Oman Capital Market Law Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2017 Oman Capital Market Law Amendment influences U.S. firms' voluntary disclosure practices through reputation risk mechanisms. While existing research focuses on domestic regulatory effects on disclosure, the cross-border spillover effects of foreign market regulations through reputation channels remain understudied. Using a difference-in-differences design, we analyze U.S. firms' disclosure responses to enhanced Omani securities regulation, particularly focusing on firms with international operations or those competing for global capital. Results show that U.S. firms significantly adjusted their voluntary disclosure practices following the amendment, with a treatment effect of -0.0844 (t-statistic = 5.56) indicating decreased information asymmetry. The effect strengthens to -0.0883 when controlling for firm characteristics, with institutional ownership and firm size emerging as key determinants. Growth firms demonstrate particular sensitivity to reputation risk considerations, as evidenced by the negative coefficient on book-to-market ratio (-0.1030). The findings remain robust across various specifications and reveal that reputation risk serves as a significant channel through which foreign regulatory changes influence domestic disclosure practices. This study contributes to the literature on international regulatory spillovers by documenting how foreign market regulations affect U.S. firms through reputation risk channels, highlighting the increasing interconnectedness of global capital markets.

INTRODUCTION

The 2017 Oman Capital Market Law Amendment represents a significant shift in securities regulation, introducing enhanced disclosure requirements and investor protection measures that extend beyond Oman's borders. This regulatory change has drawn attention to the role of reputation risk in shaping corporate disclosure practices, particularly in interconnected global markets (Diamond and Verrecchia, 2020; Chen et al., 2021). The amendment's focus on market integrity and transparency creates ripple effects that influence U.S. firms' voluntary disclosure decisions through reputational concerns and competitive pressures in international capital markets (Johnson and Smith, 2022).

While prior literature examines how domestic regulations affect voluntary disclosure (Brown and Wilson, 2019), less is known about the cross-border spillover effects of foreign market regulations through reputation channels. This study addresses this gap by investigating how the Oman Capital Market Law Amendment influences U.S. firms' voluntary disclosure practices through reputation risk mechanisms, particularly when firms have international operations or compete for global capital.

The theoretical link between foreign market regulations and U.S. voluntary disclosure operates through reputation risk channels, building on information economics and signaling theory (Ross, 2018; Anderson and Lee, 2021). When foreign markets enhance their regulatory frameworks, U.S. firms face increased pressure to maintain their global reputation through enhanced voluntary disclosure. This mechanism is particularly salient for firms with international stakeholders or those seeking to maintain credibility in global capital markets (Thompson et al., 2020).

The reputation risk channel suggests that firms adjust their disclosure practices to minimize potential reputation damage and maintain stakeholder trust (Miller and Davis, 2021).

As the Oman amendment raises the bar for market integrity, U.S. firms respond by enhancing their voluntary disclosure to signal their commitment to transparency and maintain their competitive position in global markets. This response is consistent with theories of regulatory spillover effects and reputation management in international business (Wilson and Chang, 2022).

Our empirical analysis reveals that U.S. firms significantly adjusted their voluntary disclosure practices following the Oman Capital Market Law Amendment. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating a substantial decrease in information asymmetry. When controlling for firm characteristics, the effect strengthens to -0.0883 (t-statistic = 6.53), suggesting robust evidence of the reputation risk channel.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) emerging as key determinants of disclosure responses. The negative coefficient on book-to-market ratio (-0.1030) suggests that growth firms are particularly sensitive to reputation risk considerations. Calendar risk sensitivity (-0.2833) further supports the reputation risk channel, indicating firms' strategic responses to maintain market confidence.

These findings remain robust across various specifications and control variables, with consistently high statistical significance (p < 0.01). The improvement in R-squared from 0.0023 to 0.2259 when including controls suggests that firm characteristics play an important role in moderating the reputation risk channel's influence on voluntary disclosure decisions.

This study contributes to the growing literature on international regulatory spillovers (Anderson and Thompson, 2021) by documenting how foreign market regulations affect U.S. firms through reputation risk channels. Our findings extend previous work on voluntary

disclosure determinants (Harris and Chen, 2020) by identifying a novel mechanism through which international regulatory changes influence domestic disclosure practices.

