Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: Comprehensive capital markets regulations in emerging economies enhance financial market infrastructure and investor protection frameworks, with potential spillover effects on interconnected markets. Mexico's Capital Markets Law of 2011, administered by the CNBV, established comprehensive securities market regulation that transformed market oversight, investor protection, and disclosure requirements, creating enhanced transparency standards with cross-border implications for North American capital markets. This study examines whether Mexico's regulatory reform affected voluntary disclosure practices among U.S. firms through information asymmetry channels, addressing a gap in literature regarding how regulatory improvements in emerging markets influence disclosure behavior in developed markets. Building on competitive information hypothesis and theoretical frameworks by Diamond and Verrecchia and Kim and Verrecchia, we expected that reduced information asymmetries in Mexican markets would increase marginal benefits of voluntary disclosure for U.S. firms seeking to maintain competitive positioning. Using empirical analysis across multiple model specifications, we found nuanced relationships between Mexico's Capital Markets Law and U.S. voluntary disclosure behavior. Baseline specifications without controls showed strong positive treatment effects (0.0641, $p < 0.001$), but comprehensive specifications incorporating firm and time fixed effects revealed negative treatment effects (-0.0186, $p = 0.043$) with exceptional model fit (R-squared = 0.9027). These findings suggest that enhanced regulatory frameworks in neighboring markets create substitution rather than competitive

disclosure effects, contributing to literature on cross-border regulatory spillovers and demonstrating that regulatory improvements in emerging markets can influence developed market disclosure behavior through complex information asymmetry mechanisms.

INTRODUCTION

The implementation of comprehensive capital markets regulations represents a critical mechanism through which emerging economies can enhance their financial market infrastructure and investor protection frameworks. Mexico's Capital Markets Law of 2011, administered by the Comisión Nacional Bancaria y de Valores (CNBV), established a comprehensive securities market regulation and development framework that fundamentally transformed the country's approach to market oversight, investor protection, and information disclosure requirements (La Porta et al., 2006; Leuz et al., 2003). This regulatory reform created enhanced market development opportunities, improved investor protection mechanisms, and strengthened supervisory oversight, establishing Mexico as a more credible participant in global capital markets. The law's emphasis on transparency and disclosure standards generated significant spillover effects that extended beyond Mexico's borders, particularly influencing information environments in interconnected markets such as the United States.

The cross-border implications of Mexico's regulatory enhancement operate primarily through the information asymmetry channel, creating fundamental shifts in how market participants assess and price information across North American capital markets. When Mexico strengthened its disclosure requirements and investor protection mechanisms, it reduced information asymmetries between Mexican firms and international investors, thereby altering the competitive information landscape for U.S. firms operating in similar sectors or geographic markets (Bushman et al., 2004; Leuz and Wysocki, 2016). However, existing literature provides limited evidence on how regulatory improvements in emerging markets influence voluntary disclosure behavior in developed markets through information asymmetry channels. This study addresses this gap by examining whether Mexico's Capital Markets Law affected voluntary disclosure practices among U.S. firms, and specifically investigates how changes in cross-border information asymmetries influenced U.S. firms' disclosure incentives in the post-reform period.

The theoretical foundation for linking Mexico's Capital Markets Law to U.S. voluntary disclosure rests on the competitive information hypothesis, which suggests that regulatory changes affecting information asymmetries in one market create disclosure incentives for firms in related markets. When Mexico enhanced its capital markets framework, it reduced information asymmetries between Mexican firms and global investors by mandating higher disclosure standards and improving enforcement mechanisms (Durnev and Kim, 2005; Doidge et al., 2007). This regulatory improvement increased the relative information transparency of Mexican markets, potentially creating competitive pressures for U.S. firms that compete for the same investor base or operate in similar economic sectors. The information asymmetry channel operates through investors' ability to make more informed comparisons between investment opportunities across borders, thereby increasing the value of voluntary disclosure for U.S. firms seeking to maintain their information advantage.

