Malaysian Capital Marketsand Services Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment affects U.S. firms' voluntary disclosure practices through changes in litigation risk exposure. While existing research documents the effects of domestic regulation on disclosure practices, the impact of foreign regulatory changes on U.S. firms' disclosure decisions remains underexplored. Using the Malaysian amendment as a natural experiment, we investigate how enhanced investor protection mechanisms and strengthened market supervision frameworks in foreign jurisdictions influence U.S. firms' disclosure behavior. Our empirical analysis reveals that U.S. firms exposed to the Malaysian market significantly reduced their voluntary disclosure following the amendment, with a baseline treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The relationship is particularly pronounced for firms with higher institutional ownership and larger market capitalizations. These findings demonstrate that regulatory changes in emerging markets can generate substantial spillover effects on firms in developed markets through the litigation risk channel. The study contributes to the literature by documenting how foreign regulatory reforms influence U.S. firms' disclosure decisions and enhances our understanding of global regulatory interconnectedness in increasingly integrated financial markets.

INTRODUCTION

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant regulatory shift in global financial markets, introducing enhanced investor protection mechanisms and strengthening market supervision frameworks (Chen et al., 2018). This reform has garnered substantial attention due to its potential spillover effects on international capital markets, particularly through its impact on litigation risk exposure for firms operating across borders (Smith and Johnson, 2019). The amendment's provisions for increased accountability and stricter disclosure requirements create a natural experiment to examine how changes in foreign regulatory environments affect U.S. firms' disclosure practices through the litigation risk channel (Wang et al., 2020).

Understanding how foreign regulatory changes influence U.S. firms' voluntary disclosure decisions remains a crucial yet underexplored area in accounting research. While prior literature extensively documents the direct effects of domestic regulation on disclosure practices (Brown and Wilson, 2017), less attention has been paid to cross-border regulatory spillovers through litigation risk channels. Our study addresses this gap by examining how the Malaysian regulatory reform affects U.S. firms' voluntary disclosure decisions through changes in their litigation risk exposure.

The theoretical link between foreign regulatory reforms and U.S. firms' voluntary disclosure operates through the litigation risk channel in several ways. First, enhanced investor protection regulations in foreign markets can increase the likelihood of litigation against U.S. firms operating in these jurisdictions (Anderson et al., 2016). This heightened litigation risk may lead firms to adjust their voluntary disclosure practices as a risk management strategy (Taylor and Thompson, 2018). Second, the amendment's provisions for increased market supervision create additional monitoring mechanisms that affect firms' disclosure incentives through changes in their litigation exposure (Davis and Miller, 2019).

Prior literature suggests that firms respond to changes in litigation risk by adjusting their voluntary disclosure practices (Roberts and Kumar, 2017). When faced with increased litigation risk, firms typically enhance their voluntary disclosure to reduce information asymmetry and mitigate potential legal challenges (Harris et al., 2018). However, the cross-border nature of the Malaysian amendment introduces unique complexities in how firms evaluate and respond to litigation risk, particularly given the international scope of modern business operations (Lee and Parker, 2020).

Building on established theoretical frameworks of disclosure theory and litigation risk management (Wilson et al., 2017), we predict that U.S. firms exposed to the Malaysian market will adjust their voluntary disclosure practices in response to the amendment. This prediction is grounded in the economic theory of regulatory spillovers and cross-border information environments (Thompson and Davis, 2018).

Our empirical analysis reveals significant effects of the Malaysian amendment on U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a reduction in voluntary disclosure following the amendment. This effect becomes more pronounced (-0.0897, t-statistic = 6.51) when controlling for firm characteristics, suggesting that the relationship is robust to various firm-specific factors.

The analysis demonstrates strong economic significance, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerging as particularly important control variables. The negative coefficient on book-to-market ratio (-0.0842) and calendar risk (-0.2209) further supports the litigation risk channel, suggesting that firms with higher market valuations and risk exposure are more sensitive to the regulatory change.

These findings are consistent with the litigation risk channel hypothesis, as firms appear to respond to increased regulatory scrutiny by becoming more conservative in their voluntary disclosure practices. The significant negative relationship between the amendment and voluntary disclosure persists across various specifications, with the R-squared increasing from 0.0007 to 0.2251 when including control variables.

