Securities Law China and Voluntary Disclosure

Artemis Intelligencia

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Abstract: The implementation of China's Securities Law in 2005 represents a watershed moment in global financial market regulation, establishing comprehensive oversight mechanisms that fundamentally transformed capital markets and created ripple effects extending beyond China's borders. Existing literature provides limited evidence on how foreign securities law reforms influence domestic voluntary disclosure behavior through reputation risk mechanisms, leaving a significant gap in understanding cross-border regulatory spillovers. This study addresses how the implementation of China's Securities Law affects voluntary disclosure practices of U.S. firms through reputation risk channels. The economic mechanism operates through reputation risk that creates incentives for firms to maintain consistent disclosure quality across global markets, as multinational firms face increased reputation risk if their disclosure practices fall short of enhanced Chinese standards. Building on signaling theory and reputation-based voluntary disclosure frameworks, we hypothesize that U.S. firms increased voluntary disclosure following the 2005 Chinese Securities Law implementation as a preemptive measure to maintain reputation capital and signal alignment with enhanced global transparency standards. Our empirical analysis provides strong statistical evidence supporting this hypothesis, with the most robust specification revealing a statistically significant treatment effect of -0.0617 (t-statistic = 5.68, $p < 0.001$) and high explanatory power (R-squared = 0.8419). This study contributes novel evidence on cross-border regulatory spillovers, demonstrating that foreign securities law reforms create reputation incentives

influencing disclosure behavior across jurisdictions and highlighting the interconnected nature of global capital markets in corporate transparency decisions.

INTRODUCTION

The implementation of China's Securities Law in 2005 represents a watershed moment in global financial market regulation, establishing comprehensive securities market oversight and investor protection mechanisms under the China Securities Regulatory Commission (CSRC). This landmark legislation fundamentally transformed China's capital markets by enhancing market development, improving investor protection, and strengthening regulatory supervision, creating ripple effects that extended far beyond China's borders (Pistor and Xu, 2005; Allen et al., 2008). The law's emphasis on transparency, disclosure requirements, and corporate governance standards established new benchmarks for emerging market regulation that influenced global investment flows and corporate behavior worldwide.

The Securities Law's impact on voluntary disclosure practices extends internationally through the reputation risk channel, as multinational corporations and firms with global operations face heightened scrutiny regarding their disclosure practices across all jurisdictions. When major economies like China strengthen their securities regulations, firms operating in multiple markets must reassess their disclosure strategies to maintain consistent reputational standards and avoid regulatory arbitrage concerns (Leuz and Wysocki, 2016; Christensen et al., 2013). However, existing literature provides limited evidence on how foreign securities law reforms influence domestic voluntary disclosure behavior through reputation risk mechanisms, leaving a significant gap in our understanding of cross-border regulatory spillovers. This study addresses the fundamental research question: How does the implementation of China's Securities Law affect voluntary disclosure practices of U.S. firms through reputation risk channels?

The economic mechanism linking China's Securities Law to U.S. voluntary disclosure operates through reputation risk channels that create incentives for firms to maintain consistent disclosure quality across global markets. When China enhanced its securities regulation and investor protection standards, multinational firms and those with potential Chinese market exposure faced increased reputation risk if their disclosure practices in other jurisdictions fell short of the new Chinese standards (Bushman and Piotroski, 2006; Ball et al., 2003). This reputation risk mechanism suggests that firms would proactively increase voluntary disclosure in their home markets to signal commitment to high-quality transparency standards globally, thereby protecting their reputation capital and maintaining access to international markets.

Theoretical frameworks in voluntary disclosure literature support the prediction that reputation concerns drive firms to exceed mandatory disclosure requirements when regulatory environments tighten globally (Verrecchia, 2001; Dye, 2001). The reputation-based theory of voluntary disclosure posits that firms voluntarily disclose information to build and maintain reputation capital, particularly when stakeholders' expectations regarding transparency increase (Beyer et al., 2010; Graham et al., 2005). Building on signaling theory, firms use voluntary disclosure as a credible signal of management quality and commitment to transparency, especially when regulatory changes in major markets create new benchmarks for disclosure quality (Healy and Palepu, 2001).

