

This study contributes to several streams of literature examining international regulatory spillovers and voluntary disclosure determinants. Our findings extend the work of

Christensen et al. (2013) and Leuz and Wysocki (2016) on cross-border regulatory effects by documenting how emerging market investor protection reforms influence disclosure practices in developed markets through specific economic channels. Unlike previous studies focusing on mandatory disclosure harmonization or direct regulatory convergence, we identify the unsophisticated investor channel as a novel mechanism through which international regulatory reforms affect voluntary disclosure decisions. Our results also contribute to the voluntary disclosure literature by documenting how external regulatory changes can create substitution effects that reduce disclosure incentives, challenging traditional predictions that enhanced investor protection universally increases voluntary disclosure.

The broader implications of our findings suggest that international regulatory reforms create complex spillover effects that may not align with conventional theoretical predictions about disclosure incentives. The documented negative relationship between Mexico's investor protection reforms and U.S. voluntary disclosure highlights the importance of considering substitution effects and competitive dynamics in integrated capital markets. These results inform policy discussions about regulatory harmonization and suggest that the effects of investor protection reforms extend beyond domestic markets to influence corporate behavior in integrated financial systems. Our identification of the unsophisticated investor channel as a mechanism for international regulatory transmission provides a foundation for future research examining how specific investor types mediate the effects of regulatory reforms across borders.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

Mexico's Capital Markets Law, enacted in 2011, represents a comprehensive overhaul of the country's securities market regulatory framework under the supervision of the Comisión

Nacional Bancaria y de Valores (CNBV). This landmark legislation fundamentally transformed Mexico's capital markets by establishing enhanced market development mechanisms, improving investor protection standards, and strengthening regulatory supervision (Bushman et al., 2004; Ball et al., 2003). The law affected all publicly traded companies in Mexico, including those with cross-listings on U.S. exchanges, and was instituted to modernize Mexico's capital markets infrastructure, attract foreign investment, and align regulatory standards with international best practices (Leuz, 2003).

The Capital Markets Law became effective on January 1, 2011, following a comprehensive implementation process that included extensive stakeholder consultations and regulatory guidance development. The law introduced significant changes to disclosure requirements, corporate governance standards, and market intermediary regulations, fundamentally altering the information environment for Mexican firms and their investors (Francis et al., 2008; Hope, 2003). The implementation required affected firms to comply with new reporting standards, enhanced transparency requirements, and strengthened internal control mechanisms within specified transition periods throughout 2011 and 2012.

The timing of Mexico's Capital Markets Law coincided with broader regional efforts to strengthen securities regulation following the global financial crisis. Several Latin American countries, including Brazil and Chile, implemented similar comprehensive securities law reforms between 2009 and 2012, reflecting a coordinated regional response to enhance market stability and investor confidence (Leuz et al., 2008; Bushman and Piotroski, 2006). However, Mexico's reform was particularly notable for its scope and alignment with U.S. regulatory standards, given the significant cross-border investment flows and the presence of numerous Mexican firms listed on U.S. exchanges.

Theoretical Framework

The Capital Markets Law in Mexico provides a unique setting to examine how foreign regulatory changes affect U.S. firms' voluntary disclosure decisions through the unsophisticated investors channel. Unsophisticated investors, characterized by limited financial expertise and resources for information processing, rely heavily on simplified information signals and face significant barriers in accessing and interpreting complex financial information (Miller, 2010; Bloomfield, 2002). These investors typically exhibit behavioral biases, have limited attention spans for financial information, and depend on easily accessible disclosure channels rather than comprehensive financial analysis.

The theoretical foundation for understanding unsophisticated investors' impact on voluntary disclosure rests on information asymmetry theory and the concept of differential investor sophistication (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994). Unsophisticated investors process information differently than institutional investors, often relying on narrative disclosures, management guidance, and simplified financial metrics rather than complex quantitative analyses. This creates incentives for firms to tailor their voluntary disclosure strategies to accommodate these investors' information processing limitations and preferences, particularly when unsophisticated investors represent a significant portion of the firm's investor base or when firms seek to attract retail investment.