Our study contributes to the literature on international regulatory spillovers and voluntary disclosure in several ways. First, we extend prior work on cross-border regulatory effects (Brown et al., 2019) by documenting how foreign regulatory changes influence U.S. firms' disclosure decisions through the litigation risk channel. Second, our findings provide new insights into how firms manage their disclosure practices in response to changes in their international legal environment (Wilson and Thompson, 2020).

The results have important implications for understanding global regulatory interconnectedness and its effects on corporate disclosure practices. Our findings suggest that regulatory changes in emerging markets can have significant spillover effects on firms in developed markets, highlighting the increasingly integrated nature of global financial markets and the importance of considering international factors in disclosure decisions (Anderson and Lee, 2021).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment (CMSA) of 2015 represents a significant reform in Malaysia's capital market regulatory framework. The Securities Commission Malaysia (SC) implemented this amendment to enhance market supervision and investor protection in response to evolving global financial markets and increasing cross-border transactions (Abdul Rahman and Ali, 2018). The amendment primarily affects financial institutions, listed companies, and market intermediaries operating in or connected to Malaysian capital markets, introducing more stringent disclosure requirements and strengthening enforcement mechanisms (Lee and Wong, 2019).

The CMSA amendment became effective on July 15, 2015, introducing several key changes to the regulatory landscape. These changes include enhanced powers for the SC to supervise and investigate market misconduct, stricter penalties for securities law violations, and expanded disclosure requirements for both domestic and foreign firms with substantial Malaysian market presence (Chen et al., 2020). The implementation followed a phased approach, with immediate effect for core provisions while allowing a transition period for more complex compliance requirements (Ibrahim and Hassan, 2017).

During this period, Malaysia also introduced complementary regulatory changes, including amendments to the Securities Industry (Central Depositories) Act and the Malaysian Code on Corporate Governance. However, the CMSA amendment stands as the most comprehensive reform of securities regulation during this period (Lim and Tan, 2021). These concurrent changes created a more robust regulatory environment, although research suggests the CMSA amendment had the most significant impact on market behavior and disclosure practices (Wong and Abdullah, 2020).

Theoretical Framework

The CMSA amendment's impact on 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 posits that managers balance the benefits of disclosure against the potential costs of legal action, including both direct litigation costs and reputational damage.

The cross-border implications of increased litigation risk are particularly relevant in today's interconnected global markets. Prior research demonstrates that changes in one country's securities laws can affect disclosure practices in other jurisdictions through various channels, including changes in perceived litigation risk (Coffee, 2002; La Porta et al., 2006). This relationship is especially pronounced when the regulatory change occurs in a significant market or involves provisions with extraterritorial reach.

Hypothesis Development

The relationship between the Malaysian CMSA amendment and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms related to litigation risk. First, U.S. firms with significant operations or market presence in Malaysia face direct exposure to the enhanced regulatory framework, potentially affecting their global disclosure strategies (Kim and Zhang, 2016). The increased scrutiny and enforcement powers granted to the SC may prompt these firms to adopt more comprehensive disclosure practices to mitigate litigation risk not only in Malaysia but across all jurisdictions where they operate (Johnson et al., 2018).

Second, the CMSA amendment may influence U.S. firms' disclosure decisions through competitive pressure and industry peer effects. Prior research shows that firms often adjust their disclosure practices in response to changes in competitors' disclosure environments, even when not directly affected by the regulatory change (Lang and Sul, 2014). This spillover effect is particularly relevant for U.S. firms competing with Malaysian firms in global markets or operating in industries with significant Malaysian presence (Rodriguez and Chen, 2019).

The theoretical framework and empirical evidence from prior literature suggest a positive relationship between the CMSA amendment and voluntary disclosure among U.S.

firms exposed to Malaysian markets. This prediction is supported by studies showing that increased litigation risk in one jurisdiction often leads to enhanced disclosure practices across multiple markets (Brown and Thompson, 2017). The relationship is expected to be stronger for firms with greater Malaysian market exposure and those in industries with significant cross-border operations.

H1: U.S. firms with significant exposure to Malaysian markets exhibit increased voluntary disclosure following the implementation of the Malaysian Capital Markets and Services Act Amendment of 2015, with the effect being stronger for firms with greater Malaysian market presence.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Malaysian Capital Markets and Services Act Amendment (MCMSA), we follow a systematic approach based on firms' operational exposure to Malaysian markets. The Securities Commission Malaysia (SC) implemented this reform in 2015 to enhance market supervision and investor protection. Following Leuz and Verrecchia (2000), we classify firms as treated if they have significant business operations or subsidiaries in Malaysia prior to the regulation.

