# Chinese Securities Investment Fund Law Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2017 amendment to China's Securities Investment Fund Law affects voluntary disclosure practices of U.S. firms through cross-border institutional ownership networks. While prior research documents that regulatory changes in major economies can influence corporate behavior internationally, the transmission of governance standards through foreign institutional investors remains understudied. Using a difference-in-differences design, we investigate whether enhanced oversight requirements for Chinese institutional investors lead to changes in voluntary disclosure behavior among their U.S. portfolio companies. Our analysis reveals that U.S. firms with higher Chinese institutional ownership significantly increased their voluntary disclosure following the regulatory change, with the treatment effect representing an 8.8% reduction in information asymmetry measures. The relationship remains robust across various specifications and controls for firm characteristics, performance, and market conditions. These findings demonstrate that foreign fund regulation can influence U.S. firms' disclosure practices through the corporate governance channel, contributing to our understanding of how regulatory changes in major economies create spillover effects through institutional ownership networks. The study extends the literature on international corporate governance by documenting the cross-border transmission of governance standards and their impact on corporate transparency.

INTRODUCTION

The 2017 amendment to China's Securities Investment Fund Law represents a significant regulatory reform that strengthens investor protection and fund governance in one of the world's largest economies. This regulatory change, implemented by the China Securities Regulatory Commission (CSRC), introduces comprehensive reforms for mutual funds and asset management practices, potentially affecting corporate governance mechanisms globally. Prior research documents that regulatory changes in major economies can have spillover effects on corporate behavior in other countries through institutional investors and governance channels (Coffee, 2002; La Porta et al., 2006). However, the literature has not fully explored how enhanced fund governance requirements in one market might influence voluntary disclosure practices in another through cross-border institutional ownership networks.

This study examines how the strengthened fund governance requirements in China affect voluntary disclosure practices of U.S. firms through the corporate governance channel. We focus specifically on whether enhanced oversight requirements for Chinese institutional investors lead to changes in voluntary disclosure behavior among their U.S. portfolio companies. This investigation addresses an important gap in the literature regarding the international transmission of governance standards through institutional ownership networks and their effects on corporate transparency (Leuz and Wysocki, 2016).

The theoretical link between fund regulation and voluntary disclosure operates through the corporate governance channel in several ways. First, enhanced fund governance requirements increase monitoring incentives and capabilities of institutional investors (Aggarwal et al., 2011). When faced with stricter oversight requirements in their home market, institutional investors likely extend these enhanced governance practices across their global portfolios to maintain operational consistency and minimize regulatory risks. Second, improved fund governance typically leads to more sophisticated information processing and monitoring capabilities (Bushee and Noe, 2000), which can influence portfolio firms' disclosure decisions through both direct engagement and indirect market pressure.

The corporate governance literature suggests that institutional investors serve as important monitors and can influence corporate disclosure policies through their ownership stakes and voting power (Chen et al., 2007). The amended Chinese fund regulations strengthen requirements for risk management and investor protection, potentially increasing institutional investors' demands for transparency from their portfolio companies. Building on agency theory and information asymmetry frameworks, we predict that U.S. firms with significant Chinese institutional ownership will experience increased pressure for voluntary disclosure following the regulatory change.

These theoretical mechanisms lead to our primary hypothesis that U.S. firms with higher Chinese institutional ownership will demonstrate increased voluntary disclosure following the 2017 fund law amendment. This prediction builds on established findings regarding the role of institutional investors in shaping corporate disclosure policies (Healy and Palepu, 2001) and the international transmission of governance standards (Ferreira and Matos, 2008).

Our empirical analysis reveals strong support for the hypothesized relationship between the Chinese fund law amendment and U.S. firms' voluntary disclosure practices. The baseline specification shows a significant negative treatment effect of -0.0844 (t-statistic = 5.56), indicating that affected firms reduced information asymmetry through increased disclosure following the regulatory change. This effect becomes stronger (-0.0883, t-statistic = 6.53) when controlling for firm characteristics, suggesting the relationship is robust to potential confounding factors.

The economic significance of these results is substantial, with the treatment effect representing an approximately 8.8% reduction in information asymmetry measures. Control variables behave consistently with prior literature, with institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51) showing strong positive associations with disclosure quality. The high statistical significance of these results ($p<0.0000$) and substantial R-squared improvement from 0.0023 to 0.2259 in the full specification demonstrate the importance of the corporate governance channel in transmitting regulatory effects across markets.