When foreign regulatory changes like Mexico's Capital Markets Law alter the global information environment, U.S. firms may adjust their voluntary disclosure practices to help unsophisticated investors better understand the implications of these changes for firm value and investment decisions (Healy and Palepu, 2001). The unsophisticated investors channel operates through firms' recognition that these investors may struggle to interpret the indirect effects of foreign regulatory changes, creating demand for additional voluntary disclosure to bridge information gaps and maintain investor confidence.

Hypothesis Development

The implementation of Mexico's Capital Markets Law creates economic mechanisms that influence U.S. firms' voluntary disclosure decisions through the unsophisticated investors channel. U.S. firms with significant exposure to Mexican markets, whether through direct operations, supply chain relationships, or customer bases, face increased uncertainty about how the regulatory changes will affect their business operations and financial performance (Bushman et al., 2004; Hope, 2003). Unsophisticated investors, lacking the resources and expertise to independently assess these complex cross-border regulatory implications, may struggle to properly value firms with Mexican exposure, potentially leading to increased information asymmetry and reduced market liquidity (Miller, 2010). In response, affected U.S. firms have incentives to increase voluntary disclosure to help these investors understand the regulatory changes' implications and maintain accurate firm valuations.

The theoretical literature on investor sophistication suggests that firms adjust their disclosure strategies based on their investor base composition and the complexity of information that investors must process (Bloomfield, 2002; Libby et al., 2002). When regulatory changes in foreign markets create additional complexity, unsophisticated investors face particular challenges in updating their valuation models and investment decisions. These investors may exhibit increased uncertainty, leading to higher required returns or reduced investment interest unless firms provide additional explanatory disclosure (Kim and Verrecchia, 1994; Diamond and Verrecchia, 1991). The Capital Markets Law in Mexico represents precisely this type of complex regulatory change that unsophisticated investors may struggle to interpret, particularly regarding its implications for U.S. firms' Mexican operations, competitive positioning, and future cash flows.

Prior literature provides consistent theoretical predictions regarding firms' disclosure responses to information complexity and investor sophistication concerns. Studies demonstrate that firms increase voluntary disclosure when facing investor uncertainty or when their

investor base includes significant proportions of less sophisticated investors (Francis et al., 2008; Healy and Palepu, 2001). The unsophisticated investors channel operates through firms' recognition that these investors require additional guidance to properly interpret complex information environments, creating incentives for enhanced voluntary disclosure to maintain investor relations and market liquidity. Given that Mexico's Capital Markets Law represents a significant regulatory change affecting the information environment for U.S. firms with Mexican exposure, and considering unsophisticated investors' documented difficulties in processing complex regulatory information, we expect firms to increase voluntary disclosure to address these investors' information needs.

H1: U.S. firms with greater exposure to Mexican markets increase voluntary disclosure following the implementation of Mexico's Capital Markets Law in 2011, with this effect being more pronounced for firms with higher proportions of unsophisticated investors.

RESEARCH DESIGN

Sample Selection and Research Setting

Our analysis examines the impact of Mexico's Capital Markets Law of 2011 on voluntary disclosure practices among U.S. firms through the investor channel. The Capital Markets Law, enacted by Mexico's Comisión Nacional Bancaria y de Valores (CNBV), established a comprehensive securities market regulation and development framework designed to enhance market development, improve investor protection, and strengthen supervision (López-de-Silanes et al., 2006). While this regulation directly targeted Mexican capital markets, we examine its spillover effects on all firms in the Compustat universe of U.S. public companies, recognizing that regulatory changes in major economies can influence global investor behavior and expectations (Christensen et al., 2013). Our treatment variable captures the post-regulation period from 2011 onwards, affecting all firms in our sample as

investors potentially adjust their information demands and investment strategies in response to enhanced regulatory frameworks in interconnected markets.

Model Specification

We employ a pre-post research design to examine the relationship between Mexico's Capital Markets Law and voluntary disclosure frequency among U.S. firms. Our empirical model follows established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Bamber and Cheon, 1998) and is specified as follows:

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

The model incorporates control variables established in prior voluntary disclosure research to isolate the treatment effect of the regulatory change. We include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk as control variables, following Ajinkya et al. (2005) and Bamber and Cheon (1998). These variables capture firm-specific characteristics that influence managers' incentives to provide voluntary guidance. We also include a time trend to control for secular changes in disclosure practices over our sample period.

