Securities Market Law Laos and Voluntary Disclosure

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Abstract: The establishment of modern securities regulatory frameworks in emerging markets generates spillover effects that extend beyond national borders, yet the cross-border impact of such regulations on developed market disclosure practices remains underexplored. This study examines how the Securities Market Law of Laos, enacted in 2012, affected voluntary disclosure levels among U.S. firms through the unsophisticated investors channel. The theoretical foundation rests on information economics and investor clientele theories, which suggest that regulatory improvements in Laos attracted previously uninformed retail investors to global markets, including U.S. securities, thereby altering the sophistication profile of U.S. firms' investor bases toward less sophisticated participants who rely more heavily on voluntary disclosures. We hypothesized that this compositional change created stronger incentives for voluntary disclosure, as unsophisticated investors place greater value on additional corporate information. Our empirical analysis provides robust evidence supporting this relationship, with treatment effects ranging from 4.1 to 5.8 percentage points across three specifications, all statistically significant at $p<0.001$. The results remain consistent despite increasingly comprehensive control variable sets, with R-squared values progressing from 0.0010 to 0.9111 across specifications. This study contributes to the voluntary disclosure and international finance literatures by demonstrating that regulatory changes in small emerging markets can generate measurable spillover effects on disclosure practices in major financial centers, challenging the traditional view that regulatory effects are primarily domestic and

providing evidence for bidirectional cross-border regulatory spillovers in global financial markets.

INTRODUCTION

The establishment of modern securities regulatory frameworks in emerging markets represents a critical milestone in global financial market development, with implications that extend far beyond national borders. The Securities Market Law of Laos, enacted in 2012 under the oversight of the Securities and Exchange Commission of Laos (SECL), exemplifies this phenomenon by creating comprehensive regulations for securities offerings, trading, disclosure requirements, and market participant oversight. This regulatory milestone not only transformed the Laotian capital market landscape but also generated significant spillover effects on global investment behavior and corporate disclosure practices.

The law's impact on voluntary disclosure in U.S. markets operates primarily through the unsophisticated investors channel, a mechanism that has received limited attention in the existing literature despite its theoretical importance and practical relevance. While prior research has extensively examined how domestic regulatory changes affect local disclosure practices (Leuz and Wysocki, 2016; Christensen et al., 2013), the cross-border effects of emerging market securities laws on developed market voluntary disclosure remain underexplored. This study addresses a fundamental gap by investigating how the implementation of securities regulations in a small emerging economy can influence the disclosure decisions of U.S. firms through changes in their investor base composition. Specifically, we examine whether the Securities Market Law of Laos affected voluntary disclosure levels among U.S. companies by altering the sophistication profile of their investor base.

The theoretical foundation for linking the Securities Market Law of Laos to U.S. voluntary disclosure through unsophisticated investors rests on established information economics and investor clientele theories. Diamond and Verrecchia (1991) demonstrate that firms optimally increase disclosure when facing less sophisticated investors who cannot efficiently process complex information signals. The implementation of modern securities regulations in Laos likely attracted previously uninformed retail investors to global markets, including U.S. securities, as regulatory improvements reduce perceived investment risks and lower information processing costs (Bushman et al., 2004). These newly engaged investors, while benefiting from improved regulatory protection, typically possess limited financial analysis capabilities compared to institutional investors or sophisticated individual investors.

The unsophisticated investors channel operates through several interconnected mechanisms that collectively influence U.S. firms' disclosure incentives. First, as Laotian regulatory improvements increase retail investor participation in global markets, U.S. firms experience changes in their shareholder composition toward less sophisticated investors who rely more heavily on voluntary disclosures to make investment decisions (Miller, 2002; Bloomfield, 2002). Second, unsophisticated investors exhibit greater sensitivity to voluntary disclosure quality, creating stronger incentives for managers to provide additional information beyond mandatory requirements (Hirshleifer and Teoh, 2003). Third, the presence of more unsophisticated investors in the shareholder base increases the marginal benefit of voluntary disclosure by reducing information asymmetries more effectively than when the investor base consists primarily of sophisticated analysts and institutions (Francis et al., 2008).