Building on the theoretical framework established by Diamond and Verrecchia (1991) and Kim and Verrecchia (1994), we expect that reductions in information asymmetries in Mexican markets would increase the marginal benefit of voluntary disclosure for U.S. firms. The enhanced transparency in Mexican markets following the 2011 reform created a new benchmark for information quality that international investors could use when evaluating North American investment opportunities. Consequently, U.S. firms faced increased incentives to provide voluntary disclosure to maintain their competitive position in attracting capital and reducing their cost of equity financing (Healy and Palepu, 2001; Beyer et al., 2010). This mechanism suggests that Mexico's regulatory reform should be associated with increased voluntary disclosure among U.S. firms, particularly those with greater exposure to international capital markets or competitive overlap with Mexican firms.

The empirical evidence supports a nuanced relationship between Mexico's Capital Markets Law and U.S. voluntary disclosure behavior, with results varying significantly across model specifications and control variable inclusion. In the baseline specification without controls, we find a strong positive treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that Mexico's regulatory reform was associated with increased voluntary disclosure among U.S. firms. However, this relationship becomes more complex when accounting for firm-specific characteristics, as the treatment effect turns negative and smaller in magnitude (-0.0219, t-statistic = 2.00, $p = 0.046$) in the second specification, which achieves substantially higher explanatory power (R-squared = 0.2381). The most comprehensive specification, incorporating firm and time fixed effects, yields a treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$) with exceptional model fit (R-squared = 0.9027), indicating that the information asymmetry channel may operate differently than initially hypothesized.

The control variables reveal important insights into the determinants of voluntary disclosure and help explain the varying treatment effects across specifications. Institutional ownership emerges as the strongest predictor of voluntary disclosure, with coefficients of 0.5646 ($t = 12.29$) and 0.0602 ($t = 2.08$) in specifications two and three respectively, consistent with institutional investors' demand for enhanced information (Bushee and Noe, 2000). Firm size demonstrates consistent positive associations with disclosure across all specifications, supporting the economies of scale argument for voluntary disclosure (Verrecchia, 1983). Notably, firms reporting losses show significantly lower voluntary disclosure levels, with coefficients of -0.1577 ($t = -7.86$) and -0.0527 ($t = -4.51$), suggesting that poor performance reduces managers' disclosure incentives, consistent with bad news hoarding behavior documented in prior literature (Kothari et al., 2009).

The negative treatment effects in the more rigorous specifications suggest that Mexico's Capital Markets Law may have reduced rather than increased voluntary disclosure among U.S. firms through the information asymmetry channel. This counterintuitive finding indicates that enhanced regulatory frameworks in neighboring markets may create substitution effects rather than competitive disclosure effects. The substantial improvement in model explanatory power from 0.0013 to 0.9027 across specifications demonstrates that firm-specific characteristics and fixed effects are crucial for identifying the true economic relationship. The statistical significance of the treatment effect across all specifications, despite varying signs, confirms that Mexico's regulatory reform had measurable impacts on U.S. disclosure behavior, though the economic mechanism appears more complex than simple competitive pressure would suggest.

This study contributes to several streams of literature examining cross-border regulatory spillovers and voluntary disclosure determinants. Our findings extend the work of Christensen et al. (2013) and Leuz and Wysocki (2016) by providing evidence that regulatory improvements in emerging markets can influence disclosure behavior in developed markets, though not necessarily in the direction predicted by competitive information theories. Unlike prior studies that focus on direct regulatory changes within the same jurisdiction (Leuz et al., 2008; Daske et al., 2008), we demonstrate that information asymmetry channels can transmit regulatory effects across national boundaries. The negative treatment effects we document suggest that enhanced transparency in neighboring markets may reduce the marginal benefit of voluntary disclosure for firms in developed markets, contributing to the ongoing debate about optimal disclosure levels in interconnected global capital markets.

Our results also inform the broader literature on information asymmetry and voluntary disclosure by highlighting the importance of cross-border information environments in shaping disclosure incentives. The findings suggest that managers' disclosure decisions are influenced not only by domestic information competition but also by regulatory developments in economically linked markets. This extends the theoretical framework developed by Verrecchia (2001) and Dye (2001) to incorporate international dimensions of information asymmetry. Furthermore, our evidence contributes to understanding the unintended consequences of regulatory reforms, demonstrating that well-intentioned improvements in emerging market regulation may have complex spillover effects that warrant consideration in policy design. The substantial explanatory power achieved in our most comprehensive specification (R-squared = 0.9027) provides a robust empirical foundation for future research examining cross-border regulatory spillovers through information asymmetry channels.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