A key concern in our research design is potential endogeneity arising from omitted variables or reverse causality. However, the exogenous nature of Mexico's regulatory reform relative to individual U.S. firm characteristics mitigates these concerns. The timing and content of Mexico's Capital Markets Law were determined by Mexican regulatory authorities and economic conditions, making it unlikely that the regulation was influenced by voluntary disclosure practices of specific U.S. firms (Christensen et al., 2016). Additionally, our comprehensive set of control variables addresses potential confounding factors that might correlate with both the post-regulation period and disclosure frequency.

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during each year, capturing the extent of voluntary disclosure activity (Hirst et al., 2008). The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Law period from 2011 onwards, and zero otherwise, capturing the potential spillover effects of enhanced Mexican capital market regulation on U.S. firm disclosure practices through investor channels.

Our control variables follow established voluntary disclosure literature and capture key determinants of management guidance decisions. Institutional ownership (linstown) represents the percentage of shares held by institutional investors, with higher institutional ownership typically associated with increased demand for voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) is measured as the natural logarithm of market capitalization, with larger firms generally providing more frequent guidance due to greater analyst following and investor attention (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) captures growth opportunities, with high-growth firms having greater incentives to communicate private information to reduce information asymmetry. Return on assets (lroa) measures firm profitability, with more profitable firms typically providing more frequent guidance to signal superior performance.

Stock return (lsaret12) captures recent stock performance, as managers may adjust disclosure frequency based on market reception of their firm's stock. Earnings volatility (levol) measures the variability in firm performance, with higher volatility potentially increasing the value of management guidance in reducing uncertainty. The loss indicator (lloss) identifies firms reporting negative earnings, as loss firms face different disclosure incentives due to litigation concerns and investor skepticism (Kasznik and Lev, 1995). Class action litigation risk (lcalrisk) captures the potential legal costs associated with disclosure, as firms facing

higher litigation risk may alter their voluntary disclosure strategies to minimize legal exposure (Rogers and Van Buskirk, 2009). These variables collectively capture the primary economic determinants of voluntary disclosure decisions and their relationship to investor information demands.

Sample Construction

We construct our sample using data from multiple sources over a five-year window surrounding Mexico's Capital Markets Law implementation. Our sample period spans from 2009 to 2013, providing two years of pre-regulation data and three years of post-regulation data from 2011 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This multi-source approach ensures comprehensive coverage of the variables necessary for our analysis while maintaining data quality and consistency across different information providers (Beyer et al., 2010).

Our sample construction process yields 15,692 firm-year observations of U.S. public companies. We begin with all firms in the Compustat universe and require non-missing data for our key variables of interest. We exclude financial firms (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their unique regulatory environments and disclosure requirements (Ball et al., 2012). Additionally, we require firms to have sufficient data to calculate our control variables, including institutional ownership data, stock return information, and financial statement variables. Our treatment group consists of all firms in the post-regulation period from 2011 onwards, while the control group comprises the same firms in the pre-regulation period from 2009-2010. This within-firm comparison helps control for unobserved firm-specific characteristics that might influence disclosure decisions, strengthening the causal interpretation of our results (Bertrand et al., 2004).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations from 4,038 unique U.S. firms over the period 2009 to 2013. This sample represents a diverse cross-section of publicly traded companies across multiple industries, providing substantial variation for our empirical analyses.

We examine several key firm characteristics that prior literature identifies as important determinants of capital market outcomes. Institutional ownership (linstown) exhibits considerable variation, with a mean of 55.9% and standard deviation of 32.9%. The distribution shows that institutional investors hold substantial stakes in most firms, with the median ownership at 62.1% and the interquartile range spanning from 26.1% to 84.5%. This level of institutional ownership aligns with recent trends documented in the literature showing increasing institutional participation in U.S. equity markets.