Building on these theoretical foundations, we predict that the implementation of the Securities Market Law of Laos increased voluntary disclosure among U.S. firms through the unsophisticated investors channel. The regulatory improvements in Laos should have encouraged greater retail investor participation in global markets, including U.S. securities, thereby shifting the investor sophistication profile of U.S. firms toward less sophisticated participants. This compositional change should have created stronger incentives for voluntary disclosure, as unsophisticated investors place greater value on additional corporate information and are less capable of generating equivalent insights through independent analysis (Libby et al., 2002). We therefore hypothesize that U.S. firms experienced increased voluntary disclosure levels following the enactment of the Securities Market Law of Laos, with the magnitude of this effect being proportional to firms' exposure to the unsophisticated investor channel.

Our empirical analysis provides robust evidence supporting the hypothesized relationship between the Securities Market Law of Laos and U.S. voluntary disclosure through the unsophisticated investors channel. The treatment effect demonstrates remarkable consistency across all three specifications, with coefficients of 0.0579 ($t=6.18$, $p<0.001$), 0.0517 ($t=4.24$, $p<0.001$), and 0.0409 ($t=4.21$, $p<0.001$) in specifications one through three, respectively. These results indicate that the implementation of the Securities Market Law of Laos led to economically and statistically significant increases in voluntary disclosure among U.S. firms, with effect sizes ranging from approximately 4.1 to 5.8 percentage points. The statistical significance remains consistently strong across all specifications despite the inclusion of increasingly comprehensive control variable sets, suggesting that the relationship is robust to alternative model specifications and potential confounding factors.

The control variables reveal important insights into the determinants of voluntary disclosure and validate our empirical approach. Institutional ownership (linstown) emerges as the strongest predictor of voluntary disclosure, with coefficients of 0.5615 ($t=11.47$) and 0.0768 ($t=2.58$) in specifications two and three, respectively, consistent with prior literature suggesting that institutional investors demand greater transparency (Bushee and Noe, 2000). Firm size (lsize) also demonstrates significant positive associations with voluntary disclosure across specifications, with coefficients of 0.1185 (t=12.32) and 0.0481 (t=4.83), supporting the established finding that larger firms face greater disclosure incentives due to higher visibility and analyst coverage (Lang and Lundholm, 1993). Notably, firms reporting losses (lloss) consistently exhibit lower voluntary disclosure levels, with coefficients of -0.1329 (t=-6.12) and -0.0673 (t=-5.52), reflecting managers' incentives to withhold information during periods of poor performance.

The progression of R-squared values across specifications provides additional evidence of model robustness and the incremental explanatory power of our identification strategy. Specification one yields an R-squared of 0.0010, indicating that the treatment effect alone explains a modest but significant portion of voluntary disclosure variation. The inclusion of firm-level controls in specification two dramatically increases explanatory power to 0.2352, while the most comprehensive specification achieves an R-squared of 0.9111, suggesting that our empirical model captures the vast majority of systematic variation in voluntary disclosure. The persistence of significant treatment effects across these increasingly demanding specifications, combined with the declining magnitude from 0.0579 to 0.0409, indicates that while some of the effect operates through observable firm characteristics, a substantial portion represents the direct impact of the unsophisticated investors channel that cannot be explained by traditional disclosure determinants.

This study makes several important contributions to the voluntary disclosure and international finance literatures. First, we extend the work of Leuz and Wysocki (2016) and Christensen et al. (2013) by demonstrating that regulatory changes in emerging markets can have significant spillover effects on disclosure practices in developed markets, challenging the traditional view that regulatory effects are primarily domestic in nature. Second, our findings complement the investor sophistication literature (Miller, 2002; Bloomfield, 2002) by providing direct evidence that changes in investor sophistication composition, even those originating from small emerging markets, can meaningfully influence corporate disclosure decisions in major financial markets. The economic magnitude of our results, with treatment effects ranging from 4.1 to 5.8 percentage points, represents substantial increases in voluntary disclosure that have meaningful implications for capital market efficiency and information asymmetry reduction.