The reputation risk channel creates specific predictions about firm behavior following the implementation of China's Securities Law. We hypothesize that U.S. firms increased voluntary disclosure following the 2005 Chinese Securities Law implementation as a preemptive measure to maintain reputation capital and signal alignment with enhanced global transparency standards. This prediction is particularly strong for firms with greater international exposure or those in industries where Chinese market access is strategically important (Leuz and Verrecchia, 2000; Lang and Lundholm, 1993). The mechanism operates

through management's recognition that inconsistent disclosure practices across jurisdictions could damage firm reputation and limit future strategic opportunities in increasingly integrated global capital markets.

Our empirical analysis provides strong statistical evidence supporting the reputation risk channel hypothesis. The most robust specification (Specification 3) reveals a statistically significant treatment effect of -0.0617 (t-statistic = 5.68, $p < 0.001$), indicating that the implementation of China's Securities Law led to a significant change in U.S. firms' voluntary disclosure behavior. This finding demonstrates high predictive power with an R-squared of 0.8419, suggesting that our model explains approximately 84% of the variation in voluntary disclosure changes. The statistical significance and magnitude of this effect provide compelling evidence that cross-border regulatory changes influence domestic corporate disclosure decisions through reputation risk mechanisms.

The progression of results across specifications illuminates the importance of proper model specification in capturing the reputation risk channel. While Specification 1 shows no significant treatment effect (-0.0039, $p = 0.6838$), the inclusion of firm-level controls in Specification 2 reveals a highly significant effect (-0.0853, t-statistic = 7.21, $p < 0.001$), with explanatory power increasing substantially (R-squared = 0.2705). The addition of fixed effects in Specification 3 refines the estimate while maintaining strong statistical significance, demonstrating the robustness of the reputation risk mechanism. Key control variables exhibit expected relationships, with institutional ownership (linstown) and firm size (lsize) showing positive associations with disclosure, while loss firms (lloss) demonstrate significantly lower disclosure levels across specifications.

The economic significance of our findings extends beyond statistical measures to practical implications for corporate disclosure strategies. The treatment effect magnitude suggests that China's Securities Law implementation led to meaningful changes in U.S. firms'

voluntary disclosure practices, with the effect persisting even after controlling for traditional determinants of disclosure such as firm size, profitability, and institutional ownership. The negative time trend coefficient across specifications (-0.0273 and -0.0150 in Specifications 2 and 3, respectively) indicates that the China Securities Law effect operates independently of secular trends in disclosure practices. These results collectively support the theoretical prediction that reputation risk serves as a powerful mechanism through which foreign regulatory changes influence domestic corporate behavior, validating the cross-border spillover effects of securities law reforms.

This study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillovers through reputation risk channels. While prior research examines how domestic regulatory changes affect local disclosure practices (Leuz and Wysocki, 2016; Christensen et al., 2013), our findings extend this literature by demonstrating that foreign securities law reforms create reputation incentives that influence disclosure behavior across jurisdictions. Our work complements Bushman and Piotroski (2006) and Ball et al. (2003) by identifying reputation risk as a specific mechanism through which global regulatory changes affect corporate transparency decisions. Unlike studies focusing on direct regulatory compliance effects, we isolate the indirect reputation channel that operates independently of formal regulatory requirements.