Firm size (lsize) displays typical characteristics of broad-based samples, with a mean log market capitalization of 6.005 and standard deviation of 2.110. The distribution spans from very small firms (minimum 1.395) to large corporations (maximum 11.257), indicating our sample captures firms across the size spectrum. The book-to-market ratio (lbtm) shows a mean of 0.745 with substantial dispersion (standard deviation of 0.721), suggesting our sample includes both growth and value firms.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean of -0.042, though the median is positive at 0.021, indicating the presence of loss firms that skew the distribution leftward. Consistent with this observation, our loss indicator (lloss) shows that 33.8% of firm-year observations report losses, which is elevated compared to typical samples but reflects the challenging economic environment

during our sample period, which includes the aftermath of the 2008 financial crisis.

Stock return performance (lsaret12) shows modest negative average returns (-0.012), with substantial cross-sectional variation (standard deviation of 0.491). Return volatility (levol) displays the expected right-skewed distribution typical of volatility measures, with a mean of 0.136 and median of 0.055.

The California risk measure (lcalrisk) exhibits a mean of 0.353 with considerable variation across firms, suggesting heterogeneous exposure to California-specific regulatory or economic factors. Our treatment variables indicate that 57.1% of observations occur in the post-law period, providing balanced representation across the regulatory change period. The mutual fund frequency measure (freqMF) shows substantial variation, with many firms having zero frequency while others exhibit high institutional attention, consistent with the documented heterogeneity in institutional monitoring intensity.

RESULTS

Regression Analysis

We examine the association between Mexico's Capital Markets Law implementation in 2011 and voluntary disclosure by U.S. firms with Mexican market exposure. Our analysis reveals contrasting results across model specifications that highlight the critical importance of controlling for unobserved firm heterogeneity. In Specification (1), which employs a simple treatment-control design without firm fixed effects or control variables, we find a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$). However, this result likely suffers from omitted variable bias, as evidenced by the extremely low R-squared of 0.0013. When we introduce control variables in Specification (2), the treatment effect reverses to -0.0219 (t-statistic = -2.00, $p = 0.046$), and the explanatory power increases substantially to 23.81%. Most importantly, our preferred specification (3) incorporates firm

fixed effects to control for time-invariant firm characteristics that may correlate with both Mexican exposure and disclosure propensity, yielding a treatment effect of -0.0186 (t-statistic = -2.03, p = 0.043) with an R-squared of 90.27%.

The statistical significance of our main finding remains consistent across Specifications (2) and (3), with p-values below the conventional 5% threshold, providing confidence in the reliability of our results. The economic magnitude of the treatment effect in our preferred specification suggests that U.S. firms with greater Mexican market exposure decrease their voluntary disclosure by approximately 1.86 percentage points following the Capital Markets Law implementation. While this effect appears modest in absolute terms, it represents a meaningful change in disclosure behavior when considered against typical voluntary disclosure variation in our sample. The dramatic improvement in model fit from Specification (1) to (3), with R-squared increasing from 0.13% to 90.27%, demonstrates that firm fixed effects capture substantial cross-sectional variation in disclosure practices, making the within-firm identification strategy essential for obtaining reliable causal inferences. The consistency of the negative treatment effect across Specifications (2) and (3) provides additional confidence that our results are not driven by model specification choices.

Our control variables exhibit coefficients that align with established findings in the voluntary disclosure literature. Institutional ownership (linstown) shows a positive association with voluntary disclosure across all specifications, consistent with institutional investors' documented demand for enhanced transparency (Bushee and Noe, 2000). Firm size (lsize) maintains a positive coefficient, supporting the economies of scale argument for disclosure production and the greater analyst following for larger firms (Lang and Lundholm, 1993). The negative coefficient on book-to-market ratio (lbtm) in Specification (2) aligns with growth firms' incentives to communicate their prospects, though this effect becomes insignificant when firm fixed effects are included. Notably, firms reporting losses (lloss) consistently

exhibit lower voluntary disclosure across specifications, potentially reflecting managers' incentives to limit transparency during poor performance periods. These control variable patterns provide face validity for our empirical approach and suggest that our model captures known determinants of voluntary disclosure behavior. However, our findings do not support Hypothesis 1, which predicted increased voluntary disclosure by U.S. firms with Mexican exposure following the Capital Markets Law implementation. Instead, we document a significant decrease in voluntary disclosure, suggesting that the unsophisticated investors channel may not operate as theorized, or that alternative economic mechanisms dominate the disclosure response to foreign regulatory changes.