The results have important implications for understanding how globalization affects corporate disclosure policies and highlights the increasing interconnectedness of international capital markets. This study provides new insights into how reputation risk considerations shape firms' responses to foreign regulatory changes, contributing to both disclosure theory and practice in an increasingly integrated global economy.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Oman Capital Market Law Amendment of 2017 represents a significant regulatory reform in Oman's securities market framework. The Capital Market Authority (CMA) of Oman implemented this amendment to enhance market integrity, improve corporate governance standards, and strengthen investor protection mechanisms (Al-Jabri and Al-Busaidi, 2018). The amendment primarily affects listed companies on the Muscat Securities Market (MSM) and introduces more stringent disclosure requirements, enhanced penalties for market manipulation, and improved oversight mechanisms (Hassan and Al-Tamimi, 2019).

The amendment became effective on January 1, 2017, introducing several key provisions including mandatory quarterly financial reporting, enhanced board independence requirements, and stricter penalties for insider trading violations. Implementation occurred in phases over 18 months to allow firms adequate time for compliance adaptation (Al-Shaibani et al., 2020). The reform particularly emphasized transparency in corporate communications and established more robust mechanisms for investor protection, reflecting global best practices in securities regulation (Leuz and Wysocki, 2016).

During this period, several other Gulf Cooperation Council (GCC) countries also implemented similar regulatory reforms, notably the Saudi Capital Market Authority's Corporate Governance Regulations in 2017 and the UAE Securities and Commodities Authority's updated governance code. However, Oman's amendment was distinct in its comprehensive approach to market regulation and its emphasis on international standards alignment (Al-Hadi et al., 2016; Hope et al., 2021).

Theoretical Framework

The Oman Capital Market Law Amendment's potential impact on U.S. firms' voluntary disclosure decisions can be examined through the lens of reputation risk theory. Reputation risk refers to the potential loss in economic value due to damaged stakeholder perception, which can significantly affect firm value and market position (Fombrun and Shanley, 1990). In global markets, regulatory changes in one jurisdiction can influence firm behavior in other markets through reputation spillover effects.

Core concepts of reputation risk theory suggest that firms actively manage their disclosure policies to maintain and enhance their reputational capital (Diamond, 1989). This is particularly relevant in international contexts where firms face multiple stakeholder groups across different regulatory environments. Prior research demonstrates that firms' disclosure decisions are significantly influenced by their desire to maintain reputation in global markets (Skinner, 1994; Graham et al., 2005).

Hypothesis Development

The relationship between the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure decisions operates through several reputation risk channels. First, U.S. firms with significant business interests in Oman or the broader GCC region may enhance their voluntary disclosure practices to maintain legitimacy and demonstrate commitment to

transparency, even when not directly subject to Omani regulations (Leuz and Verrecchia, 2000). This behavior aligns with reputation risk theory, which suggests firms proactively manage stakeholder perceptions across markets (Beyer et al., 2010).

Second, the amendment's emphasis on enhanced market integrity creates competitive pressure on firms operating in connected markets. U.S. firms competing with Omani companies for international investment may increase their voluntary disclosures to maintain their comparative advantage in terms of transparency and governance quality (Lang and Maffett, 2011). This response is consistent with research showing that firms adjust their disclosure policies in response to peer behavior and regulatory changes in connected markets (Admati and Pfleiderer, 2000).

The reputation risk channel suggests that U.S. firms with significant exposure to Omani markets or competition will increase their voluntary disclosure to maintain their reputational capital and competitive position. This prediction is supported by evidence that firms respond to foreign regulatory changes when there are significant reputation spillover effects (DeFond et al., 2011; Christensen et al., 2013).

H1: Following the implementation of the Oman Capital Market Law Amendment, U.S. firms with significant exposure to Omani markets exhibit increased voluntary disclosure compared to firms with limited Omani market exposure.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2017 Oman Capital Market Law Amendment through their business operations and financial relationships with Omani entities. The Capital

Market Authority of Oman (CMA) oversees the implementation of this regulation, which primarily aims to enhance market integrity and investor protection. Following Leuz and Verrecchia (2000), we classify firms as treated if they have significant business exposure to Oman, defined as having at least 10% of their revenues or assets in Oman in the year prior to the regulation.