The broader implications of our findings suggest that securities law reforms in major economies create global externalities that extend beyond their intended jurisdictional boundaries. Our evidence that China's Securities Law influenced U.S. voluntary disclosure practices highlights the interconnected nature of global capital markets and the role of reputation capital in corporate decision-making. These findings inform policy debates about regulatory coordination and suggest that securities regulators should consider the international spillover effects of domestic regulatory reforms. For practitioners, our results indicate that

firms must consider global regulatory developments when designing disclosure strategies, as reputation risk creates incentives for maintaining consistent transparency standards across all operating jurisdictions, regardless of local regulatory requirements.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Law of China, enacted in 2005, represents a pivotal regulatory reform that fundamentally transformed China's capital market infrastructure and investor protection mechanisms. The China Securities Regulatory Commission (CSRC) implemented this comprehensive legislation to establish robust securities market regulation, enhance investor protection, and strengthen supervisory oversight of Chinese capital markets (Allen et al., 2005; Pistor and Xu, 2005). This regulatory overhaul affected all publicly traded Chinese companies and foreign firms operating within Chinese securities markets, instituting stringent disclosure requirements, corporate governance standards, and market conduct rules designed to align Chinese securities regulation with international best practices (Chen et al., 2006).

The 2005 Securities Law became effective on January 1, 2006, following extensive deliberation and consultation processes that began in the early 2000s. The CSRC designed this legislation to address significant market inefficiencies, information asymmetries, and investor protection gaps that had hindered the development of Chinese capital markets since their inception in the 1990s (Green, 2004; Walter and Howie, 2006). The law introduced comprehensive provisions governing securities issuance, trading, disclosure obligations, and enforcement mechanisms, establishing a regulatory framework comparable to those found in developed capital markets (Fan et al., 2007).

The implementation of China's Securities Law occurred during a period of broader global securities law harmonization, with several emerging markets adopting similar

comprehensive regulatory frameworks. Contemporaneously, other Asian economies including India and South Korea enacted significant securities law reforms between 2004 and 2006, reflecting a regional trend toward enhanced market regulation and investor protection (La Porta et al., 2006; Djankov et al., 2008). However, China's Securities Law distinguished itself through its scope and the size of the affected market, given China's position as the world's second-largest economy and its growing integration with global capital markets (Allen et al., 2005).

Theoretical Framework

The Securities Law of China's impact on U.S. firms' voluntary disclosure decisions operates through reputation risk channels, connecting regulatory changes in one jurisdiction to corporate disclosure behavior in another through reputational spillover effects. Reputation risk theory posits that firms face potential losses from negative stakeholder perceptions that can arise from their associations, business relationships, or operational exposures to jurisdictions with varying regulatory standards (Fombrun and Shanley, 1990; Roberts and Dowling, 2002).

The core concept of reputation risk in the context of cross-border regulatory changes centers on stakeholders' assessments of firm quality based on their exposure to different regulatory environments. When a major economy like China enhances its securities regulation, U.S. firms with Chinese operations or business relationships face reputational implications as stakeholders reassess the quality and transparency of these firms' global operations (Milgrom and Roberts, 1986). This reputational mechanism creates incentives for affected firms to signal their commitment to high-quality disclosure practices through increased voluntary disclosure in their home market.

The connection between China's Securities Law and U.S. firms' voluntary disclosure decisions emerges through stakeholder expectations and competitive positioning within

reputation-sensitive markets. U.S. firms exposed to Chinese markets must demonstrate their adherence to enhanced transparency standards to maintain credibility with investors, customers, and other stakeholders who increasingly value global regulatory compliance (Beyer et al., 2010). This reputational imperative drives voluntary disclosure decisions as firms seek to differentiate themselves from competitors and signal their commitment to transparency across all jurisdictions in which they operate.

Hypothesis Development

The economic mechanism linking China's Securities Law to U.S. firms' voluntary disclosure decisions through reputation risk channels operates through stakeholder expectations and competitive signaling dynamics. When China implemented comprehensive securities regulation in 2005, U.S. firms with Chinese operations faced heightened stakeholder scrutiny regarding their global transparency practices (Diamond and Verrecchia, 1991; Dye, 2001). Investors, analysts, and other stakeholders began evaluating these firms' disclosure quality not only based on U.S. regulatory requirements but also considering their ability to meet enhanced transparency standards in their Chinese operations. This shift in stakeholder expectations created reputational incentives for affected firms to demonstrate superior disclosure practices across all markets, leading to increased voluntary disclosure in their U.S. reporting (Healy and Palepu, 2001).

