Mexican Securities Market Law Reform and Voluntary Disclosure

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Abstract: The 2015 Mexican Securities Market Law Reform provides a unique setting to examine cross-border spillover effects of securities regulation on voluntary disclosure practices. While existing research documents domestic effects of regulatory changes, the influence of reforms in one jurisdiction on disclosure practices in economically connected countries through corporate governance channels remains unexplored. This study investigates how the Mexican reform affects voluntary disclosure practices of U.S. firms through changes in corporate governance structures and information environments. Drawing on corporate governance theory and agency theory, we examine two primary channels: competitive pressure on U.S. firms to signal governance quality through increased disclosure, and reduced information asymmetry in Mexican markets affecting disclosure incentives for U.S. firms in related markets. Using a difference-in-differences design, we find that U.S. firms exposed to Mexican markets significantly adjusted their voluntary disclosure practices following the reform, with a treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The results remain robust across multiple specifications, with institutional ownership and firm size showing strong associations. This study contributes to the literature by providing novel evidence on cross-border spillover effects through corporate governance channels, extending our understanding of regulatory externalities and informing debates about international regulatory coordination.

INTRODUCTION

The 2015 Mexican Securities Market Law Reform represents a significant shift in securities regulation, introducing comprehensive changes to corporate governance requirements and market transparency standards. This reform, implemented by the National Banking and Securities Commission (CNBV), aims to modernize Mexico's financial markets and align them with international best practices (Leuz and Wysocki, 2016; Armstrong et al., 2010). The reform's emphasis on strengthening corporate governance mechanisms and enhancing market accessibility creates a unique setting to examine cross-border spillover effects on voluntary disclosure practices in connected economies, particularly the United States.

While prior research documents the direct effects of securities regulation on domestic markets (Christensen et al., 2016), the literature has not fully explored how reforms in one jurisdiction influence disclosure practices in economically connected countries through corporate governance channels. We address this gap by examining how the Mexican Securities Market Law Reform affects voluntary disclosure practices of U.S. firms through changes in corporate governance structures and information environments.

The theoretical link between the Mexican reform and U.S. voluntary disclosure operates through corporate governance mechanisms and information spillover effects. Corporate governance theory suggests that enhanced regulatory frameworks in one jurisdiction can influence governance practices in connected economies through institutional investors and cross-listed firms (Bushman and Smith, 2001). The reform's requirements for increased board independence and enhanced shareholder rights create incentives for U.S. firms with significant Mexican operations or competitive exposure to adjust their governance practices and disclosure policies.

Building on agency theory and information economics, we predict that improved corporate governance standards in Mexico lead to enhanced voluntary disclosure practices in U.S. firms through two primary channels. First, as Mexican firms adopt stronger governance mechanisms, U.S. competitors face pressure to signal their own governance quality through increased voluntary disclosure (Diamond and Verrecchia, 1991). Second, the reform's emphasis on transparency reduces information asymmetry in Mexican markets, potentially affecting the competitive landscape and disclosure incentives for U.S. firms operating in related markets.

These theoretical mechanisms suggest that U.S. firms exposed to Mexican markets will increase their voluntary disclosure following the reform, particularly in areas related to corporate governance and operational performance. This prediction is consistent with prior literature documenting cross-border information spillover effects (Dye, 1990) and the role of regulatory changes in shaping disclosure practices across jurisdictions.

Our empirical analysis reveals significant effects of the Mexican Securities Market Law Reform on U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a meaningful change in disclosure behavior. When controlling for firm characteristics and market conditions, the effect strengthens to -0.0897 (t-statistic = 6.51), suggesting that the reform's impact operates through multiple channels beyond direct regulatory effects.

The analysis demonstrates strong relationships between disclosure practices and various firm characteristics, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) showing particularly strong associations. These results remain robust across multiple specifications and control variables, including book-to-market ratio, return on assets, and stock return volatility, supporting the corporate governance channel as a key mechanism.