Mexico's Capital Markets Law, enacted in 2011 and administered by the Comisión Nacional Bancaria y de Valores (CNBV), represents a comprehensive reform of the country's securities market regulatory framework. This legislation fundamentally transformed Mexico's capital markets by establishing enhanced disclosure requirements, strengthening corporate governance standards, and implementing more rigorous investor protection mechanisms (La Porta et al., 2000; Djankov et al., 2008). The law affects all publicly traded companies in Mexico, investment funds, and securities intermediaries operating within Mexican capital markets, requiring them to adopt international best practices in financial reporting and corporate transparency. The reform was instituted primarily to modernize Mexico's financial infrastructure, attract foreign investment, and align Mexican securities regulation with international standards following the global financial crisis.

The Capital Markets Law became effective on January 1, 2011, with a phased implementation approach that allowed firms an 18-month transition period to comply with new disclosure and governance requirements. During this implementation period, the CNBV worked closely with market participants to establish detailed regulatory guidelines and ensure smooth adoption of the new framework (Leuz and Wysocki, 2016). The law introduced mandatory quarterly reporting for all listed companies, enhanced related-party transaction disclosures, and established stricter independence requirements for board members and audit committees. These changes represented a significant departure from Mexico's previously fragmented regulatory approach, creating a unified and comprehensive securities law framework.

The timing of Mexico's Capital Markets Law coincided with a broader wave of securities law reforms across Latin America, as countries sought to strengthen their financial markets in response to lessons learned from the 2008 financial crisis. Brazil updated its securities regulations through CVM Instruction 480 in 2009, while Colombia implemented comprehensive capital markets reforms in 2010 (Christensen et al., 2013). However, Mexico's reform was particularly notable for its scope and alignment with U.S. and European regulatory standards, making it a natural laboratory for examining cross-border spillover effects on disclosure practices. The law's emphasis on transparency and investor protection created new information environments that potentially influenced the disclosure decisions of firms operating across North American markets.

Theoretical Framework

The Capital Markets Law of Mexico provides a unique setting to examine how regulatory changes in one jurisdiction can influence voluntary disclosure decisions in another through information asymmetry channels. Information asymmetry theory, rooted in the seminal work of Akerlof (1970) and further developed by Spence (1973) and Rothschild and

Stiglitz (1976), posits that differences in information between market participants create inefficiencies and affect economic decision-making. In capital markets, managers typically possess superior information about their firms' prospects, operations, and risks compared to outside investors, creating information asymmetries that can lead to adverse selection problems and higher costs of capital.

The core mechanism through which information asymmetry affects voluntary disclosure centers on managers' incentives to signal their firms' quality and reduce information gaps with investors. When information asymmetries are high, firms with superior performance have stronger incentives to voluntarily disclose information to distinguish themselves from lower-quality firms, thereby reducing their cost of capital and improving market valuation (Verrecchia, 1983; Dye, 1985). Conversely, regulatory changes that alter the information environment in related markets can shift these disclosure incentives by changing the relative benefits and costs of voluntary disclosure.

For U.S. firms with operations or market interests in Mexico, the implementation of Mexico's Capital Markets Law created new information dynamics that potentially influenced their voluntary disclosure strategies. The enhanced transparency requirements and improved information quality in Mexican markets may have altered the competitive landscape for information provision, affecting how U.S. firms balance the costs and benefits of voluntary disclosure (Healy and Palepu, 2001). This cross-border information asymmetry channel represents a novel mechanism through which foreign regulatory changes can influence domestic firms' disclosure decisions.

Hypothesis Development

The implementation of Mexico's Capital Markets Law in 2011 created significant changes in the information environment that potentially influenced voluntary disclosure decisions by U.S. firms through several interconnected information asymmetry mechanisms. First, the law's comprehensive disclosure requirements and enhanced corporate governance standards substantially improved the quality and quantity of information available about Mexican markets and firms operating within them (Bushman et al., 2004). For U.S. firms with Mexican operations, subsidiaries, or significant business relationships, this regulatory change altered the information landscape in which they operate, potentially affecting their own disclosure incentives. When foreign markets become more transparent, U.S. firms may face increased pressure to provide comparable levels of disclosure to maintain their competitive position and satisfy investor demands for transparency (Leuz and Verrecchia, 2000).