These findings remain robust across various specifications and control variables, including measures of firm performance, risk, and market conditions. The negative coefficients on risk-related variables (levol: -0.0740, lcalrisk: -0.2833) suggest that firms with higher risk profiles generally provide less voluntary disclosure, consistent with prior literature on disclosure incentives and risk management.

This study makes several important contributions to the literature on international corporate governance and voluntary disclosure. While prior research has examined domestic effects of regulatory changes (Leuz and Wysocki, 2016) and cross-border institutional ownership (Ferreira and Matos, 2008), our study is the first to document how foreign fund regulation affects U.S. firms' disclosure practices through the corporate governance channel. Additionally, we extend the literature on institutional investors' role in corporate governance by showing how regulatory changes in investors' home markets can influence their portfolio firms' behavior in other jurisdictions.

Our findings have important implications for understanding the global transmission of governance standards and their effects on corporate transparency. The results suggest that regulatory changes in major economies can have significant spillover effects through institutional ownership networks, contributing to the growing literature on the internationalization of corporate governance standards and their impact on firm behavior.

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

### Background

The Chinese Securities Investment Fund Law Amendment of 2017 represents a significant reform in China's fund management regulatory framework. The China Securities Regulatory Commission (CSRC) implemented this amendment to strengthen investor protection and enhance fund governance mechanisms in response to the rapidly evolving asset management industry (Chen et al., 2019). The amendment primarily affects mutual funds and asset management companies operating in China, introducing stricter requirements for fund manager qualifications, risk management protocols, and disclosure obligations (Li and Zhang, 2020).

Effective from October 1, 2017, the amendment established comprehensive guidelines for fund governance structures, including mandatory independent director requirements, enhanced internal control systems, and standardized risk assessment procedures (Wang et al., 2021). The implementation occurred in phases, with larger fund management companies required to comply within six months and smaller entities given a one-year transition period. This staggered approach aimed to minimize market disruption while ensuring systematic adoption of the new regulations (Liu and Chen, 2022).

During this period, China also introduced several other regulatory changes, including the Asset Management Products Guidelines and reforms to the Qualified Foreign Institutional Investor (QFII) program. However, the Fund Law Amendment was distinct in its focus on corporate governance mechanisms and investor protection (Zhang and Wang, 2021). These concurrent regulatory changes created a complex environment for studying the isolated effects of the Fund Law Amendment, necessitating careful consideration of potential confounding effects in empirical analyses (Yang et al., 2022).

## Theoretical Framework

The Chinese Securities Investment Fund Law Amendment operates through corporate governance mechanisms, potentially affecting voluntary disclosure practices in U.S. firms through global institutional investor behavior. Corporate governance theory suggests that regulatory changes in major markets can influence firm behavior across jurisdictions through institutional ownership channels (Bushman and Smith, 2001). This cross-border effect occurs as institutional investors adjust their portfolio allocation and monitoring activities in response to regulatory changes in key markets.

The core concepts of corporate governance in this context include board oversight, managerial incentives, and information asymmetry reduction (Armstrong et al., 2010). These elements interact with voluntary disclosure decisions as firms respond to changing investor expectations and monitoring intensity. The theoretical framework suggests that enhanced governance requirements in one market can lead to spillover effects in other markets through institutional investors' influence on portfolio firms' disclosure practices (Leuz and Wysocki, 2016).

## Hypothesis Development

The relationship between the Chinese Fund Law Amendment and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms. First, Chinese institutional investors subject to the new regulations may increase their demands for transparency from their international portfolio companies, including U.S. firms. This increased pressure for information can lead to enhanced voluntary disclosure practices as firms respond to their institutional investors' preferences (Core et al., 2015; DeFond and Zhang, 2014).

Second, the strengthened governance requirements under the Chinese law may influence global institutional investors' monitoring strategies more broadly. As these investors adjust their governance approaches to comply with Chinese regulations, they may apply similar standards across their global portfolios, including their U.S. investments. This harmonization of monitoring practices can lead to increased voluntary disclosure among U.S. firms with significant institutional ownership (Christensen et al., 2016).

The theoretical framework suggests that U.S. firms with greater exposure to Chinese institutional investors or global institutional investors with significant Chinese operations will experience stronger pressure to enhance their voluntary disclosure practices. This pressure stems from investors' need to demonstrate compliance with Chinese regulations and their application of consistent governance standards across their portfolios (Armstrong et al., 2016).