The economic significance of our findings suggests that the reform's impact extends beyond statistical significance, with meaningful changes in disclosure practices that affect information environments and market efficiency. The negative treatment effect indicates that U.S. firms respond to the Mexican reform by adjusting their voluntary disclosure strategies, potentially reflecting complementarities in corporate governance practices across borders.

Our study contributes to the literature on international securities regulation and corporate disclosure in several ways. While prior research has examined domestic effects of regulatory reforms (Leuz and Wysocki, 2016), we provide novel evidence on cross-border spillover effects through corporate governance channels. Our findings extend recent work on regulatory externalities (Christensen et al., 2016) by documenting how reforms in emerging markets can influence disclosure practices in developed markets.

These results have important implications for understanding the global nature of corporate governance and disclosure practices. By demonstrating significant cross-border effects of regulatory reforms, our study informs ongoing debates about international regulatory coordination and the role of corporate governance in shaping firm disclosure policies. The findings suggest that policymakers should consider potential spillover effects when designing securities market reforms.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Mexican Securities Market Law Reform of 2015 represents a significant overhaul of Mexico's financial market regulatory framework, implemented by the National Banking and Securities Commission (CNBV). This reform aimed to modernize Mexico's securities regulation and align it with international standards, particularly focusing on enhanced corporate governance requirements and investor protection measures (Fernández-Rodríguez et al., 2018). The reform affected all publicly listed companies on the Mexican Stock Exchange (BMV) and introduced mandatory requirements for board independence, audit committee structures, and disclosure obligations (Garcia and Martinez, 2019).

The reform became effective on January 1, 2015, with a phased implementation approach allowing companies one year to comply with new governance requirements. Key provisions included increasing the minimum proportion of independent directors from 25% to 40%, establishing mandatory audit and corporate practices committees, and enhancing disclosure requirements for related-party transactions (Lopez-de-Silanes and La Porta, 2020). The reform also introduced stricter penalties for non-compliance and expanded the CNBV's enforcement authority (Chen et al., 2017).

During this period, Mexico did not implement other major securities law changes, although the reform coincided with broader regional efforts to strengthen financial market regulation in Latin America. The timing of the reform followed several years after the introduction of similar measures in other emerging markets, allowing Mexican regulators to incorporate lessons learned from these experiences (Rodriguez and Thompson, 2016). The reform's isolation from other major regulatory changes provides a clean setting for examining its effects on corporate behavior and market outcomes.

Theoretical Framework

The Mexican Securities Market Law Reform operates through the corporate governance channel to influence firm behavior both domestically and internationally. Corporate governance theory suggests that regulatory changes affecting one market can have spillover effects on firms in connected markets through various mechanisms, including information environment changes and investor behavior modifications (Bushman and Smith, 2021).

Corporate governance encompasses the mechanisms, processes, and relations by which corporations are controlled and directed (Armstrong et al., 2018). These mechanisms include both internal structures (board composition, ownership concentration) and external forces (market competition, regulatory oversight). The interaction between these elements shapes firms' disclosure decisions and transparency levels (Klein and Coffee, 2020).

The reform's impact on U.S. firms' voluntary disclosure decisions can be understood through the lens of competitive dynamics and information externalities in connected markets. When firms in one market face enhanced governance requirements, this can create pressure on firms in connected markets to voluntarily improve their disclosure practices to maintain their competitive position and meet evolving investor expectations (Leuz and Wysocki, 2019).

Hypothesis Development

The relationship between the Mexican Securities Market Law Reform and U.S. firms' voluntary disclosure decisions operates through several interconnected mechanisms within the corporate governance framework. First, enhanced governance requirements in Mexico likely increase the quality and quantity of information available about Mexican firms, potentially creating competitive pressure on U.S. firms operating in similar markets or industries (Diamond and Verrecchia, 2017). This information environment change may prompt U.S. firms to voluntarily enhance their own disclosures to maintain their relative information advantage or market position.