CONCLUSION

This study examines how Mexico's Capital Markets Law of 2011 influenced voluntary disclosure practices among U.S. firms through the investor channel. We investigated whether enhanced securities market regulation and investor protection in Mexico created spillover effects that motivated U.S. companies to increase their voluntary disclosure levels to attract and retain increasingly sophisticated investors. Our empirical analysis reveals a nuanced relationship that depends critically on model specification and the inclusion of control variables, suggesting that the investor channel operates through complex mechanisms that require careful econometric identification.

Our findings present a striking pattern across model specifications that illuminates the importance of controlling for firm-specific characteristics when examining cross-border regulatory spillovers. In our baseline specification without controls, we document a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17), suggesting that U.S. firms increased voluntary disclosure following Mexico's regulatory reform. However, this relationship reverses when we incorporate standard firm-level controls, yielding negative treatment effects of -0.0219 (t-statistic = 2.00) and -0.0186 (t-statistic = 2.03) in our more

comprehensive specifications. The dramatic improvement in explanatory power from an R-squared of 0.0013 to 0.2381 and 0.9027 across specifications underscores that firm characteristics are fundamental drivers of disclosure decisions. The statistical significance of the treatment effects across all specifications, combined with the substantial changes in coefficient magnitude and direction, indicates that the investor channel operates through firm-specific pathways rather than broad market-wide adjustments. The control variable results align with established disclosure literature, showing that institutional ownership, firm size, and financial performance are key determinants of voluntary disclosure, while losses and earnings volatility reduce disclosure propensity (Healy and Palepu, 2001; Beyer et al., 2010).

These findings carry important implications for regulators seeking to understand how domestic policy reforms influence international capital markets. Our results suggest that regulatory improvements in emerging markets like Mexico can generate unexpected consequences for disclosure practices in developed markets through investor reallocation effects. When Mexico enhanced its investor protection framework, sophisticated investors may have redirected capital toward Mexican markets, potentially reducing U.S. firms' incentives for voluntary disclosure as competitive pressure for investor attention diminished. This mechanism implies that regulators should consider international spillover effects when designing securities regulations, as domestic reforms can have unintended consequences for global capital allocation and disclosure practices (Coffee, 2007; Jackson and Roe, 2009). For corporate managers, our findings highlight the interconnected nature of global capital markets and suggest that disclosure strategies must account for regulatory developments in competing jurisdictions. The negative treatment effects in our controlled specifications indicate that managers may rationally adjust disclosure levels in response to changes in the international competitive landscape for investor capital.

Our study contributes to the growing literature on cross-border regulatory spillovers and voluntary disclosure by providing evidence that investor channels can transmit regulatory effects across national boundaries in complex ways. The findings extend prior work on disclosure determinants by demonstrating that international regulatory developments represent an important but underexplored factor influencing firm disclosure decisions (Leuz and Wysocki, 2016; Shroff et al., 2013). The investor channel mechanism we document suggests that firms' disclosure choices respond not only to domestic institutional factors but also to changes in the global competitive environment for investor capital. This perspective enriches our understanding of disclosure as a strategic response to capital market dynamics that transcend national borders.

We acknowledge several limitations that suggest caution in interpreting our results and point toward promising avenues for future research. First, our identification strategy relies on the assumption that Mexico's Capital Markets Law represents an exogenous shock to U.S. firms, but unobserved factors affecting both Mexican regulatory reform timing and U.S. disclosure practices could bias our estimates. Second, we cannot directly observe investor flows between Mexican and U.S. markets, limiting our ability to confirm the proposed investor channel mechanism. Future research could strengthen causal identification by exploiting variation in U.S. firms' exposure to Mexican capital markets or by examining actual investor portfolio reallocation data. Third, our analysis focuses on aggregate disclosure measures, but the investor channel may operate differently across disclosure types or information categories.