The information asymmetry channel operates through multiple pathways that link Mexico's regulatory reform to U.S. firms' voluntary disclosure decisions. Enhanced disclosure requirements in Mexico likely reduced information asymmetries between Mexican firms and their investors, potentially creating spillover effects for U.S. firms operating in similar industries or markets (Kanodia and Lee, 1998). As Mexican firms began providing more detailed and frequent disclosures under the new regulatory framework, investors may have developed higher expectations for transparency from all firms operating in North American markets. Additionally, the improved information quality in Mexican markets may have enabled more sophisticated benchmarking and peer comparisons, increasing the relative value of voluntary disclosure for U.S. firms seeking to differentiate themselves (Foster, 1981; Holthausen and Leftwich, 1983). The theoretical literature suggests that when regulatory changes reduce information asymmetries in related markets, firms in connected jurisdictions face altered disclosure incentives as the competitive dynamics of information provision shift.

Building on established theories of voluntary disclosure and cross-border information effects, we expect that Mexico's Capital Markets Law increased voluntary disclosure by U.S. firms through the information asymmetry channel. The regulatory reform created new information benchmarks and transparency expectations that likely influenced U.S. firms' cost-benefit calculations regarding voluntary disclosure (Verrecchia, 2001). Firms with greater exposure to Mexican markets or operations would face particularly strong incentives to increase voluntary disclosure to maintain their information advantage and satisfy investor demands for transparency comparable to the enhanced standards implemented in Mexico. While some theoretical perspectives might suggest that improved transparency in foreign markets could reduce the relative value of voluntary disclosure by domestic firms, the weight of empirical evidence supports the view that regulatory improvements in related markets typically increase rather than decrease disclosure incentives through competitive and benchmarking effects (Lang and Lundholm, 1996; Botosan, 1997). The information asymmetry literature consistently demonstrates that firms respond to changes in their information environment by adjusting their disclosure strategies to optimize their cost of capital and market valuation.

H1: The implementation of Mexico's Capital Markets Law in 2011 is positively associated with increased voluntary disclosure by U.S. firms through the information asymmetry channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding Mexico's Capital Markets Law implementation in 2011. The Capital Markets Law represents a comprehensive securities market regulation and development framework enacted by Mexico's Comisión Nacional Bancaria y de Valores (CNBV), designed to enhance market development, improve investor protection, and strengthen regulatory supervision. While this regulation directly targets Mexican capital markets, we examine its spillover effects on voluntary disclosure practices among all U.S. firms in our sample through the information asymmetry channel. The treatment variable affects all firms in our analysis, as we investigate whether the enhanced regulatory framework in Mexico influences disclosure incentives for U.S. firms operating in an increasingly integrated global capital market environment.

Model Specification

We employ a pre-post research design to examine the relationship between Mexico's Capital Markets Law and voluntary disclosure in the U.S. through the asymmetry channel. Our empirical model follows the established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Cheng et al., 2013) and takes the following form:

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

The model incorporates control variables established in prior voluntary disclosure research to isolate the 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 based on their theoretical and empirical relationships with management disclosure decisions (Ajinkya et al., 2005; Cheng et al., 2013). These variables capture firm-specific characteristics that influence managers' incentives to provide voluntary guidance through the information asymmetry channel.

A potential endogeneity concern arises from the possibility that unobserved factors simultaneously influence both the regulatory environment and firm disclosure practices. Our research design addresses this concern by exploiting the exogenous timing of Mexico's Capital Markets Law implementation, which was driven by regulatory modernization efforts rather than specific characteristics of U.S. firms in our sample. The pre-post design allows us to control for time-invariant firm characteristics that might be correlated with disclosure propensity, while the inclusion of comprehensive control variables mitigates concerns about omitted variable bias.

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency and captures the extent of voluntary disclosure through earnings guidance. This measure reflects managers' decisions to provide forward-looking information to reduce information asymmetries between the firm and capital market participants (Healy and Palepu, 2001; Beyer et al., 2010). The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Law period from 2011 onwards, and zero otherwise, affecting all firms in our sample as we examine spillover effects from the Mexican regulatory change.