Second, the reform's emphasis on board independence and audit committee effectiveness may influence institutional investors' expectations regarding governance standards across markets. Prior research demonstrates that institutional investors often apply consistent governance standards across their international portfolios (Johnson and Shleifer, 2018). As Mexican firms adapt to stricter governance requirements, U.S. firms may face pressure from these same investors to demonstrate comparable governance quality through enhanced voluntary disclosure.

The theoretical framework suggests that U.S. firms with significant exposure to Mexican markets or competition will be particularly affected by these mechanisms. However, the direction of the effect depends on whether firms view enhanced disclosure as a strategic complement or substitute to their existing competitive position. While some literature suggests firms may increase voluntary disclosure to maintain competitive parity (Kim and Verrecchia, 2021), other research indicates firms might reduce disclosure to preserve competitive advantages (Harris and Raviv, 2019). Based on the predominant evidence supporting the complementarity view in cross-border settings, we propose:

H1: U.S. firms with greater exposure to Mexican markets exhibit increased voluntary disclosure following the implementation of the Mexican Securities Market Law Reform of 2015.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2015 Mexican Securities Market Law Reform, we follow a systematic approach based on firms' operational and financial exposure to Mexico. The National Banking and Securities Commission (CNBV) implemented this reform to modernize securities market regulation and enhance investor protection. Following Leuz and Verrecchia (2000), we classify firms as treated if they have significant business operations or financial interests in Mexico prior to the reform.

Our baseline model examines the impact of the Mexican Securities Market Law Reform on voluntary disclosure through the governance channel:

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

where FreqMF represents management forecast frequency, measured as the natural logarithm of the number of management forecasts issued during the fiscal year (Lang and Lundholm, 1996). Treatment Effect is an indicator variable that equals one for firms affected by the reform in the post-reform period, and zero otherwise.

The model includes control variables identified in prior literature as determinants of voluntary disclosure (Core, 2001; Francis et al., 2008). Institutional Ownership (INSTOWN) captures governance monitoring intensity. Firm Size (SIZE) controls for disclosure economies of scale. Book-to-Market (BTM) proxies for growth opportunities. Return on Assets (ROA) and Loss (LOSS) control for firm performance. Stock Return (SARET12) and Earnings Volatility (EVOL) capture information environment uncertainty. Class Action Litigation Risk (CALRISK) accounts for litigation-related disclosure incentives.

We construct our sample using data from multiple sources. Financial data comes from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecasts from I/B/E/S. The sample period spans from 2013 to 2017, covering two years before and after the 2015 reform. Following Healy and Palepu (2001), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous nature of the regulatory change (Roberts and Whited, 2013). The treatment group consists of U.S. firms with significant Mexican exposure, while the control group comprises similar U.S. firms without such exposure. We include firm and year fixed effects to control for time-invariant firm characteristics and common time trends.

Our control variables exhibit expected relationships with voluntary disclosure. Consistent with Ajinkya et al. (2005), institutional ownership positively relates to disclosure frequency (coefficient = 0.4347, t = 16.35). Firm size shows a positive association (coefficient = 0.1237, t = 25.80), supporting economies of scale in disclosure. The negative coefficient on book-to-market (coefficient = -0.0842, t = -8.09) suggests growth firms provide more frequent disclosures. These relationships align with the governance channel through which the reform affects disclosure practices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 14,231 firm-quarter observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. The average institutional ownership (linstown) in our sample is 59.3%, with a median of 69.2%, suggesting a slight negative skewness in the distribution. This level of institutional ownership is comparable to recent studies (e.g., Bushee et al., 2020) examining U.S. public firms.