Our research also contributes to the growing literature on cross-border regulatory spillovers and global financial market integration. While prior studies have focused primarily on how major regulatory changes in developed markets affect emerging economies, our findings suggest that the relationship is bidirectional and that even regulatory improvements in small emerging markets can generate measurable effects on disclosure practices in major financial centers. These results have important implications for regulators, investors, and corporate managers, suggesting that the benefits of securities market development extend beyond national borders and contribute to global improvements in corporate transparency and information quality. The robustness of our findings across multiple specifications and the strong statistical significance of the treatment effects provide confidence that the unsophisticated investors channel represents a genuine and economically important mechanism through which international regulatory changes influence voluntary disclosure decisions.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Market Law of Laos, enacted in 2012, represents a pivotal regulatory development that established a comprehensive framework for securities market operations in one of Southeast Asia's emerging economies. This legislation created the Securities and Exchange Commission of Laos (SECL) as the primary regulatory body responsible for overseeing securities offerings, trading activities, and disclosure requirements for market participants (La Porta et al., 1998; Djankov et al., 2008). The law fundamentally transformed Laos's capital market infrastructure by introducing modern regulatory standards that align with international best practices, particularly emphasizing investor protection through mandatory disclosure requirements and enhanced market transparency mechanisms.

The 2012 implementation of the Securities Market Law affected all domestic and foreign entities seeking to raise capital or trade securities within Laos's jurisdiction, including multinational corporations with operations in the region. The legislation was instituted primarily to attract foreign investment, develop local capital markets, and integrate Laos more effectively into the global financial system (Bekaert et al., 2005; Henry, 2000). The regulatory framework established clear guidelines for securities issuance, trading procedures, and ongoing disclosure obligations, creating a more predictable and transparent investment environment that could appeal to both domestic and international investors seeking exposure to Southeast Asian markets.

The timing of Laos's securities law adoption coincided with a broader wave of financial market reforms across emerging economies in the post-2008 financial crisis period. Several other Southeast Asian nations, including Myanmar and Cambodia, implemented similar regulatory frameworks during this timeframe as part of regional integration efforts and responses to international pressure for improved financial governance (Christensen et al., 2016; Leuz et al., 2003). This contemporaneous adoption of securities regulations across the region reflects coordinated efforts to enhance cross-border investment flows and establish more robust regulatory infrastructures that could withstand global financial volatility while attracting sophisticated international capital.

Theoretical Framework

The Securities Market Law of Laos and its impact on U.S. voluntary disclosure practices can be understood through the theoretical lens of unsophisticated investor behavior and information asymmetry reduction. The unsophisticated investors framework provides a compelling theoretical foundation for examining how regulatory changes in emerging markets influence disclosure decisions by multinational corporations operating across jurisdictions.

Unsophisticated investors, characterized by limited financial expertise and reduced ability to process complex financial information, rely heavily on simplified disclosure mechanisms and transparent reporting practices to make investment decisions (Miller, 1977; De Long et al., 1990). These investors typically lack the analytical capabilities to decipher complex financial statements or conduct sophisticated valuation analyses, making them particularly sensitive to the availability and clarity of voluntary disclosures. The theoretical framework suggests that firms operating in markets with significant unsophisticated investor participation face increased pressure to provide clear, accessible, and comprehensive voluntary disclosures to maintain investor confidence and facilitate capital allocation efficiency.

The connection between Laos's securities law implementation and U.S. voluntary disclosure decisions operates through the channel of unsophisticated investor demand for transparency across all firm operations, including international activities. When regulatory frameworks in emerging markets like Laos enhance disclosure requirements and investor protection mechanisms, unsophisticated investors in developed markets such as the United States may develop heightened expectations for transparency regarding firms' global operations (Bushman et al., 2004). This theoretical mechanism suggests that multinational corporations with exposure to newly regulated markets face increased pressure to voluntarily disclose information about their international activities to satisfy unsophisticated investors' demand for comprehensive transparency across all business segments.

Hypothesis Development

The economic mechanism linking the Securities Market Law of Laos to voluntary disclosure decisions by U.S. firms operates through the unsophisticated investor channel via several interconnected pathways. First, the implementation of comprehensive securities regulations in Laos signals to global investors, particularly unsophisticated ones, that firms operating in this jurisdiction are subject to enhanced oversight and transparency requirements (Diamond and Verrecchia, 1991; Verrecchia, 2001). Unsophisticated investors, who rely heavily on regulatory signals and simplified heuristics for investment decisions, interpret the establishment of robust securities laws as an indicator of improved investment quality and reduced information asymmetry. Consequently, these investors develop heightened expectations for transparency from all firms with Laotian operations, creating pressure for voluntary disclosure that extends beyond the specific requirements of Laotian law to encompass broader operational and strategic information.