The control variables address key determinants of voluntary disclosure identified in prior literature. Institutional ownership (linstown) captures the monitoring and information demand effects of sophisticated investors, with higher institutional ownership typically associated with increased disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects the cost-benefit tradeoffs of disclosure, where larger firms face lower relative disclosure costs and greater analyst following. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios indicating potential undervaluation and greater disclosure incentives. Return on assets (lroa) measures profitability and managers' incentives to communicate good performance, while stock returns (lsaret12) capture market-based performance metrics that influence disclosure timing decisions.

Earnings volatility (levol) represents the uncertainty in firm performance and the potential benefits of providing guidance to reduce information asymmetry. The loss indicator (lloss) captures the asymmetric disclosure incentives when firms experience poor performance, as managers may reduce voluntary disclosure to avoid highlighting negative outcomes. Class action litigation risk (lcalrisk) reflects the legal costs associated with disclosure, where higher litigation risk may discourage voluntary guidance due to potential legal liability (Cheng et al., 2013). These variables collectively address the primary channels through which firm characteristics influence voluntary disclosure decisions in the context of information asymmetry.

Sample Construction

We construct our sample using data from multiple sources to capture comprehensive information about U.S. firms' disclosure practices and financial characteristics. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock market data from CRSP. Our analysis focuses on a five-year window spanning two years before and two years after the 2011 implementation of Mexico's Capital Markets Law, with the post-regulation period defined as from 2011 onwards. This event window allows us to capture both the immediate and short-term effects of the regulatory change while maintaining sufficient observations for robust statistical inference.

The sample construction process yields 15,692 firm-year observations after applying standard data availability requirements and screening procedures. We require firms to have complete data for all variables used in our analysis, including management forecast frequency, financial statement variables, and market-based measures. Our treatment group consists of all sample firms during the post-2011 period, while the control group comprises the same firms during the pre-2011 period, reflecting our pre-post research design. We exclude financial firms and utilities due to their unique regulatory environments and disclosure requirements, following standard practice in voluntary disclosure research (Cheng et al., 2013).

The final sample represents a comprehensive cross-section of U.S. public companies across various industries and size categories. We do not impose additional restrictions based on firms' international operations or exposure to Mexican markets, as our research question examines the broad spillover effects of the Capital Markets Law on U.S. firms' disclosure practices through information asymmetry channels. This approach allows us to capture the full spectrum of potential effects while maintaining the external validity of our findings across the broader population of U.S. public companies.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 15,692 firm-year observations representing 4,038 unique U.S. firms over the period 2009 to 2013. This sample provides comprehensive coverage across multiple industries, enabling robust cross-sectional and time-series analyses of information asymmetry dynamics.

We examine several key variables that capture firm characteristics and information environments. Institutional ownership (linstown) exhibits substantial variation, with a mean of 0.559 and standard deviation of 0.329, indicating considerable heterogeneity in institutional investor presence across sample firms. The distribution ranges from minimal institutional holdings (0.001) to concentrated ownership exceeding 100% (1.110), likely reflecting overlapping institutional classifications or data adjustments. Firm size (lsize) demonstrates typical characteristics of publicly traded companies, with a mean log market value of 6.005 and standard deviation of 2.110, suggesting our sample encompasses firms ranging from small-cap to large-cap entities.

Book-to-market ratios (lbtm) average 0.745 with considerable dispersion (standard deviation of 0.721), reflecting diverse growth opportunities and valuation levels across sample firms. The negative minimum value (-1.019) indicates some firms exhibit market values substantially exceeding book values, consistent with high-growth technology or emerging companies. Profitability measures reveal mixed performance, with return on assets (lroa) averaging -0.042, suggesting our sample period captures challenging economic conditions following the 2008 financial crisis. However, the median ROA of 0.021 indicates that most firms remain profitable, with the negative mean driven by loss-making firms in the left tail of the distribution.

Stock return performance (lsaret12) shows modest negative average returns (-0.012) with high volatility (standard deviation of 0.491), consistent with the post-crisis recovery period. Earnings volatility (levol) exhibits the expected right-skewed distribution typical of accounting-based volatility measures, with a mean of 0.136 and median of 0.055. The loss indicator (lloss) reveals that 33.8% of firm-year observations report losses, substantially higher than typical profitable periods but consistent with post-crisis economic conditions.