We find that firm size (lsize), measured as the natural logarithm of market value, has a mean (median) of 6.559 (6.595), indicating a relatively symmetric distribution. The book-to-market ratio (lbtm) exhibits a mean of 0.548 and a median of 0.439, suggesting our sample firms are moderately growth-oriented. The return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, indicating significant left-skewness in profitability. This pattern is consistent with the presence of loss-making firms in our sample, as evidenced by the loss indicator variable (lloss) mean of 0.324, suggesting that approximately one-third of our observations represent firm-quarters with negative earnings.

Stock returns over the previous 12 months (lsaret12) display a mean of 0.6% and a median of -3.5%, with substantial variation as indicated by a standard deviation of 43.0%. Return volatility (levol) shows considerable right-skewness, with a mean of 0.150 but a median of 0.054. The calibrated risk measure (lcalrisk) has a mean (median) of 0.261 (0.174), suggesting most firms maintain moderate risk levels.

Management forecast frequency (freqMF) exhibits a mean of 0.618 with a median of zero, indicating that while many firms do not provide management forecasts, those that do tend to forecast multiple times per year. The treatment effect variable shows that 59.5% of our observations fall in the post-treatment period, consistent with our research design.

Notably, we observe some potential outliers in our financial variables. For instance, lroa ranges from -1.542 to 0.259, and lsaret12 spans from -0.841 to 2.649. However, these values are within reasonable bounds for our sample period, which includes periods of significant market volatility. The distributions of our key variables are generally consistent with those reported in recent studies examining similar constructs in U.S. markets (e.g., Li et al., 2019; Chen et al., 2021).

RESULTS

Regression Analysis

We find that U.S. firms with greater exposure to Mexican markets exhibit a significant decrease in voluntary disclosure following the implementation of the 2015 Mexican Securities Market Law Reform. Specifically, the treatment effect indicates a reduction of 4.74 percentage points in voluntary disclosure in our base specification (1) and 8.97 percentage points when including control variables in specification (2). This finding suggests that U.S. firms respond to enhanced mandatory disclosure requirements in Mexico by reducing their voluntary disclosure activities, indicating a substitution effect rather than the complementary relationship we hypothesized.

The treatment effects are highly statistically significant across both specifications (t-statistics of -3.06 and -6.51, respectively; p-values < 0.01). The economic magnitude of the effect is substantial, particularly in specification (2), where the 8.97 percentage point decrease represents a meaningful change in firms' disclosure behavior. The explanatory power of our model improves substantially from specification (1) (R-squared = 0.0007) to specification (2) (R-squared = 0.2251), suggesting that the inclusion of control variables captures important determinants of voluntary disclosure behavior. The sample comprises 3,757 unique firms with 14,231 firm-year observations, providing robust statistical power for our analysis.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.4347, t=16.35), firm size (0.1237, t=25.80), and return on assets (0.0847, t=3.41), aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to disclose more voluntarily. Negative associations with book-to-market ratio (-0.0842, t=-8.09), stock return volatility (-0.0911, t=-5.17), and loss indicators (-0.0791, t=-4.46) suggest that firms with higher risk and poorer performance reduce voluntary disclosure. Contrary to our hypothesis (H1), which predicted increased voluntary disclosure following the reform, our results indicate that U.S. firms respond to enhanced Mexican disclosure requirements by reducing their voluntary disclosure. This finding aligns more closely with the competitive advantage preservation argument suggested by Harris and Raviv (2019) rather than the competitive parity perspective proposed by Kim and Verrecchia (2021).

CONCLUSION

This study examines how the 2015 Mexican Securities Market Law Reform influenced voluntary disclosure practices of U.S. firms through the corporate governance channel. Our investigation centers on understanding how enhanced market accessibility and investor protection requirements in Mexico affected the information environment and governance practices of U.S. firms operating in or significantly exposed to Mexican markets. While we cannot draw definitive causal conclusions due to the complex nature of cross-border regulatory effects, our analysis suggests important relationships between regulatory reform and corporate disclosure practices.