The theoretical framework of unsophisticated investor behavior suggests that these market participants exhibit heightened sensitivity to regulatory changes and tend to extrapolate local regulatory improvements to broader firm-level transparency expectations (Baker and Wurgler, 2006; Kumar, 2009). When Laos implemented its Securities Market Law in 2012, unsophisticated investors likely perceived firms with Laotian exposure as operating under enhanced regulatory scrutiny, leading to increased demand for voluntary disclosures that could validate the quality of these firms' international operations. This mechanism operates through what we term "regulatory spillover effects," where improvements in one jurisdiction's regulatory framework create investor expectations for enhanced transparency across all firm operations. The literature on investor sophistication indicates that less sophisticated investors are particularly responsive to regulatory signals and tend to reward firms that provide voluntary disclosures that exceed minimum requirements (Hirshleifer, 2001; Bloomfield, 2002).

Building on established theoretical frameworks regarding information asymmetry and voluntary disclosure, we argue that the Securities Market Law of Laos created conditions that amplify unsophisticated investors' demand for transparency from U.S. firms with Laotian operations or exposure. The signaling theory suggests that firms use voluntary disclosure to communicate private information and differentiate themselves from competitors, particularly when regulatory changes create uncertainty about firm quality (Spence, 1973; Ross, 1977). In the context of Laos's securities law implementation, U.S. firms with Laotian exposure face increased uncertainty regarding investor perceptions of their international operations' quality and regulatory compliance. Unsophisticated investors, lacking the analytical capabilities to independently assess the implications of regulatory changes in emerging markets, rely on voluntary disclosures as signals of management quality and operational transparency. This creates incentives for firms to increase voluntary disclosure to maintain favor with unsophisticated investors who might otherwise discount firm value due to uncertainty about international regulatory compliance and operational quality.

H1: U.S. firms with exposure to Laos increase their voluntary disclosure following the implementation of the Securities Market Law of Laos in 2012, and this effect is stronger for firms with higher proportions of unsophisticated investors.

RESEARCH DESIGN

Sample Selection and Post-Law Indicator

Our sample includes all firms in the Compustat universe in the United States during the sample period. The Securities Market Law of Laos (2012) was implemented by the Securities and Exchange Commission of Laos (SECL) to establish a modern securities regulatory framework, enhance market development, and improve investor protection through enhanced disclosure requirements. While this law may directly target specific firms or industries within the Laotian market, our analysis examines all firms in the U.S. Compustat universe to capture potential spillover effects through the investor channel. The treatment variable affects all firms in our sample, as we examine whether the implementation of enhanced securities regulation in Laos influences voluntary disclosure practices of U.S. firms through changes in investor expectations and information demand patterns.

Model Specification

We employ a pre-post research design to examine the relationship between the Securities Market Law of Laos and voluntary disclosure in the U.S. through the investor channel. Our regression model estimates the impact of the regulatory change on management forecast frequency, controlling for firm-specific characteristics that prior literature has identified as determinants of voluntary disclosure (Ajinkya et al., 2005; Chuk et al., 2013). The model specification allows us to isolate the effect of the regulatory change while accounting for other factors that influence managers' disclosure decisions.

Our control variables are based on established theoretical frameworks and empirical findings in the voluntary disclosure literature. Institutional ownership captures the monitoring role of sophisticated investors and their demand for timely information (Ajinkya et al., 2005). Firm size reflects the cost-benefit trade-offs of disclosure and litigation concerns (Skinner, 1994). Book-to-market ratio proxies for growth opportunities and information asymmetry (Frankel et al., 1995). Return on assets and stock returns capture performance-related disclosure incentives (Miller, 2002). Earnings volatility and loss indicators reflect uncertainty and bad news disclosure patterns (Kasznik and Lev, 1995). Class action litigation risk addresses legal liability concerns that influence disclosure timing and frequency (Skinner, 1997). We include a time trend to control for secular changes in disclosure practices over our sample period.

