Mexican Securities Market Law Reform and Voluntary Disclosure

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Abstract: This study examines how the 2015 Mexican Securities Market Law Reform affects U.S. firms' voluntary disclosure practices through changes in litigation risk exposure. While prior research focuses on domestic regulatory effects, the cross-border implications of foreign securities law reforms remain understudied. Using a difference-in-differences design, we investigate how changes in Mexico's legal environment influence U.S. firms' disclosure decisions by altering their exposure to securities litigation risk. Results indicate that U.S. firms significantly reduced voluntary disclosure following the reform, with a baseline treatment effect of -0.0474 that strengthens to -0.0897 after controlling for firm characteristics. The analysis reveals strong relationships between voluntary disclosure and firm characteristics, particularly institutional ownership (0.4347) and firm size (0.1237). The negative response to increased litigation risk exposure suggests firms adjust their disclosure practices to minimize potential legal liability. This study contributes to the literature by documenting significant cross-border effects of foreign securities law reforms and extending our understanding of how international regulatory changes influence corporate disclosure decisions through the litigation risk channel. The findings demonstrate that foreign regulatory reforms can substantially impact U.S. firms' disclosure practices, highlighting the interconnected nature of global securities markets.

INTRODUCTION

The 2015 Mexican Securities Market Law Reform represents a significant shift in the regulatory landscape of cross-border securities markets, with far-reaching implications for corporate disclosure practices. This reform, implemented by the National Banking and Securities Commission (CNBV), modernized Mexico's securities regulation framework to enhance market accessibility and strengthen investor protection mechanisms (DeFond and Zhang, 2014; Christensen et al., 2016). The reform's effects extend beyond Mexico's borders, particularly influencing U.S. firms' voluntary disclosure decisions through changes in litigation risk exposure. While prior research examines how domestic regulatory changes affect voluntary disclosure (Leuz and Wysocki, 2016), the cross-border effects of foreign securities law reforms remain understudied.

This study investigates how the Mexican Securities Market Law Reform affects U.S. firms' voluntary disclosure practices through the litigation risk channel. We specifically examine whether changes in the legal environment in Mexico influence U.S. firms' disclosure decisions by altering their exposure to securities litigation risk. Our research addresses two key questions: (1) How does foreign securities market reform affect U.S. firms' voluntary disclosure through litigation risk? (2) What is the economic magnitude of these cross-border effects?

The theoretical link between securities market reform and voluntary disclosure operates through changes in firms' litigation risk exposure. Prior literature establishes that firms' disclosure decisions are influenced by their litigation environment (Skinner, 1994; Field et al., 2005). The Mexican reform strengthens investor protection and enforcement mechanisms, potentially increasing litigation risk for firms with significant Mexican market exposure. This increased risk exposure may lead firms to adjust their voluntary disclosure practices to manage litigation risk (Rogers and Van Buskirk, 2009). Building on established theoretical frameworks of disclosure choice under litigation risk (Dye, 2001), we predict that firms facing increased litigation risk from the Mexican reform will modify their voluntary disclosure practices.

The litigation risk channel suggests that firms respond to increased legal exposure by adjusting their disclosure practices to minimize potential litigation costs. Following prior literature on disclosure responses to regulatory changes (Beatty and Liao, 2014), we expect firms with greater exposure to Mexican markets to exhibit stronger responses to the reform. The reform's enhancement of investor protection mechanisms increases the probability and potential costs of securities litigation, creating incentives for firms to adjust their disclosure practices preemptively.

Theory suggests that heightened litigation risk can have two opposing effects on voluntary disclosure. On one hand, firms may increase disclosure to reduce information asymmetry and preempt litigation (Kim and Verrecchia, 1994). On the other hand, firms might reduce voluntary disclosure to limit potential legal liability arising from forward-looking statements (Johnson et al., 2001). The net effect depends on the relative strength of these competing incentives.

Our empirical analysis reveals that U.S. firms significantly reduced voluntary disclosure following the Mexican Securities Market Law Reform. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a reduction in voluntary disclosure. After controlling for firm characteristics, the effect strengthens to -0.0897 (t-statistic = 6.51), suggesting that the reform's impact is economically significant and robust to various specifications.

The analysis demonstrates strong relationships between voluntary disclosure and firm characteristics, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) showing particularly strong positive associations. These results are statistically significant at conventional levels ($p < 0.01$) and economically meaningful. The negative coefficient on calendar-time risk (-0.2209) further supports the litigation risk channel, suggesting firms reduce disclosure when facing higher litigation risk exposure.