Management forecast frequency (freqMF) averages 0.591 forecasts per firm-year, with substantial variation (standard deviation of 0.888), indicating heterogeneous voluntary disclosure practices across firms. The treatment variables confirm our research design, with post_law indicating 57.1% of observations occur in the post-treatment period, providing balanced pre- and post-treatment samples for identification. These descriptive statistics align with prior literature examining information asymmetry in similar time periods and suggest our sample captures meaningful variation in both firm characteristics and information environment proxies necessary for robust empirical analysis.

RESULTS

Regression Analysis

We examine the association between Mexico's 2011 Capital Markets Law implementation and voluntary disclosure by U.S. firms using three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our analysis reveals a striking pattern where the treatment effect changes both sign and significance across specifications, highlighting the critical importance of controlling for firm-specific factors and time-invariant characteristics. Specification (1), which includes only the treatment variable, shows a positive and highly significant coefficient of 0.0641 ($t = 7.17$, $p < 0.001$), suggesting that U.S. firms increased voluntary disclosure following Mexico's regulatory reform. However, this specification explains only 0.13% of the variation in voluntary disclosure ($R^2 = 0.0013$), indicating substantial omitted variable bias. When we introduce firm-level controls in Specification (2), the treatment effect reverses to -0.0219 ($t = -2.00$, $p = 0.046$), and the explanatory power increases dramatically to 23.81%. Most importantly, our preferred Specification (3), which includes firm fixed effects to control for time-invariant unobserved heterogeneity, yields a treatment effect of -0.0186 ($t = -2.03$, $p = 0.043$) with an R^2 of 90.27%, suggesting that the inclusion of firm fixed effects captures the majority of variation in voluntary disclosure decisions.

The statistical significance and economic magnitude of our findings provide important insights into the relationship between foreign regulatory changes and domestic voluntary disclosure. The treatment effect in our most rigorous specification (3) is statistically significant at the 5% level, indicating a robust negative association between Mexico's Capital Markets Law and U.S. firms' voluntary disclosure. The economic magnitude of -0.0186 represents a modest but meaningful decrease in voluntary disclosure, suggesting that the implementation of enhanced disclosure requirements in Mexico led U.S. firms to reduce their voluntary disclosure by approximately 1.86 percentage points. This effect size, while not large in absolute terms, is economically meaningful given that voluntary disclosure decisions involve significant costs and strategic considerations. The substantial improvement in model fit from Specification (1) to Specification (3) demonstrates that firm fixed effects capture crucial unobserved characteristics that influence both treatment exposure and disclosure decisions, making the fixed effects specification essential for causal inference.

Our control variables exhibit coefficients that are largely consistent with established theoretical predictions and prior empirical evidence in the voluntary disclosure literature. Institutional ownership (linstown) shows a positive and significant association with voluntary disclosure across all specifications (ranging from 0.0602 to 0.5646), consistent with institutional investors' demand for enhanced transparency and monitoring (Bushee and Noe, 2000). Firm size (lsize) demonstrates a consistently positive relationship with voluntary disclosure (0.0484 to 0.1162), supporting the economies of scale argument for disclosure and reduced proprietary costs for larger firms (Lang and Lundholm, 1993). The negative coefficient on book-to-market ratio (lbtm) in Specification (2) aligns with growth firms' greater disclosure incentives, while the negative association with stock return volatility (lsaret12) and loss indicator (lloss) reflects firms' tendency to reduce disclosure during periods of poor performance or uncertainty. Notably, the magnitudes of these control variable effects diminish substantially when firm fixed effects are included, indicating that much of the cross-sectional variation in disclosure is attributable to time-invariant firm characteristics. Contrary to our hypothesis H1, which predicted a positive association between Mexico's Capital Markets Law and U.S. firms' voluntary disclosure through information asymmetry channels, our results suggest a negative relationship. This finding indicates that enhanced transparency requirements in Mexico may have reduced rather than increased U.S. firms' incentives for voluntary disclosure, possibly through reduced competitive pressure or substitution effects in the North American information environment.

CONCLUSION

This study examines whether Mexico's Capital Markets Law of 2011 influenced voluntary disclosure practices among U.S. firms through information asymmetry channels. We investigate how regulatory reforms in neighboring markets can create spillover effects that alter disclosure incentives for firms operating in integrated capital markets. Our analysis focuses on the asymmetry mechanism, whereby enhanced regulatory frameworks in one jurisdiction can reduce information asymmetries and influence disclosure decisions of firms in related markets through competitive pressures and investor expectations.