The reform's emphasis on strengthening corporate governance mechanisms appears to have created spillover effects that extend beyond Mexican borders. These effects manifest primarily through changes in voluntary disclosure practices, as U.S. firms adapt to heightened transparency expectations in the Mexican market. This finding aligns with prior literature documenting the transmission of corporate governance practices across jurisdictions (Coffee, 2002; La Porta et al., 2000). The reform's focus on investor protection and market accessibility appears to have motivated U.S. firms to enhance their disclosure practices to maintain competitive positions in Mexican markets.

Our findings contribute to the growing literature on the international diffusion of corporate governance practices and their impact on firm disclosure policies. The results suggest that regulatory reforms in emerging markets can have meaningful implications for firms in developed markets, particularly when these reforms target fundamental aspects of market operation such as corporate governance and investor protection. This observation extends previous work on cross-border regulatory effects (Ball et al., 2003) and the role of institutional frameworks in shaping corporate disclosure practices.

These findings have important implications for various stakeholders. For regulators, our results suggest that securities market reforms can have significant extraterritorial effects, highlighting the need for international coordination in regulatory design. Managers of U.S. firms with significant Mexican market exposure should consider proactively enhancing their governance and disclosure practices to align with evolving market expectations. For investors, our findings indicate that regulatory reforms in emerging markets may lead to improved information environments, potentially reducing information asymmetries and associated investment risks.

From a broader perspective, our study contributes to the understanding of how regulatory changes in one jurisdiction can influence corporate behavior in another through the corporate governance channel. This has implications for the growing literature on international corporate governance convergence and the role of market forces in shaping firm disclosure practices (Leuz and Wysocki, 2016). The findings suggest that market-based incentives for enhanced disclosure may complement formal regulatory requirements in promoting transparency and investor protection.

Several limitations of our study warrant mention and suggest directions for future research. First, the complex nature of cross-border effects makes it challenging to isolate the specific impact of the Mexican reform from other concurrent changes in the business environment. Future research could employ more granular data and alternative identification strategies to better establish causality. Second, our focus on U.S. firms limits the generalizability of our findings. Additional research could examine how firms from other countries respond to similar regulatory reforms. Finally, future studies might explore the specific mechanisms through which corporate governance changes influence disclosure practices, particularly in cross-border settings. Understanding these mechanisms could provide valuable insights for both regulators and corporate decision-makers.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,231	0.6176	0.9021	0.0000	0.0000	1.6094
Treatment Effect	14,231	0.5950	0.4909	0.0000	1.0000	1.0000
Institutional ownership	14,231	0.5931	0.3409	0.2872	0.6918	0.8840
Firm size	14,231	6.5590	2.1195	5.0229	6.5954	8.0455
Book-to-market	14,231	0.5476	0.5701	0.2300	0.4391	0.7485
ROA	14,231	-0.0501	0.2617	-0.0340	0.0221	0.0632
Stock return	14,231	0.0057	0.4297	-0.2229	-0.0349	0.1584
Earnings volatility	14,231	0.1503	0.3093	0.0229	0.0536	0.1389
Loss	14,231	0.3238	0.4679	0.0000	0.0000	1.0000
Class action litigation risk	14,231	0.2615	0.2435	0.0842	0.1739	0.3586

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

Table 2
Pearson Correlations
MexicanSecuritiesMarketLawReform Corporate Governance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	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 Mexican Securities Market Law Reform on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0474*** (3.06)	-0.0897*** (6.51)
Institutional ownership		0.4347*** (16.35)
Firm size		0.1237*** (25.80)
Book-to-market		-0.0842*** (8.09)
ROA		0.0847*** (3.41)
Stock return		-0.1133*** (8.51)
Earnings volatility		-0.0911*** (5.17)
Loss		-0.0791*** (4.46)
Class action litigation risk		-0.2209*** (8.52)
N	14,231	14,231
R^2	0.0007	0.2251

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