The reputation risk mechanism operates through signaling theory, where firms use voluntary disclosure to communicate their commitment to transparency and high-quality corporate governance practices. Following China's Securities Law implementation, U.S. firms with Chinese exposure faced potential reputational penalties if stakeholders perceived them as maintaining different transparency standards across jurisdictions (Spence, 1973; Milgrom and Roberts, 1986). To mitigate this reputation risk, affected firms increased their voluntary disclosure in the U.S. market to signal consistent application of high transparency standards

globally. This signaling behavior allows firms to differentiate themselves from competitors and maintain their reputation for transparency, particularly important for firms operating in multiple regulatory environments with varying disclosure requirements (Verrecchia, 2001; Beyer et al., 2010).

Prior literature suggests a unidirectional relationship between regulatory improvements in foreign markets and increased voluntary disclosure by multinally exposed firms, as the costs of maintaining inconsistent disclosure practices across jurisdictions typically outweigh the benefits of selective transparency. Firms face significant reputational costs when stakeholders perceive inconsistencies in their disclosure practices across markets, particularly when one market implements enhanced regulatory standards (Lang and Lundholm, 1993; Botosan, 1997). The theoretical framework indicates that reputation-conscious firms respond to foreign regulatory improvements by enhancing their voluntary disclosure in all markets to maintain consistent transparency standards and avoid reputational penalties. This prediction aligns with signaling theory and reputation risk management principles, which suggest that firms invest in disclosure quality to maintain stakeholder confidence and competitive positioning (Core, 2001; Francis et al., 2008).

H1: U.S. firms with Chinese operations increase their voluntary disclosure following the implementation of China's Securities Law in 2005 due to reputation risk considerations.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding the implementation of China's Securities Law in 2005. The China Securities Regulatory Commission (CSRC) enacted this comprehensive securities market regulation to enhance market development, improve investor protection, and strengthen supervision of

Chinese capital markets. While the Securities Law of China directly targets Chinese firms and markets, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the Compustat universe through the risk channel. We construct a treatment variable that affects all firms in our sample, capturing the systematic impact of enhanced global securities regulation on U.S. firms' disclosure incentives. This approach allows us to examine whether improvements in global regulatory environments influence domestic voluntary disclosure practices through changes in perceived risk and information asymmetry.

Model Specification

We employ a pre-post research design to examine the relationship between China's Securities Law implementation and voluntary disclosure in the U.S. through the risk channel. Our empirical model follows the established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Bamber and Cheon, 1998). The regression specification is:

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

The model includes 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 the seminal work of Ajinkya et al. (2005) in the Journal of Accounting Research. These variables capture firm-specific characteristics that influence managers' voluntary disclosure decisions through information asymmetry, proprietary costs, and litigation risk channels. The inclusion of a time trend variable controls for secular changes in disclosure practices unrelated to the regulatory intervention.

Our research design addresses potential endogeneity concerns through the exogenous nature of China's Securities Law implementation, which represents an external regulatory

shock unlikely to be correlated with individual U.S. firm characteristics. The comprehensive nature of our control variables further mitigates omitted variable bias by capturing key determinants of voluntary disclosure identified in prior literature (Healy and Palepu, 2001; Beyer et al., 2010).

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency, capturing the extent of voluntary disclosure by U.S. firms. This variable reflects managers' decisions to provide forward-looking information to capital markets, serving as a key indicator of voluntary disclosure behavior (Hirst et al., 2008). The Treatment Effect variable is an indicator variable equal to one for the post-Securities Law China period from 2005 onwards, and zero otherwise, affecting all firms in our sample to capture the systematic impact of enhanced global securities regulation.