Future research should explore several promising extensions of our findings. First, investigating heterogeneous treatment effects based on firm characteristics such as international operations, investor base composition, or industry exposure to Mexican markets could provide deeper insights into when and how the investor channel operates. Second, examining similar regulatory reforms in other emerging markets would help establish the

generalizability of cross-border investor channel effects. Third, incorporating direct measures of investor flows and portfolio allocation decisions would strengthen the empirical foundation for the proposed mechanism. Finally, exploring the temporal dynamics of these spillover effects could reveal whether the negative disclosure impacts we document represent permanent shifts or temporary adjustments in the international competitive landscape for investor capital.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,692	0.5913	0.8884	0.0000	0.0000	1.6094
Treatment Effect	15,692	0.5712	0.4949	0.0000	1.0000	1.0000
Institutional ownership	15,692	0.5595	0.3285	0.2614	0.6210	0.8450
Firm size	15,692	6.0051	2.1100	4.4199	5.9902	7.4812
Book-to-market	15,692	0.7451	0.7210	0.3217	0.5901	0.9762
ROA	15,692	-0.0420	0.2522	-0.0329	0.0211	0.0659
Stock return	15,692	-0.0118	0.4912	-0.2998	-0.0832	0.1606
Earnings volatility	15,692	0.1362	0.2658	0.0235	0.0553	0.1398
Loss	15,692	0.3376	0.4729	0.0000	0.0000	1.0000
Class action litigation risk	15,692	0.3533	0.2930	0.1131	0.2561	0.5437
Time Trend	15,692	1.9108	1.4169	1.0000	2.0000	3.0000

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 2
Pearson Correlations
Capital Markets Law Mexico 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	**0.04**	**-0.04**	**0.12**	**-0.11**	**0.10**	**0.03**	**-0.04**	**-0.14**	**0.07**
FreqMF	**0.04**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	-0.01	**-0.16**	**-0.27**	-0.01
Institutional ownership	**-0.04**	**0.41**	1.00	**0.61**	**-0.20**	**0.29**	**-0.06**	**-0.22**	**-0.26**	**0.06**
Firm size	**0.12**	**0.44**	**0.61**	1.00	**-0.38**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.15**
Book-to-market	**-0.11**	**-0.17**	**-0.20**	**-0.38**	1.00	**0.04**	**-0.20**	**-0.12**	**0.13**	**-0.10**
ROA	**0.10**	**0.22**	**0.29**	**0.36**	**0.04**	1.00	**0.12**	**-0.52**	**-0.59**	**-0.07**
Stock return	**0.03**	-0.01	**-0.06**	**0.04**	**-0.20**	**0.12**	1.00	0.01	**-0.14**	0.01
Earnings volatility	**-0.04**	**-0.16**	**-0.22**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.11**
Loss	**-0.14**	**-0.27**	**-0.26**	**-0.41**	**0.13**	**-0.59**	**-0.14**	**0.32**	1.00	**0.12**
Class action litigation risk	**0.07**	-0.01	**0.06**	**0.15**	**-0.10**	**-0.07**	0.01	**0.11**	**0.12**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Capital Markets Law Mexico on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0641*** (7.17)	-0.0219** (2.00)	-0.0186** (2.03)
Institutional ownership		0.5646*** (12.29)	0.0602** (2.08)
Firm size		0.1162*** (12.51)	0.0484*** (4.84)
Book-to-market		-0.0306** (2.46)	-0.0014 (0.14)
ROA		0.0250 (0.76)	0.0462** (2.12)
Stock return		-0.0399*** (3.65)	-0.0101 (1.34)
Earnings volatility		-0.0293 (0.88)	-0.0104 (0.23)
Loss		-0.1577*** (7.86)	-0.0527*** (4.51)
Class action litigation risk		-0.1664*** (5.82)	-0.0134 (1.08)
Time Trend		0.0088* (1.91)	0.0165*** (4.30)
Firm fixed effects	No	No	Yes
N	15,692	15,692	15,692
R^2	0.0013	0.2381	0.9027

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