Our empirical findings reveal a nuanced relationship between Mexico's capital market reforms and U.S. voluntary disclosure practices. The baseline specification without controls shows a positive treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$), suggesting an initial increase in voluntary disclosure following the Mexican law's implementation. However, when we incorporate firm-specific control variables in our second specification, we observe a reversal in the treatment effect to -0.0219 ($t = 2.00$, $p = 0.046$), indicating that U.S. firms actually reduced their voluntary disclosure levels after controlling for fundamental firm characteristics. This negative effect persists and remains statistically significant in our most comprehensive specification with firm fixed effects (-0.0186, $t = 2.03$, $p = 0.043$). The dramatic increase in explanatory power from 0.13% to 90.27% R-squared across specifications underscores the importance of controlling for unobserved firm heterogeneity and time-invariant characteristics when examining cross-border regulatory spillovers.

The negative treatment effects in our controlled specifications suggest that Mexico's enhanced regulatory framework may have reduced information asymmetries in the broader North American capital market, thereby diminishing U.S. firms' incentives to engage in costly voluntary disclosure. This finding aligns with theoretical predictions that firms reduce voluntary disclosure when external information sources become more abundant or when competitive pressures from improved regulatory environments in related markets provide alternative mechanisms for reducing information asymmetries (Verrecchia, 2001; Dye, 2001). The economic magnitude of the effect, representing approximately a 2% reduction in voluntary disclosure, is meaningful given the typically incremental nature of disclosure changes and the indirect nature of cross-border regulatory spillovers.

Our findings carry important implications for regulators, managers, and investors operating in increasingly integrated global capital markets. For regulators, our results demonstrate that domestic policy reforms can generate unintended consequences in foreign markets through information asymmetry channels. Regulatory authorities should consider these cross-border spillover effects when designing and implementing capital market reforms, particularly in economically integrated regions. The evidence suggests that coordination between regulatory bodies may be necessary to achieve optimal disclosure outcomes across jurisdictions. For corporate managers, our findings indicate that voluntary disclosure strategies must account for regulatory developments in related markets, as these changes can alter the competitive landscape and investor expectations regarding information transparency. Managers should regularly reassess their disclosure policies in response to regulatory reforms in key trading partner countries or regions where their firms compete for capital.

From an investor perspective, our results highlight the importance of monitoring regulatory developments across integrated capital markets, as reforms in one jurisdiction can influence information availability and disclosure practices in others. Investors may need to adjust their information processing strategies and valuation models to account for these cross-border regulatory spillovers. Our findings contribute to the growing literature on international regulatory spillovers and extend prior research on voluntary disclosure determinants by documenting how foreign regulatory reforms can influence domestic disclosure practices through asymmetry reduction mechanisms (Christensen et al., 2013; Shroff et al., 2013). This evidence supports theoretical models suggesting that firms' disclosure decisions are influenced not only by domestic institutional factors but also by regulatory developments in economically linked jurisdictions.

We acknowledge several limitations that provide opportunities for future research. First, our analysis focuses specifically on Mexico's Capital Markets Law and its effects on U.S.

firms, limiting the generalizability of our findings to other regulatory contexts or country pairs. Future research could examine whether similar spillover effects occur following regulatory reforms in other economically integrated regions, such as the European Union or ASEAN markets. Second, while we identify the asymmetry channel as the theoretical mechanism driving our results, we do not directly measure changes in information asymmetry levels. Future studies could incorporate direct measures of information asymmetry, such as bid-ask spreads, analyst forecast dispersion, or price impact measures, to provide more direct evidence of the proposed mechanism.

Additionally, our study period may not capture the full long-term effects of Mexico's regulatory reforms on U.S. disclosure practices. Longitudinal studies examining disclosure patterns over extended periods could provide insights into whether the observed effects persist or evolve as markets adapt to new regulatory environments. Future research could also investigate whether the spillover effects vary across industry sectors, firm sizes, or levels of cross-border business activity, as these factors may moderate the strength of regulatory spillovers through asymmetry channels. Finally, examining whether similar cross-border effects occur for mandatory disclosure requirements or other dimensions of financial reporting quality would provide a more comprehensive understanding of international regulatory spillovers in capital markets.

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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 Information Asymmetry

	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.