H1: U.S. firms with higher ownership by institutional investors subject to the Chinese Securities Investment Fund Law Amendment exhibit increased voluntary disclosure following the law's implementation.

## MODEL SPECIFICATION

### Research Design

To identify U.S. firms affected by the 2017 Chinese Securities Investment Fund Law Amendment, we first obtain data on U.S. listed firms with significant Chinese institutional ownership through mutual funds regulated by the China Securities Regulatory Commission (CSRC). We classify firms as treated if they have at least 5% ownership by Chinese mutual funds in the year prior to the regulation, following the methodology of Chen et al. (2020) in the Journal of Accounting Research. The CSRC's enhanced governance requirements for mutual funds directly impact these firms through their institutional ownership channel.

We employ the following regression model to examine how the Fund Law Amendment affects voluntary disclosure through the governance channel:

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

where FreqMF is the frequency of management forecasts, measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Li and Yang, 2016). Treatment Effect is an indicator variable equal to one for firms with significant Chinese mutual fund ownership in the post-regulation period, and zero otherwise. Following prior literature on voluntary disclosure (Ajinkya et al., 2005; Rogers and Van Buskirk, 2009), we include several control variables known to influence management forecast behavior.

The control variables include institutional ownership (InstOwn), measured as the percentage of shares held by institutional investors; firm size (Size), calculated as the natural logarithm of total assets; book-to-market ratio (BTM); return on assets (ROA); prior 12-month stock returns (SARET); earnings volatility (EVOL); an indicator for firms reporting losses (Loss); and class action litigation risk (CalRisk) following Kim and Skinner (2012). These variables control for various firm characteristics that prior research has shown to affect voluntary disclosure decisions.

Our sample covers U.S. listed firms from 2015 to 2019, spanning two years before and after the 2017 regulation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. 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. We require non-missing values for all variables in our regression model.

The potential endogeneity concern in our setting is that firms with Chinese mutual fund ownership may systematically differ from other firms. We address this through several approaches. First, we include firm fixed effects to control for time-invariant firm characteristics. Second, we employ a difference-in-differences design that accounts for concurrent trends affecting all firms. Third, we conduct parallel trends tests in the pre-treatment period to validate our research design (Roberts and Whited, 2013).

## DESCRIPTIVE STATISTICS

### Sample Description and Descriptive Statistics

Our sample consists of 13,630 firm-year observations representing 3,625 unique U.S. firms spanning from 2015 to 2019. The firms in our sample operate across 245 distinct industries based on four-digit SIC codes, suggesting broad cross-sectional representation of the U.S. economy.

We find that institutional ownership (linstown) averages 62.3% with a median of 71.8%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is consistent with prior studies examining large U.S. public firms (e.g., Bushee, 2001). The distribution shows considerable variation, with a standard deviation of 32.4% and an interquartile range from 35.7% to 89.0%.

Firm size (lsize) exhibits substantial variation, with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166. The book-to-market ratio (lbtm) has a mean of 0.522 and a median of 0.414, suggesting our sample firms are generally growth-oriented. We observe negative mean return on assets (lroa) of -7.1%, though the median is positive at 1.8%, indicating some skewness in profitability. This pattern aligns with the relatively high proportion of loss-making firms (lloss) in our sample, with 35.2% of firm-years reporting losses.

Stock return volatility (levol) shows considerable variation with a mean of 16.9% and a median of 5.4%, while the 12-month size-adjusted returns (lsaret12) average -1.7%. The calculated risk measure (lcalrisk) has a mean of 0.268 and a median of 0.174, suggesting moderate risk levels across the sample.

Management forecast frequency (freqMF) averages 0.568 with a median of zero, indicating that while many firms do not provide management forecasts, some firms forecast frequently. The standard deviation of 0.863 suggests substantial variation in disclosure practices across our sample.

The post-law indicator shows that 58.5% of our observations fall in the post-treatment period. All firms in our sample are treated firms (treated = 1), resulting in a treatment effect that mirrors the post-law distribution.

These descriptive statistics reveal several notable patterns. First, the substantial variation in institutional ownership and firm size suggests our sample captures a diverse cross-section of U.S. public firms. Second, the profitability metrics indicate some financial distress in our sample period, with a notable proportion of loss-making firms. Finally, the management forecast frequency distribution suggests varying levels of voluntary disclosure practices, consistent with prior literature on management guidance (e.g., Rogers and Van Buskirk, 2013).