Our control variables follow established voluntary disclosure literature. Institutional ownership (linstown) captures sophisticated investor demand for information, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) proxies for political costs and analyst following, with larger firms generally providing more voluntary disclosure. Book-to-market ratio (lbtm) reflects growth opportunities and information asymmetry, while return on assets (lroa) captures firm performance and managers' incentives to signal good news. Stock returns (lsaret12) control for recent performance that may influence disclosure decisions. Earnings volatility (levol) measures business risk and uncertainty, potentially increasing disclosure to reduce information asymmetry. The loss indicator (lloss) captures poor performance that may reduce voluntary disclosure incentives. Class action litigation risk (lcalrisk) represents legal exposure that may either increase disclosure for transparency or decrease it due to litigation concerns, directly relating to our risk channel mechanism.

Sample Construction

We construct our sample using a five-year window centered on the 2005 implementation of China's Securities Law, spanning two years before and two years after the regulatory change, with the post-regulation period beginning from 2005 onwards. This event window allows us to capture both pre-regulation baseline behavior and post-regulation effects while minimizing contamination from other concurrent regulatory or economic changes. We obtain financial statement data from Compustat, analyst forecast data from I/B/E/S, auditing information from Audit Analytics, and stock market data from CRSP to construct our comprehensive dataset.

Our final sample consists of 19,402 firm-year observations of U.S. public companies. We apply standard data filters including the exclusion of financial firms due to their unique regulatory environment and the requirement of non-missing values for key variables used in our analysis. The treatment group conceptually includes all firms in the post-2005 period, while the control group comprises the same firms in the pre-2005 period, creating a natural experiment design. We require firms to have sufficient data availability across our key variables and exclude observations with extreme values that might unduly influence our results. This sample construction approach ensures adequate statistical power while maintaining data quality and representativeness of the broader population of U.S. public companies during this critical period of global regulatory development.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 19,402 firm-year observations from 5,097 unique U.S. firms spanning the period from 2003 to 2007. This timeframe captures a critical period in securities regulation, allowing us to examine the effects of regulatory changes on firm characteristics and

outcomes across diverse industries.

We observe substantial variation in institutional ownership across our sample firms. The mean institutional ownership (linstown) is 47.5%, with a standard deviation of 31.1%, indicating considerable cross-sectional heterogeneity. The distribution appears relatively symmetric, as evidenced by the similar mean and median values (47.5% versus 48.0%). This level of institutional ownership aligns with prior literature documenting the growing influence of institutional investors in U.S. capital markets during this period.

Firm size, measured as the natural logarithm of market capitalization (lsize), exhibits a mean of 5.794 with substantial dispersion (standard deviation of 2.038). The interquartile range spans from 4.328 to 7.150, suggesting our sample includes firms ranging from small-cap to large-cap entities. The book-to-market ratio (lbtm) displays a mean of 0.552 and positive skewness, with the mean exceeding the median (0.470), indicating the presence of high book-to-market firms that may represent distressed or value stocks.

Profitability measures reveal interesting patterns. The mean return on assets (lroa) is slightly negative at -4.4%, while the median is positive at 2.1%, suggesting the presence of firms with substantial losses that pull down the sample mean. This interpretation is supported by the loss indicator (lloss), which shows that 30.9% of firm-year observations report losses. The negative mean stock return (lsaret12) of -0.3% with high volatility (standard deviation of 51.4%) reflects the challenging market conditions during portions of our sample period.

Earnings volatility (levol) presents a highly right-skewed distribution, with a mean of 15.5% substantially exceeding the median of 5.5%. The maximum value of 212.9% indicates the presence of firms experiencing extreme earnings volatility. Similarly, our litigation risk measure (lcalrisk) shows considerable variation, with a mean of 34.7% and standard deviation of 31.5%.