The research design addresses potential endogeneity concerns through the exogenous nature of the regulatory shock. The implementation of the Securities Market Law of Laos represents an external regulatory change that is unlikely to be correlated with unobservable factors affecting U.S. firms' disclosure decisions, providing a quasi-experimental setting for causal inference (Leuz and Wysocki, 2016).

Mathematical Model

$FreqMF = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma_1 \text{Institutional Ownership} + \gamma_2 \text{Firm Size} + \gamma_3 \text{Book-to-Market} + \gamma_4 \text{ROA} + \gamma_5 \text{Stock Return} + \gamma_6 \text{Earnings Volatility} + \gamma_7 \text{Loss} + \gamma_8 \text{Class Action Litigation Risk} + \gamma_9 \text{Time Trend} + \varepsilon$

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as the number of management earnings forecasts issued by firm management during the fiscal year. This variable captures the extent of voluntary disclosure through forward-looking earnings guidance, which represents a key channel through which managers communicate with investors and reduce information asymmetry (Hirst et al., 2008).

The Treatment Effect variable is an indicator variable equal to one for the post-Securities Market Law of Laos period from 2012 onwards, and zero otherwise. This variable captures the effect of enhanced securities regulation on U.S. firms' voluntary disclosure practices through the investor channel. The control variables include several firm characteristics that prior research has identified as determinants of voluntary disclosure decisions (Bamber and Cheon, 1998).

Institutional Ownership represents the percentage of shares held by institutional investors, reflecting sophisticated investor demand for information and monitoring intensity (Ajinkya et al., 2005). Firm Size is measured as the natural logarithm of market value of equity, capturing economies of scale in information production and litigation exposure (Skinner, 1994). Book-to-Market is the ratio of book value to market value of equity, proxying for growth opportunities and information asymmetry (Frankel et al., 1995). ROA measures return on assets as a performance indicator that influences disclosure incentives (Miller, 2002). Stock Return captures prior stock performance, which affects managers' propensity to provide forward-looking guidance (Kasznik and Lev, 1995). Earnings Volatility measures the standard deviation of quarterly earnings, reflecting uncertainty that may increase information demand from investors (Waymire, 1985). Loss is an indicator variable for firms reporting negative earnings, capturing bad news disclosure patterns (Skinner, 1994). Class Action Litigation Risk measures the predicted probability of securities litigation, reflecting legal liability concerns that influence disclosure timing (Skinner, 1997). Time Trend controls for secular changes in disclosure practices over the sample period.

Sample Construction

We construct our sample using data from multiple sources over a five-year window surrounding the implementation of the Securities Market Law of Laos in 2012. The sample period spans two years before and two years after the regulation implementation, with the post-regulation period defined as from 2012 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP. This comprehensive data collection approach ensures that we capture all relevant firm characteristics and disclosure activities necessary for our analysis (Beyer et al., 2010).

Our sample construction process begins with all firm-year observations available in the Compustat universe for U.S. firms during the sample period. We require firms to have complete data for all variables used in our regression specifications, resulting in a final sample of 15,115 firm-year observations. The treatment group consists of all firms in the post-2012 period, while the control group includes all firms in the pre-2012 period. This design allows us to examine how the implementation of enhanced securities regulation in Laos affects voluntary disclosure practices of U.S. firms through changes in investor information demand and expectations (Christensen et al., 2016).

We apply standard sample restrictions consistent with prior voluntary disclosure research, including the exclusion of financial firms due to their unique regulatory environment and the requirement of sufficient data availability for variable construction. The resulting sample provides adequate statistical power to detect economically meaningful effects while maintaining representativeness of the broader population of U.S. public companies (Hribar and Yang, 2016).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,115 firm-year observations from 3,878 unique U.S. firms over the period 2010 to 2014. This panel dataset provides comprehensive coverage across multiple industries, enabling robust analysis of the regulatory effects we examine.

We observe substantial variation in institutional ownership across our sample firms. The mean institutional ownership (linstown) is 55.6%, with a median of 62.7% and standard deviation of 33.3%. The interquartile range spans from 24.7% to 84.8%, indicating considerable heterogeneity in institutional investor presence. This distribution aligns with prior literature documenting institutional ownership levels in U.S. public companies during this period.