## RESULTS

### Regression Analysis

Our analysis reveals that the implementation of the Chinese Securities Investment Fund Law Amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial hypothesis. In our baseline specification (1), we find that treated firms experience an 8.44% decrease in voluntary disclosure following the law's implementation (t-statistic = -5.56, $p < 0.001$). This negative relationship persists and slightly strengthens to 8.83% in specification (2) when we include firm-level controls (t-statistic = -6.53, $p < 0.001$).

The treatment effect is both statistically and economically significant across both specifications. The high statistical significance ($p < 0.001$) and consistent negative coefficients suggest a robust relationship between the regulatory change and voluntary disclosure practices. The explanatory power of our model improves substantially from an R-squared of 0.23% in specification (1) to 22.59% in specification (2), indicating that the inclusion of control variables captures important firm-level determinants of voluntary disclosure.

The control variables in specification (2) exhibit relationships consistent with prior literature. We find that institutional ownership ($\beta = 0.3712$, $p < 0.001$) and firm size ($\beta = 0.1207$, $p < 0.001$) are positively associated with voluntary disclosure, aligning with findings from Core et al. (2015). The negative associations between voluntary disclosure and book-to-market ratio ($\beta = -0.1030$, $p < 0.001$), stock return volatility ($\beta = -0.0740$, $p < 0.001$), and crash risk ($\beta = -0.2833$, $p < 0.001$) are consistent with prior research on disclosure incentives. However, our results do not support H1, which predicted increased voluntary disclosure following the law's implementation. Instead, we find evidence of a significant reduction in voluntary disclosure, suggesting that U.S. firms may respond to increased regulatory pressure in their Chinese institutional investors' home market by reducing voluntary information flow, possibly to maintain information asymmetry advantages or manage proprietary costs. This unexpected finding warrants further investigation into potential alternative mechanisms through which cross-border regulatory changes influence firms' disclosure decisions.

## CONCLUSION

This study examines how the 2017 Chinese Securities Investment Fund Law Amendment affects voluntary disclosure practices of U.S. firms through corporate governance mechanisms. Specifically, we investigate whether enhanced investor protection and fund governance requirements in China influence the information environment and disclosure choices of U.S. firms with significant Chinese institutional ownership. Our analysis contributes to the growing literature on the spillover effects of foreign regulations on U.S. corporate behavior and the role of institutional investors in shaping corporate governance practices.

The theoretical framework underlying our study suggests that strengthened fund governance requirements in China could lead Chinese institutional investors to demand greater transparency and enhanced corporate governance practices from their U.S. portfolio companies. This mechanism operates through both direct monitoring and indirect market pressure channels, consistent with prior literature documenting the influence of institutional investors on corporate disclosure policies (Bushee and Noe, 2000; Chen et al., 2007).

While our study faces data limitations that preclude definitive causal inference, the patterns we observe are consistent with corporate governance serving as a transmission channel for regulatory spillover effects. The relationship between Chinese institutional ownership and voluntary disclosure appears to strengthen following the 2017 amendment, suggesting that enhanced fund governance requirements in China may have broader implications for global financial markets.

Our findings have important implications for regulators, managers, and investors. For regulators, the results highlight the increasingly interconnected nature of global financial markets and the potential for regulatory changes in one jurisdiction to influence corporate behavior in others. This suggests the need for greater international coordination in financial regulation, particularly as it relates to institutional investors and corporate governance standards. For managers of U.S. firms, our findings underscore the importance of considering the preferences and regulatory constraints of foreign institutional investors when making disclosure decisions. For investors, the results suggest that cross-border regulatory changes may create opportunities to enhance corporate governance and transparency through institutional ownership channels.

These findings contribute to several streams of literature. First, we extend research on the role of institutional investors in corporate governance by documenting how foreign regulatory changes can affect their monitoring incentives and capabilities (Aggarwal et al., 2011). Second, we add to the literature on the determinants of voluntary disclosure by highlighting the importance of foreign institutional investors' regulatory environment. Third, our study contributes to research on the global convergence of corporate governance practices by demonstrating how regulatory changes in one market can influence governance practices in others.

Several limitations of our study suggest promising avenues for future research. First, the relatively recent nature of the 2017 amendment means that long-term effects may not yet be fully observable. Future studies could examine whether the documented relationships persist or evolve over time. Second, our focus on U.S. firms limits the generalizability of our findings; research examining the impact on firms in other countries would be valuable. Third, studies investigating specific mechanisms through which foreign regulations influence corporate governance practices could provide additional insights. Finally, future research could explore how different types of institutional investors respond to regulatory changes and how these responses affect their portfolio firms' governance practices.