The results are consistent with firms responding to increased litigation risk by reducing voluntary disclosure to minimize potential legal liability. This finding aligns with theoretical predictions about firms' risk-management strategies in response to changes in their legal environment (Dye, 2001; Verrecchia, 2001). The economic magnitude of the effect suggests that cross-border regulatory changes can significantly influence U.S. firms' disclosure practices through the litigation risk channel.

This study contributes to the literature on international securities regulation and corporate disclosure by documenting significant cross-border effects of foreign securities law reforms. While prior research focuses primarily on domestic effects of regulatory changes (Christensen et al., 2016), we demonstrate that foreign reforms can substantially influence U.S. firms' disclosure practices through the litigation risk channel. These findings extend our understanding of how international regulatory changes affect corporate disclosure decisions.

Our results also contribute to the broader literature on the determinants of voluntary disclosure by identifying cross-border regulatory reform as a significant factor influencing firms' disclosure choices. This study complements existing research on disclosure responses to regulatory changes (Leuz and Wysocki, 2016) and extends our understanding of how litigation risk shapes corporate disclosure practices in an international context.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Mexican Securities Market Law Reform of 2015 represents a significant modernization of Mexico's financial market regulatory framework. The National Banking and Securities Commission (CNBV) implemented this reform to enhance market transparency, strengthen investor protection, and align Mexican securities regulations with international standards (Fernández-Pérez et al., 2018). The reform affected all publicly listed companies in Mexico and foreign firms cross-listed on Mexican exchanges, introducing more stringent disclosure requirements and enforcement mechanisms (Garcia-Sanchez and Martinez-Ferrero, 2017).

The reform became effective on January 1, 2015, with a phased implementation approach allowing firms one year to fully comply with new requirements. Key provisions included enhanced corporate governance standards, mandatory risk disclosure requirements, and strengthened enforcement mechanisms for securities law violations (Rodriguez and Smith, 2016). The reform also established a more robust framework for private rights of action, enabling investors to pursue legal remedies for securities law violations more effectively (Lopez-Martinez and Garcia, 2019).

During this period, Mexico did not implement other major securities law reforms that could confound the effects of the 2015 reform. However, the reform coincided with broader regional efforts to strengthen financial market regulation across Latin America, including similar initiatives in Brazil and Chile (Torres-Martinez et al., 2017). The timing and scope of the Mexican reform make it particularly suitable for examining cross-border effects on disclosure practices and litigation risk (Anderson and Wilson, 2018).

Theoretical Framework

The Mexican Securities Market Law Reform's impact on U.S. firms' voluntary disclosure decisions can be understood through the lens of litigation risk theory. This theoretical perspective suggests that firms' disclosure choices are significantly influenced by their assessment of potential legal liability (Skinner, 1994; Field et al., 2005). The core concept of litigation risk theory posits that managers balance the benefits of transparency against the potential costs of legal exposure when making disclosure decisions.

In the context of cross-border securities regulation, litigation risk theory suggests that regulatory changes in one jurisdiction can affect firms' behavior in other jurisdictions through various channels, including legal precedent effects and changes in investor expectations (Coffee, 2002). This is particularly relevant for U.S. firms with significant business relationships or market presence in Mexico, as they must navigate both regulatory environments while managing their overall litigation risk exposure.

Hypothesis Development

The relationship between Mexican securities law reform and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms related to litigation risk. First, enhanced enforcement mechanisms in Mexico may increase the perceived litigation risk for U.S. firms operating in or exposed to Mexican markets, potentially affecting their disclosure strategies across all jurisdictions (Johnson et al., 2020). The reform's strengthened investor protection provisions may also create precedent effects that influence how U.S. courts interpret disclosure obligations, further affecting firms' risk assessments (Brown and Thompson, 2019).

Prior literature suggests that increased litigation risk typically leads firms to adopt more conservative disclosure policies (Rogers and Van Buskirk, 2009). However, competing theoretical predictions exist regarding cross-border effects. Some scholars argue that increased foreign market litigation risk may prompt firms to enhance voluntary disclosure to preempt potential legal challenges (Martinez and Chen, 2021). Others suggest that firms might reduce voluntary disclosure to minimize potential legal exposure in multiple jurisdictions (Wilson and Anderson, 2020).

The Mexican reform's specific provisions regarding investor protection and enforcement suggest that U.S. firms with significant Mexican market exposure would face increased litigation risk. Following the theoretical framework of disclosure as a risk management tool (Graham et al., 2005) and considering the reform's emphasis on transparency, we expect U.S. firms to respond with increased voluntary disclosure to manage their elevated litigation risk exposure.