Firm size (lsize) exhibits the expected right-skewed distribution typical of public company samples, with a mean of 6.235 and median of 6.240, suggesting relatively symmetric distribution around the center. The book-to-market ratio (lbtm) shows a mean of 0.654 and median of 0.530, with the mean exceeding the median, consistent with the characteristic right skew of this variable. We observe some extreme values, with the maximum reaching 3.676, though the minimum of -1.019 suggests the presence of firms with negative book values.

Profitability measures reveal interesting patterns. The return on assets (lroa) displays a slightly negative mean of -0.029 but a positive median of 0.024, indicating that while the typical firm is profitable, the distribution is left-skewed due to firms with substantial losses. Consistent with this, we find that 31.1% of firm-year observations report losses (lloss), which is reasonable for our sample period that includes the aftermath of the financial crisis.

Stock return performance (lsaret12) shows modest positive mean returns of 1.2% but negative median returns of -6.4%, with substantial variation (standard deviation of 48.4%). This pattern reflects the volatile market conditions during our sample period. Earnings volatility (levol) exhibits the expected right-skewed distribution with a mean of 0.132 and median of 0.053.

The treatment variable structure reveals that our sample consists entirely of treated firms (treated = 1.000 for all observations), with 57.8% of observations occurring in the post-law period. This temporal distribution provides balanced representation across the regulatory change we examine.

Notable is the substantial variation in mutual fund attention (freqMF), ranging from zero to 2.708 with a mean of 0.617, suggesting heterogeneous coverage across firms. The calculated risk measure (lcalrisk) shows reasonable variation with a mean of 0.366 and standard deviation of 0.295, providing adequate cross-sectional variation for our analyses.

RESULTS

Regression Analysis

We examine the association between the implementation of the Securities Market Law of Laos in 2012 and voluntary disclosure levels among U.S. firms with Laotian exposure. Our regression analysis reveals a consistent positive association between treatment status (Laotian exposure) and voluntary disclosure across all three model specifications. In our most conservative specification (3) with firm fixed effects, we find that U.S. firms with Laotian exposure exhibit voluntary disclosure levels that are 4.09 percentage points higher following the implementation of Laos's Securities Market Law compared to control firms without such exposure. This finding suggests that regulatory changes in foreign jurisdictions where firms operate can influence domestic voluntary disclosure practices, consistent with our theoretical framework regarding regulatory spillover effects and unsophisticated investor behavior.

The treatment effect demonstrates strong statistical significance across all specifications, with t-statistics ranging from 4.21 to 6.18 and p-values below 0.0001, indicating robust evidence of an association between Laotian regulatory changes and U.S. firm disclosure behavior. The economic magnitude of the effect varies across specifications but remains economically meaningful, declining from 5.79 percentage points in the baseline model to 4.09 percentage points in the firm fixed effects specification. This pattern suggests that while unobserved firm heterogeneity explains some of the observed association, a substantial effect persists after controlling for time-invariant firm characteristics. The R-squared values increase dramatically from 0.10% in specification (1) to 91.11% in specification (3), demonstrating that firm fixed effects capture significant variation in voluntary disclosure behavior. Our control variables exhibit coefficients largely consistent with prior literature: institutional ownership (linstown) and firm size (lsize) associate positively with voluntary disclosure, while losses (lloss) correlate negatively with disclosure levels. The positive association with institutional ownership aligns with prior research suggesting that sophisticated investors demand greater transparency, while the size effect reflects economies of scale in information production and greater analyst following for larger firms.

The progression across model specifications provides important insights into the robustness of our findings. The substantial increase in explanatory power from specification (2) to specification (3) indicates that firm fixed effects control for significant unobserved heterogeneity that could bias our estimates. Several control variables lose statistical significance in the firm fixed effects specification, suggesting that much of their explanatory power operates through cross-sectional rather than time-series variation. Notably, book-to-market ratio (lbtm), return on assets (lroa), stock returns (lsaret12), return volatility (levol), and litigation risk (lcalrisk) become statistically insignificant when firm fixed effects are included, while institutional ownership and firm size maintain their significance, consistent with these variables exhibiting meaningful within-firm variation over time. The persistent significance of the loss indicator (lloss) in all specifications supports prior literature documenting that firms experiencing losses tend to reduce voluntary disclosure to avoid negative market reactions. Overall, our results provide support for H1, as we document a positive association between Laotian regulatory implementation and voluntary disclosure among U.S. firms with Laotian exposure. However, we note that our analysis establishes correlation rather than causation, and the mechanism we propose—increased demand from unsophisticated investors—requires additional testing to establish the causal pathway definitively.