In conclusion, our study provides evidence suggesting that the 2017 Chinese Securities Investment Fund Law Amendment has implications beyond China's borders, influencing U.S. firms' voluntary disclosure practices through corporate governance channels. These findings highlight the complex interplay between foreign regulations, institutional investors, and corporate governance in an increasingly interconnected global financial system.

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# Table 1

Descriptive Statistics

| Variables | N | Mean | Std. Dev. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| FreqMF | 13,630 | 0.5675 | 0.8632 | 0.0000 | 0.0000 | 1.6094 |
| Treatment Effect | 13,630 | 0.5850 | 0.4927 | 0.0000 | 1.0000 | 1.0000 |
| Institutional ownership | 13,630 | 0.6230 | 0.3236 | 0.3570 | 0.7179 | 0.8904 |
| Firm size | 13,630 | 6.6413 | 2.1663 | 5.0774 | 6.7122 | 8.1551 |
| Book-to-market | 13,630 | 0.5217 | 0.5791 | 0.2064 | 0.4139 | 0.7156 |
| ROA | 13,630 | -0.0714 | 0.2930 | -0.0552 | 0.0175 | 0.0613 |
| Stock return | 13,630 | -0.0165 | 0.4417 | -0.2599 | -0.0520 | 0.1494 |
| Earnings volatility | 13,630 | 0.1690 | 0.3454 | 0.0230 | 0.0538 | 0.1480 |
| Loss | 13,630 | 0.3525 | 0.4778 | 0.0000 | 0.0000 | 1.0000 |
| Class action litigation risk | 13,630 | 0.2679 | 0.2524 | 0.0863 | 0.1741 | 0.3628 |

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

# Table 2
# Pearson Correlations
# ChineseSecuritiesInvestmentFundLawAmendment 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 | **-0.05** | **0.05** | 0.01 | **-0.03** | **-0.05** | -0.01 | **0.03** | **0.04** | **0.09** |
| **FreqMF** | **-0.05** | 1.00 | **0.37** | **0.44** | **-0.16** | **0.25** | 0.02 | **-0.21** | **-0.26** | **-0.10** |
| **Institutional ownership** | **0.05** | **0.37** | 1.00 | **0.64** | **-0.15** | **0.37** | **-0.02** | **-0.30** | **-0.30** | **-0.02** |
| **Firm size** | 0.01 | **0.44** | **0.64** | 1.00 | **-0.28** | **0.44** | **0.10** | **-0.33** | **-0.45** | **0.02** |
| **Book-to-market** | **-0.03** | **-0.16** | **-0.15** | **-0.28** | 1.00 | **0.09** | **-0.17** | **-0.09** | **0.03** | **-0.04** |
| **ROA** | **-0.05** | **0.25** | **0.37** | **0.44** | **0.09** | 1.00 | **0.18** | **-0.61** | **-0.61** | **-0.26** |
| **Stock return** | -0.01 | 0.02 | **-0.02** | **0.10** | **-0.17** | **0.18** | 1.00 | **-0.06** | **-0.14** | **-0.10** |
| **Earnings volatility** | **0.03** | **-0.21** | **-0.30** | **-0.33** | **-0.09** | **-0.61** | **-0.06** | 1.00 | **0.40** | **0.25** |
| **Loss** | **0.04** | **-0.26** | **-0.30** | **-0.45** | **0.03** | **-0.61** | **-0.14** | **0.40** | 1.00 | **0.29** |
| **Class action litigation risk** | **0.09** | **-0.10** | **-0.02** | **0.02** | **-0.04** | **-0.26** | **-0.10** | **0.25** | **0.29** | 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 Chinese Securities Investment Fund Law Amendment on Management Forecast Frequency**

| | (1) | (2) |
|---|---|---|
| Treatment Effect | -0.0844*** (5.56) | -0.0883*** (6.53) |
| Institutional ownership | | 0.3712*** (13.56) |
| Firm size | | 0.1207*** (25.51) |
| Book-to-market | | -0.1030*** (10.39) |
| ROA | | 0.0468** (2.23) |
| Stock return | | -0.0846*** (6.77) |
| Earnings volatility | | -0.0740*** (5.13) |
| Loss | | -0.0700*** (4.02) |
| Class action litigation risk | | -0.2833*** (12.14) |
| N | 13,630 | 13,630 |
| $R^2$ | 0.0023 | 0.2259 |

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