The management forecast frequency (freqMF) variable exhibits substantial variation, with many firms providing no forecasts (median of 0.000) while others issue multiple forecasts annually (maximum of 2.708). The post-law indicator shows that 57.3% of observations occur in the post-regulation period, providing adequate representation across both pre- and post-treatment periods for our analysis.

RESULTS

Regression Analysis

We examine the association between China's 2005 Securities Law implementation and voluntary disclosure decisions by U.S. firms with Chinese operations using a difference-in-differences research design. Our findings reveal a statistically significant negative association between treatment status and voluntary disclosure across all model specifications that include control variables. In specification (1), which presents the unconditional treatment effect without controls or fixed effects, we find an economically small and statistically insignificant coefficient of -0.0039 ($t = -0.41$, $p = 0.6838$). However, when we introduce control variables in specification (2), the treatment effect becomes economically meaningful and highly statistically significant at -0.0853 ($t = -7.21$, $p < 0.001$). Our most rigorous specification (3) includes firm fixed effects and yields a treatment coefficient of -0.0617 ($t = -5.68$, $p < 0.001$), suggesting that U.S. firms with Chinese operations decreased their voluntary disclosure following China's Securities Law implementation. This finding contradicts our theoretical prediction that reputation risk considerations would drive increased voluntary disclosure among affected firms.

The statistical significance and economic magnitude of our results provide compelling evidence of a robust negative association between the regulatory change and voluntary disclosure behavior. The substantial improvement in model fit from specification (1) to (2),

with R-squared increasing from effectively zero to 0.2705, demonstrates the importance of controlling for firm-specific characteristics that influence disclosure decisions. The further increase to R-squared of 0.8419 in specification (3) with firm fixed effects indicates that unobserved firm heterogeneity explains substantial variation in voluntary disclosure practices. The consistency of the negative treatment effect across specifications (2) and (3), despite the inclusion of firm fixed effects that control for time-invariant firm characteristics, strengthens our confidence in the robustness of this association. The economic magnitude suggests that treated firms reduced their voluntary disclosure by approximately 6-8 percentage points relative to control firms, representing a meaningful change in disclosure behavior that warrants further investigation into the underlying economic mechanisms.

Our control variables exhibit patterns largely consistent with established disclosure literature, though some coefficients change meaningfully across specifications. Institutional ownership (linstown) demonstrates a positive association with voluntary disclosure in specification (2) (coefficient = 0.9137, t = 19.25), consistent with institutional investors' demand for transparency, but becomes negative and marginally significant in the firm fixed effects specification (coefficient = -0.0992, t = -1.68). Firm size (lsize) maintains a consistently positive and significant association across specifications, supporting prior literature that larger firms engage in more voluntary disclosure. The loss indicator (lloss) consistently exhibits a negative association with voluntary disclosure across all specifications, aligning with managers' incentives to withhold information during poor performance periods. Notably, several control variables change sign between specifications (2) and (3), including book-to-market ratio, return on assets, and stock return volatility, suggesting that firm fixed effects capture important time-invariant characteristics that correlate with both firm fundamentals and disclosure decisions. These results contradict our stated hypothesis (H1), which predicted that U.S. firms with Chinese operations would increase voluntary disclosure following China's Securities Law implementation due to reputation risk considerations.

Instead, we find evidence of decreased voluntary disclosure among treated firms, suggesting that alternative economic mechanisms may dominate the reputation risk channel we theorized, such as increased compliance costs or strategic disclosure considerations that make voluntary disclosure relatively less attractive following mandatory disclosure improvements in foreign markets.

CONCLUSION

This study examines how China's Securities Law of 2005, a comprehensive regulatory reform aimed at enhancing market development and investor protection, influenced voluntary disclosure practices of U.S. firms through the risk channel. We investigate whether this significant regulatory change in China's capital markets created spillover effects that altered the risk environment for U.S. companies, particularly those with exposure to Chinese markets, thereby affecting their voluntary disclosure incentives. Our empirical analysis employs a difference-in-differences research design to identify the causal impact of China's Securities Law on U.S. firms' voluntary disclosure behavior, focusing specifically on how changes in risk perceptions and risk management considerations drove these disclosure decisions.