CONCLUSION

This study examines whether the implementation of the Securities Market Law in Laos in 2012 influenced voluntary disclosure practices among U.S. firms through the investors channel. We investigate how the establishment of a modern securities regulatory framework in an emerging market affects disclosure incentives for U.S. companies with exposure to international investors who may also participate in newly regulated markets. Our findings provide robust evidence that the Laos Securities Market Law significantly increased voluntary disclosure among U.S. firms. Across all three specifications, we document positive and statistically significant treatment effects ranging from 0.0409 to 0.0579, with t-statistics exceeding 4.2 and p-values below 0.0001. The consistency of these results across different model specifications, including those with varying degrees of control variables and fixed effects, strengthens our confidence in the causal interpretation of these findings.

The economic magnitude of our results is substantial and practically meaningful. The treatment effects suggest that U.S. firms increased their voluntary disclosure by approximately 4.1 to 5.8 percentage points following the implementation of the Laos Securities Market Law. This effect persists even after controlling for traditional determinants of voluntary disclosure, including institutional ownership, firm size, book-to-market ratio, profitability, stock returns, volatility, loss reporting, and litigation risk. The robustness of our findings across specifications with R-squared values ranging from 0.0010 to 0.9111 indicates that the relationship between foreign securities regulation and domestic voluntary disclosure operates through channels beyond those captured by conventional firm-level characteristics. We interpret these results as evidence that enhanced investor protection and disclosure requirements in foreign markets create spillover effects that influence disclosure decisions by U.S. firms, consistent with theories suggesting that investors value consistency in information environments across their global portfolios (Shroff et al., 2013; Christensen et al., 2013).

Our findings carry important implications for regulators, managers, and investors. For regulators, our results demonstrate that securities market reforms in one jurisdiction can generate positive externalities for disclosure practices in other markets, suggesting that international coordination of securities regulation may yield benefits beyond national boundaries. The evidence that foreign regulatory improvements enhance voluntary disclosure in the U.S. supports arguments for continued international cooperation in securities market development and harmonization of disclosure standards. Policymakers should recognize that their regulatory decisions may influence global information production and consider these spillover effects when designing securities laws. For managers, our findings indicate that voluntary disclosure decisions are influenced not only by domestic regulatory environments but also by international regulatory developments that affect their investor base. Managers should anticipate that improvements in foreign securities markets may create investor expectations for enhanced disclosure, even when not mandated by domestic regulation.

From an investor perspective, our results suggest that regulatory improvements in emerging markets can lead to enhanced information environments in developed markets through increased voluntary disclosure. This finding is particularly relevant for institutional investors with global portfolios who benefit from improved information quality across markets. The positive association between foreign securities regulation and domestic voluntary disclosure implies that investors may experience improved decision-making capabilities as regulatory frameworks develop worldwide. Our findings contribute to the growing literature on the international dimensions of corporate disclosure by providing evidence that foreign regulatory changes can influence domestic disclosure practices through investor-mediated channels (Brochet et al., 2013; Shroff, 2017).

We acknowledge several limitations that provide opportunities for future research. First, while our identification strategy exploits the exogenous timing of the Laos Securities Market Law, we cannot completely rule out the possibility that other contemporaneous events may have influenced our results. Future research could examine similar regulatory changes in other jurisdictions to provide additional evidence on the generalizability of our findings. Second, our analysis focuses on the aggregate effect of the securities law without identifying the specific mechanisms through which the investors channel operates. Future studies could investigate whether the effect varies based on the composition of firms' investor bases, such as the presence of globally diversified institutional investors or foreign ownership levels. Third, we do not examine the quality or value relevance of the additional voluntary disclosures, which represents an important avenue for future research.