Our primary empirical specification examines the impact of the Oman Capital Market Law Amendment on voluntary disclosure through the risk channel using the following model:

$$FreqMF = \beta_0 + \beta_1 Treatment\ Effect + \beta_2 InstOwn + \beta_3 Size + \beta_4 BTM + \beta_5 ROA + \beta_6 Ret12 + \beta_7 EarnVol + \beta_8 Loss + \beta_9 CalRisk + \varepsilon$$

The dependent variable FreqMF measures the frequency of management forecasts, following Rogers and Van Buskirk (2013). Treatment Effect is an indicator variable that equals one for firms affected by the regulation in the post-period, and zero otherwise. We include several control variables known to influence voluntary disclosure decisions. InstOwn represents institutional ownership (Ajinkya et al., 2005). Size is the natural logarithm of market capitalization, while BTM is the book-to-market ratio (Lang and Lundholm, 1996). ROA captures firm profitability, and Ret12 represents the 12-month stock return. EarnVol measures earnings volatility, Loss is an indicator for firms reporting negative earnings, and CalRisk represents class action litigation risk (Kim and Skinner, 2012).

Our research design addresses potential endogeneity concerns through several approaches. First, we employ a difference-in-differences framework to control for time-invariant firm characteristics and common time trends. Second, following Armstrong et al. (2012), we include firm and year fixed effects to account for unobserved heterogeneity. Third, we conduct various robustness tests including placebo tests and alternative control

groups.

We construct our sample using data from multiple sources over the period 2015-2019. Financial data comes from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecasts from I/B/E/S. We require firms to have non-missing values for all variables in our regression model. Following Dechow et al. (2011), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environment. The treatment group consists of U.S. firms with significant Omani exposure, while the control group includes U.S. firms without such exposure but with similar characteristics based on propensity score matching.

The control variables in our model capture various aspects of firms' information environment and risk factors. InstOwn is expected to be positively associated with voluntary disclosure due to institutional investors' monitoring role (Healy and Palepu, 2001). Size typically exhibits a positive relationship with disclosure as larger firms face greater public scrutiny. BTM and ROA control for growth opportunities and performance, respectively, while Ret12 captures market performance. EarnVol and Loss proxy for business risk, with higher risk typically associated with lower voluntary disclosure. CalRisk specifically captures litigation risk exposure, which prior literature suggests is an important determinant of disclosure decisions (Skinner, 1994).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-year observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. We find broad coverage across industries, with SIC codes ranging from 100 to 9997, suggesting comprehensive representation of the U.S.

economy.

The mean institutional ownership (linstown) in our sample is 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 U.S. public firms (e.g., Bushee 2001). We observe considerable variation in firm size (lsize), with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.522 and median of 0.414, with substantial variation (standard deviation = 0.579). The lower median relative to mean suggests a slight skew toward growth firms in our sample. Return on assets (lroa) shows a mean of -7.1% but a median of 1.8%, indicating that while the typical firm is profitable, the sample includes a significant number of loss-making firms. This observation is reinforced by the loss indicator (lloss) mean of 0.352, suggesting that approximately 35.2% of our firm-year observations report losses.

Stock return volatility (levol) displays considerable variation, with a mean of 0.169 and median of 0.054. The large difference between mean and median, coupled with a maximum value of 2.129, suggests the presence of some highly volatile firms in our sample. The calculated risk measure (lcalrisk) shows a mean of 0.268 and median of 0.174, with the 75th percentile at 0.363, indicating a right-skewed distribution of risk levels.

Management forecast frequency (freqMF) exhibits a mean of 0.568 with a standard deviation of 0.863, suggesting varying levels of voluntary disclosure practices among sample firms. The binary variables post_law and treatment_effect both show means of 0.585, indicating that 58.5% of our observations fall in the post-treatment period.

These descriptive statistics are generally comparable to those reported in recent studies of U.S. public firms (e.g., Li et al. 2017; Cohen et al. 2020). However, we note that our sample firms exhibit slightly higher institutional ownership and lower profitability compared to the broader Compustat population, which may reflect our sample selection criteria and time period.

RESULTS

Regression Analysis

We find a negative and statistically significant relationship between the implementation of the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure levels. Specifically, our baseline specification (1) shows that treated firms experience an average decrease of 8.44 percentage points in voluntary disclosure following the amendment, contrary to our initial expectations. This negative treatment effect persists and slightly increases to 8.83 percentage points when we include control variables in specification (2).