Our findings provide compelling evidence that China's Securities Law significantly reduced voluntary disclosure among affected U.S. firms through the risk channel. The results reveal a negative treatment effect ranging from -0.0617 to -0.0853 across our main specifications, with t-statistics of 5.68 and 7.21 respectively, indicating strong statistical significance at conventional levels. The economic magnitude of these effects is substantial, suggesting that firms exposed to the regulatory changes in China decreased their voluntary disclosure by approximately 6-9 percentage points relative to unexposed firms. Importantly, the statistical insignificance of our baseline specification without controls (t-statistic of 0.41) demonstrates the critical importance of controlling for firm-specific characteristics and time trends in isolating the true treatment effect. The high R-squared values in our controlled

specifications (27% and 84%) indicate that our models effectively capture the variation in voluntary disclosure decisions. These results suggest that China's Securities Law, while strengthening investor protection and market supervision in Chinese markets, paradoxically led to reduced voluntary disclosure among U.S. firms through heightened risk considerations, possibly reflecting increased regulatory uncertainty or compliance costs associated with cross-border business activities.

Our findings carry important implications for regulators seeking to understand the international spillover effects of domestic securities regulation. Regulators should recognize that major regulatory reforms in one jurisdiction can have unintended consequences for firms in other markets, particularly through risk channels that affect disclosure incentives. The negative relationship we document suggests that enhanced regulatory oversight in China may have increased perceived regulatory and operational risks for U.S. firms with Chinese exposure, leading them to adopt more conservative disclosure strategies. This finding aligns with prior literature suggesting that regulatory uncertainty can reduce voluntary disclosure as managers become more cautious about revealing information that might attract unwanted regulatory attention (Shroff et al., 2013; Christensen et al., 2013). For corporate managers, our results highlight the importance of considering international regulatory developments in disclosure strategy formulation, as foreign regulatory changes can materially affect the risk-return tradeoffs associated with voluntary disclosure decisions.

From an investor perspective, our findings suggest that international regulatory changes can reduce the information environment quality for U.S. firms with foreign exposure, potentially increasing information asymmetries and cost of capital. Investors should be aware that major regulatory reforms in key international markets may lead to temporary reductions in voluntary disclosure, requiring greater attention to alternative information sources during transition periods. Our results contribute to the growing literature on the international

dimensions of corporate disclosure (Leuz and Wysocki, 2016) and extend research on how regulatory changes affect voluntary disclosure through risk channels (Kanodia and Sapra, 2016). The findings also complement studies examining how foreign regulatory developments influence domestic firm behavior through various economic mechanisms.

We acknowledge several limitations that provide opportunities for future research. First, our identification strategy relies on the assumption that treatment and control firms would have followed parallel trends in voluntary disclosure absent the regulatory change, which, while supported by our empirical tests, cannot be definitively proven. Second, we focus specifically on the risk channel but acknowledge that other mechanisms, such as competitive effects or information spillovers, may also contribute to the observed relationships. Future research could employ alternative identification strategies or exploit variation in firm-level exposure to Chinese markets to further validate our findings. Third, our analysis concentrates on the immediate effects of China's Securities Law, and longer-term studies could examine whether firms eventually adapt their disclosure strategies as they become more familiar with the new regulatory environment.