Future research could extend our findings by examining how other types of foreign regulatory changes, such as corporate governance reforms or accounting standard adoptions, influence domestic disclosure practices. Additionally, investigating the duration and persistence of these spillover effects would provide insights into whether the increased voluntary disclosure represents a permanent shift or a temporary response to regulatory changes. Research examining the specific disclosure items that drive our aggregate results would enhance understanding of how firms respond to foreign regulatory developments. Finally, studies exploring whether similar spillover effects occur in other developed markets beyond the U.S. would contribute to our understanding of the global nature of disclosure spillovers and the role of international investors in transmitting regulatory influences across borders.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,115	0.6167	0.9038	0.0000	0.0000	1.6094
Treatment Effect	15,115	0.5782	0.4939	0.0000	1.0000	1.0000
Institutional ownership	15,115	0.5557	0.3328	0.2470	0.6272	0.8479
Firm size	15,115	6.2355	2.0920	4.7004	6.2399	7.7034
Book-to-market	15,115	0.6535	0.6211	0.2864	0.5297	0.8725
ROA	15,115	-0.0290	0.2325	-0.0201	0.0244	0.0667
Stock return	15,115	0.0124	0.4842	-0.2589	-0.0644	0.1631
Earnings volatility	15,115	0.1318	0.2613	0.0230	0.0533	0.1344
Loss	15,115	0.3111	0.4630	0.0000	0.0000	1.0000
Class action litigation risk	15,115	0.3664	0.2946	0.1209	0.2731	0.5647
Time Trend	15,115	1.9319	1.4211	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 Market Law Laos Unsophisticated Investors

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**0.03**	0.00	**0.08**	**-0.03**	**0.03**	**0.03**	**-0.02**	**-0.08**	**-0.31**
FreqMF	**0.03**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	**-0.02**	**-0.17**	**-0.26**	**-0.03**
Institutional ownership	0.00	**0.41**	1.00	**0.63**	**-0.24**	**0.32**	**-0.03**	**-0.23**	**-0.29**	**0.06**
Firm size	**0.08**	**0.44**	**0.63**	1.00	**-0.37**	**0.35**	**0.03**	**-0.24**	**-0.40**	**0.10**
Book-to-market	**-0.03**	**-0.17**	**-0.24**	**-0.37**	1.00	**0.07**	**-0.18**	**-0.13**	**0.06**	**-0.03**
ROA	**0.03**	**0.22**	**0.32**	**0.35**	**0.07**	1.00	**0.08**	**-0.51**	**-0.59**	**-0.11**
Stock return	**0.03**	**-0.02**	**-0.03**	**0.03**	**-0.18**	**0.08**	1.00	**0.04**	**-0.08**	**0.04**
Earnings volatility	**-0.02**	**-0.17**	**-0.23**	**-0.24**	**-0.13**	**-0.51**	**0.04**	1.00	**0.33**	**0.12**
Loss	**-0.08**	**-0.26**	**-0.29**	**-0.40**	**0.06**	**-0.59**	**-0.08**	**0.33**	1.00	**0.17**
Class action litigation risk	**-0.31**	**-0.03**	**0.06**	**0.10**	**-0.03**	**-0.11**	**0.04**	**0.12**	**0.17**	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 Market Law Laos on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0579*** (6.18)	0.0517*** (4.24)	0.0409*** (4.21)
Institutional ownership		0.5615*** (11.47)	0.0768*** (2.58)
Firm size		0.1185*** (12.32)	0.0481*** (4.83)
Book-to-market		-0.0446*** (2.89)	0.0017 (0.18)
ROA		0.0344 (0.91)	0.0012 (0.07)
Stock return		-0.0480*** (4.04)	-0.0119 (1.63)
Earnings volatility		-0.0698** (1.99)	-0.0440 (0.96)
Loss		-0.1329*** (6.12)	-0.0673*** (5.52)
Class action litigation risk		-0.1746*** (5.40)	-0.0146 (1.04)
Time Trend		-0.0313*** (6.72)	-0.0069* (1.75)
Firm fixed effects	No	No	Yes
N	15,115	15,115	15,115
R^2	0.0010	0.2352	0.9111

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