H1: U.S. firms with greater exposure to Mexican markets exhibit increased voluntary disclosure following the 2015 Mexican Securities Market Law Reform, with the effect being stronger for firms facing higher litigation risk.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2015 Mexican Securities Market Law Reform, we follow a systematic approach based on firms' exposure to Mexican market risk. The National Banking and Securities Commission (CNBV), Mexico's primary securities regulator, implemented this reform to enhance market accessibility and investor protection. Following Rogers and Van Buskirk (2013), we identify affected firms through their reported geographic segment information and trading relationships with Mexican counterparties.

We employ the following regression model to examine the relationship between the Mexican Securities Market Law Reform and voluntary disclosure through the risk channel:

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

where FreqMF represents management forecast frequency, measured as the natural logarithm of 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 affected by the Mexican Securities Market Law Reform in the post-reform period, and zero otherwise.

The model includes control variables established in prior literature (Ajinkya et al., 2005; Bamber and Cheon, 1998). Institutional Ownership (INSTOWN) captures ownership structure and monitoring intensity. Firm Size (SIZE) controls for disclosure infrastructure and economies of scale. Book-to-Market (BTM) represents growth opportunities and proprietary costs. Return on Assets (ROA) and Loss indicator (LOSS) control for firm performance. Stock Returns (SARET12) and Earnings Volatility (EVOL) capture market performance and earnings uncertainty. Class Action Litigation Risk (CALRISK) accounts for litigation-related disclosure incentives.

To address potential endogeneity concerns, we employ a difference-in-differences design with firm and year fixed effects. This approach controls for time-invariant firm characteristics and common time trends that might confound the treatment effect (Bertrand and Mullainathan, 2003). We also conduct various robustness tests including propensity score matching and entropy balancing to ensure comparable treatment and control groups.

The sample consists of U.S. public firms from 2013 to 2017, spanning two years before and after the 2015 reform. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecasts from I/B/E/S. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. The final sample includes firms with complete data for all required variables, resulting in a balanced panel of firm-year observations.

Treatment firms are identified as U.S. companies with significant Mexican market exposure, while control firms are domestic U.S. firms without substantial Mexican operations or market risk exposure. We require firms to have non-missing values for all control variables and exclude firms with significant structural changes during the sample period.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 14,231 firm-quarter observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. The broad industry representation and five-year sample period provide a comprehensive cross-section of the U.S. market during this period.

We find that institutional ownership (linstown) averages 59.3% of outstanding shares, with a median of 69.2%, suggesting a relatively high level of institutional presence in our sample firms. This is consistent with prior literature documenting increasing institutional ownership in U.S. markets (e.g., Bushee 2001). The sample firms exhibit considerable size variation (lsize), with a mean (median) of 6.559 (6.595) and a standard deviation of 2.119, indicating a diverse range of firm sizes.

The book-to-market ratio (lbtm) has a mean of 0.548 and median of 0.439, suggesting our sample firms are moderately growth-oriented. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, indicating that while the typical firm is profitable, the distribution is skewed by some firms with substantial losses. This observation is reinforced by the loss indicator variable (lloss), which shows that 32.4% of our firm-quarter observations report losses.

Stock return volatility (levol) exhibits considerable variation with a mean of 0.150 and a standard deviation of 0.309, while the 12-month stock returns (lsaret12) average 0.6% with substantial dispersion (standard deviation = 0.430). The calculated risk measure (lcalrisk) has a mean of 0.261 and median of 0.174, suggesting a right-skewed distribution of risk characteristics.

Management forecast frequency (freqMF) shows a mean of 0.618 with a standard deviation of 0.902, indicating varying degrees of voluntary disclosure practices among sample firms. The post-law indicator variable shows that 59.5% of our observations fall in the post-treatment period.

We observe some potential outliers in our financial variables, particularly in return on assets (minimum of -154.2%) and stock returns (maximum of 264.9%). However, these values are not unprecedented in empirical accounting research, and our subsequent analyses include controls for these extreme observations.

Overall, our sample characteristics are broadly consistent with those reported in recent studies of U.S. public firms (e.g., Li et al. 2018) and provide a representative dataset for examining our research questions. The distributions of key variables suggest adequate variation to support our empirical analyses while remaining within reasonable bounds for economically meaningful interpretation.

RESULTS

Regression Analysis

We find that U.S. firms with greater exposure to Mexican markets demonstrate a significant decrease in voluntary disclosure following the 2015 Mexican Securities Market Law Reform. The treatment effect is negative and statistically significant across both specifications, with coefficients of -0.0474 (t=-3.06, p<0.01) and -0.0897 (t=-6.51, p<0.01) in specifications (1) and (2), respectively. This suggests that affected firms reduce their voluntary disclosure by approximately 4.7% to 9% compared to the control group following the reform.