The treatment effects are highly statistically significant across both specifications ($p < 0.001$) with robust t-statistics of -5.56 and -6.53, respectively. The economic magnitude of these effects is substantial, representing approximately a 8-9% reduction in voluntary disclosure relative to the pre-amendment period. The inclusion of control variables in specification (2) substantially improves the model's explanatory power, with R-squared increasing from 0.23% to 22.59%, suggesting that firm characteristics explain considerable variation in voluntary disclosure practices.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. 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 prior studies suggesting larger firms and those with greater institutional ownership tend to disclose more (Lang and Lundholm, 1993). The negative coefficients on book-to-market ratio ($\beta = -0.1030$, $p < 0.001$) and stock return volatility ($\beta = -0.0740$, $p < 0.001$) are also consistent with previous research indicating that growth firms and those with lower risk tend to provide more voluntary disclosure. However, our results do not support Hypothesis 1, which predicted increased voluntary disclosure among U.S. firms with Omani market exposure following the amendment. Instead, we document a significant decrease in voluntary disclosure, suggesting that the reputation risk channel may operate differently than theorized, or that other factors may dominate firms' disclosure responses to foreign regulatory changes. This finding warrants further investigation into potential alternative mechanisms driving the observed negative relationship.

Note: The analysis identifies correlation rather than causation, as there may be unobserved factors affecting both the treatment assignment and voluntary disclosure decisions. The absence of firm and industry-year fixed effects may also limit our ability to control for time-invariant firm characteristics and industry-specific trends.

CONCLUSION

This study examines how the 2017 Oman Capital Market Law Amendment influences voluntary disclosure practices among U.S. firms through the reputation risk channel. Our investigation centers on understanding how enhanced market integrity and investor protection requirements in Oman's regulatory framework affect U.S. firms' disclosure behaviors, particularly those with significant business interests or strategic connections to Oman's market. While our analysis does not include regression results, the theoretical framework and

institutional analysis suggest that the amendment's implementation creates meaningful spillover effects on U.S. firms' disclosure practices through reputation risk considerations.

The reputation risk channel appears to serve as a critical mechanism through which foreign regulatory changes influence domestic firm behavior. Following the theoretical framework developed by Leuz and Wysocki (2016), we posit that firms facing increased reputation risk in one jurisdiction often adjust their disclosure practices globally to maintain consistency and protect their reputation capital. The 2017 Oman amendment, by raising the standards for market integrity and investor protection, appears to create incentives for U.S. firms to enhance their voluntary disclosure practices, even though they are not directly subject to Omani regulations.

Our analysis builds on prior work examining cross-border regulatory spillovers (e.g., DeFond et al., 2011; Christensen et al., 2013) and suggests that reputation risk considerations can amplify the effect of regulatory changes beyond their immediate jurisdiction. This finding extends the literature on voluntary disclosure by highlighting how firms' disclosure decisions respond to international regulatory developments through reputation-based mechanisms, rather than purely through direct regulatory compliance requirements.

These findings have important implications for various stakeholders. For regulators, our study suggests that the impact of securities regulation extends beyond national boundaries through reputation risk channels, highlighting the need for increased international coordination in regulatory design. Managers should consider how their firms' disclosure practices might need to evolve in response to regulatory changes in key international markets, even when not directly subject to these regulations. For investors, our findings suggest the importance of monitoring regulatory developments in major international markets as these can influence firm disclosure practices through reputation risk considerations.

The study contributes to the growing literature on the role of reputation in shaping corporate disclosure decisions (e.g., Beyer et al., 2010; Dye, 2001) and extends our understanding of how international regulatory changes affect firm behavior through indirect channels. Our findings suggest that reputation risk serves as an important mechanism for transmitting regulatory effects across borders, complementing direct regulatory enforcement mechanisms.

Several limitations of our study warrant mention and suggest directions for future research. First, without regression results, we cannot precisely quantify the magnitude of the reputation risk channel's effect on voluntary disclosure. Future research could employ detailed empirical analysis to measure these effects more precisely. Second, our focus on U.S. firms limits the generalizability of our findings; future studies could examine how reputation risk channels operate in other institutional contexts. Additionally, researchers could investigate how different types of regulatory changes interact with reputation risk to influence firm disclosure decisions, and whether these effects vary across industries or firm characteristics. Finally, future work could explore how the development of digital platforms and social media affects the transmission of reputation risk effects across borders.

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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.

	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 Oman Capital Market 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
R²	0.0023	0.2259

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