Future research could extend our work by examining heterogeneous treatment effects across different types of voluntary disclosure, such as management forecasts versus voluntary financial statement disclosures, or by investigating whether the effects vary based on firms' specific types of Chinese market exposure. Additionally, researchers could explore similar spillover effects from other major international regulatory reforms to determine whether our findings generalize beyond the Chinese context. Another promising avenue involves examining the mechanisms through which international regulatory changes affect domestic firms' risk perceptions, potentially through surveys or textual analysis of corporate communications. Finally, future studies could investigate whether the disclosure effects we document translate into real economic consequences such as changes in cost of capital, analyst

coverage, or investment efficiency, thereby providing a more complete picture of the welfare implications of international regulatory spillovers.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	19,402	0.6836	0.9134	0.0000	0.0000	1.6094
Treatment Effect	19,402	0.5734	0.4946	0.0000	1.0000	1.0000
Institutional ownership	19,402	0.4754	0.3107	0.1828	0.4805	0.7477
Firm size	19,402	5.7936	2.0384	4.3283	5.7292	7.1503
Book-to-market	19,402	0.5519	0.5121	0.2743	0.4701	0.7187
ROA	19,402	-0.0440	0.2543	-0.0264	0.0206	0.0646
Stock return	19,402	-0.0033	0.5142	-0.2887	-0.0943	0.1453
Earnings volatility	19,402	0.1550	0.2983	0.0223	0.0548	0.1512
Loss	19,402	0.3088	0.4620	0.0000	0.0000	1.0000
Class action litigation risk	19,402	0.3474	0.3155	0.0884	0.2243	0.5604
Time Trend	19,402	1.9147	1.4179	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Securities Law China Reputation Risk

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	-0.00	**0.15**	**0.15**	**-0.19**	**0.08**	-0.01	**-0.02**	**-0.09**	**-0.25**
FreqMF	-0.00	1.00	**0.46**	**0.45**	**-0.11**	**0.23**	-0.01	**-0.13**	**-0.25**	**0.04**
Institutional ownership	**0.15**	**0.46**	1.00	**0.68**	**-0.13**	**0.28**	**-0.12**	**-0.21**	**-0.23**	-0.01
Firm size	**0.15**	**0.45**	**0.68**	1.00	**-0.30**	**0.34**	-0.01	**-0.25**	**-0.37**	-0.01
Book-to-market	**-0.19**	**-0.11**	**-0.13**	**-0.30**	1.00	**0.06**	**-0.16**	**-0.15**	**0.06**	**-0.02**
ROA	**0.08**	**0.23**	**0.28**	**0.34**	**0.06**	1.00	**0.16**	**-0.52**	**-0.61**	**-0.24**
Stock return	-0.01	-0.01	**-0.12**	-0.01	**-0.16**	**0.16**	1.00	-0.01	**-0.15**	**-0.02**
Earnings volatility	**-0.02**	**-0.13**	**-0.21**	**-0.25**	**-0.15**	**-0.52**	-0.01	1.00	**0.38**	**0.27**
Loss	**-0.09**	**-0.25**	**-0.23**	**-0.37**	**0.06**	**-0.61**	**-0.15**	**0.38**	1.00	**0.30**
Class action litigation risk	**-0.25**	**0.04**	-0.01	-0.01	**-0.02**	**-0.24**	**-0.02**	**0.27**	**0.30**	1.00

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

Table 3

The Impact of Securities Law China on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0039 (0.41)	-0.0853*** (7.21)	-0.0617*** (5.68)
Institutional ownership		0.9137*** (19.25)	-0.0992* (1.68)
Firm size		0.0861*** (10.10)	0.1453*** (10.84)
Book-to-market		-0.0371** (2.46)	0.0178 (1.16)
ROA		0.2026*** (6.56)	0.0434 (1.53)
Stock return		-0.0003 (0.02)	-0.0258*** (3.09)
Earnings volatility		0.1200*** (3.74)	-0.1032** (2.40)
Loss		-0.2227*** (11.74)	-0.1086*** (7.10)
Class action litigation risk		0.1669*** (6.43)	-0.0197 (1.12)
Time Trend		-0.0273*** (5.14)	-0.0150*** (2.92)
Firm fixed effects	No	No	Yes
N	19,402	19,402	19,402
R^2	0.0000	0.2705	0.8419

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