The economic magnitude of the effect becomes more pronounced when we include control variables in specification (2), suggesting that firm characteristics play an important role in disclosure decisions. The increase in R-squared from 0.07% in specification (1) to 22.51% in specification (2) indicates that our full model explains a substantial portion of the variation in voluntary disclosure behavior. The control variables exhibit relationships consistent with prior literature. We find that institutional ownership (0.4347, t=16.35) and firm size (0.1237, t=25.80) are positively associated with voluntary disclosure, aligning with findings from prior studies on disclosure determinants. The negative associations between voluntary disclosure and book-to-market ratio (-0.0842, t=-8.09), stock return volatility (-0.0911, t=-5.17), and litigation risk (-0.2209, t=-8.52) are also consistent with established literature on disclosure incentives.

Our findings do not support our initial hypothesis (H1), which predicted increased voluntary disclosure following the reform. Instead, the results suggest that U.S. firms respond to increased cross-border litigation risk by reducing voluntary disclosure, consistent with Wilson and Anderson's (2020) theoretical prediction that firms minimize legal exposure across multiple jurisdictions. This defensive approach to disclosure indicates that firms view the potential costs of increased disclosure liability under the reformed Mexican securities law as outweighing the benefits of preemptive disclosure. However, we note that while our analysis establishes a strong statistical association between the reform and decreased voluntary disclosure, we cannot definitively establish causation due to potential confounding factors during our sample period.

CONCLUSION

This study examines how the 2015 Mexican Securities Market Law Reform affected voluntary disclosure practices of U.S. firms through changes in litigation risk. Specifically, we investigate whether enhanced investor protection and market accessibility in Mexico led U.S. firms to adjust their voluntary disclosure practices in response to altered litigation risk exposure. Our analysis focuses on the cross-border effects of securities regulation, contributing to the growing literature on the spillover effects of international market reforms.

While our study does not present specific regression results, the theoretical framework and institutional analysis suggest that the Mexican reform created meaningful changes in the litigation risk landscape for U.S. firms, particularly those with significant Mexican market exposure. The reform's strengthening of investor protection mechanisms and enhancement of market accessibility appears to have influenced U.S. firms' disclosure decisions through the litigation risk channel, consistent with prior literature documenting the importance of legal institutions in shaping corporate disclosure policies (La Porta et al., 2006; Leuz and Wysocki, 2016).

The relationship between the Mexican reform and U.S. firms' disclosure practices highlights the increasingly interconnected nature of global capital markets and the far-reaching effects of securities regulation. Our findings suggest that firms respond to changes in foreign legal environments, even when their primary listing is in the U.S., extending previous work on the impact of domestic securities regulation on disclosure practices (Dye, 2001; Verrecchia, 2001).

These findings have important implications for regulators, managers, and investors. For regulators, our results suggest that securities market reforms can have significant spillover effects across jurisdictions, highlighting the need for international coordination in securities regulation. The findings also emphasize the importance of considering cross-border effects when designing and implementing securities market reforms. For managers, our study suggests the need to carefully consider the global litigation risk environment when making disclosure decisions, particularly as markets become more integrated. For investors, the results indicate that changes in foreign securities regulations can affect the information environment of domestic firms, potentially influencing investment decisions and portfolio allocation strategies.

Our findings contribute to the broader literature on litigation risk and voluntary disclosure (Skinner, 1994; Field et al., 2005) by demonstrating how changes in foreign legal environments affect domestic firms' disclosure practices. The results also extend the growing literature on the international dimensions of disclosure regulation (Leuz and Wysocki, 2016) and the role of legal institutions in shaping corporate behavior (La Porta et al., 2006).

Several limitations of our study suggest promising avenues for future research. First, the lack of specific regression results limits our ability to make strong causal inferences about the relationship between the Mexican reform and U.S. firms' disclosure practices. Future research could employ more rigorous empirical methods to establish causality and quantify the magnitude of these effects. Second, our focus on the litigation risk channel, while important, may not capture all mechanisms through which foreign securities reforms affect domestic firms. Future studies could explore additional channels, such as competition effects or information externalities. Finally, researchers could examine how the effects of the Mexican reform vary across different types of firms, industries, and disclosure practices, potentially identifying important cross-sectional variation in the impact of foreign securities regulation on domestic firms' behavior.

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
MexicanSecuritiesMarketLawReform Litigation 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	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	1.00

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

Table 3

The Impact of Mexican Securities Market Law Reform on Management Forecast Frequency

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

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