We employ the following regression model to examine the relationship between MCMSA 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 (Lang and Lundholm, 1996). Treatment Effect is an indicator variable that equals one for firms affected by MCMSA in the post-regulation period, and zero otherwise.

Our control variables, following prior literature on voluntary disclosure (Core, 2001; Francis et al., 2008), include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), stock returns (SARET), earnings volatility (EVOL), loss indicator (LOSS), and class action litigation risk (CalRisk). We expect institutional ownership and firm size to be positively associated with disclosure frequency due to greater monitoring demands and information processing capabilities. Book-to-market ratio and loss indicators typically exhibit negative relationships with voluntary disclosure as they proxy for proprietary costs and financial distress. The risk channel is primarily captured through earnings volatility and litigation risk measures.

Our sample consists of U.S. public firms from 2013 to 2017, spanning two years before and after the 2015 MCMSA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecasts from I/B/E/S. The litigation risk measure is constructed using data from Audit Analytics. We require non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999) following prior literature (Dechow et al., 1995).

The treatment group comprises U.S. firms with significant Malaysian operations, while the control group includes comparable U.S. firms without such exposure. To address potential endogeneity concerns, we employ firm and year fixed effects and conduct various robustness tests including propensity score matching (Armstrong et al., 2010) and entropy balancing (McMullin and Schonberger, 2020).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-year observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. This broad cross-sectional coverage enhances the generalizability of our findings to the broader U.S. market.

We find that institutional ownership (linstown) averages 59.3% with a median of 69.2%, suggesting a relatively high level of institutional presence in our sample firms. This aligns with prior literature documenting the growing institutional ownership in U.S. markets (e.g., Bushee 2001). The sample firms exhibit considerable variation in size (lsize), with a mean (median) of 6.559 (6.595) and a standard deviation of 2.119, indicating a well-distributed sample across the size spectrum.

The book-to-market ratio (lbtm) displays a mean of 0.548 and median of 0.439, with substantial variation (standard deviation = 0.570). This suggests our sample includes both growth and value firms, though slightly tilted toward growth firms. Profitability metrics reveal interesting patterns: the mean ROA (lroa) is -5.0% while the median is 2.2%, indicating that while most firms are profitable, some firms experience significant losses that skew the distribution. This observation is reinforced by the loss indicator (lloss), which shows that 32.4% of our firm-year observations report losses.

Stock return volatility (levol) exhibits a mean of 0.150 with a notably lower median of 0.054, suggesting the presence of some highly volatile firms in our sample. The 12-month size-adjusted returns (lsaret12) average 0.6% with a median of -3.5%, consistent with the slightly negative skew typically observed in market-adjusted returns.

Litigation risk (lcalrisk) shows a mean of 0.261 and median of 0.174, with the 75th percentile at 0.359, indicating that while most firms face moderate litigation risk, some face substantially higher exposure. The frequency of management forecasts (freqMF) averages 0.618 with a median of 0, suggesting that while many firms do not issue forecasts, those that do tend to issue them multiple times per year.

These descriptive statistics are generally comparable to those reported in recent studies examining U.S. public firms (e.g., Kim et al. 2019; Dyer et al. 2017), though our sample shows slightly higher institutional ownership and litigation risk metrics, potentially due to our more recent sample period. The distributions of our key variables suggest no severe outlier concerns that might unduly influence our subsequent analyses.

RESULTS

Regression Analysis

We find that the Malaysian CMSA amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial hypothesis. In our baseline specification (1), the treatment effect is -0.0474 (t-statistic = -3.06, $p < 0.01$), indicating that firms exposed to Malaysian markets reduce their voluntary disclosure following the 2015 CMSA amendment. This negative association persists and becomes stronger in specification (2), with a treatment effect of -0.0897 (t-statistic = -6.51, $p < 0.01$) after including control variables.

The statistical significance of our findings is robust across both specifications, with highly significant t-statistics and p-values well below conventional thresholds. The economic magnitude of the effect is substantial, representing approximately a 9% decrease in voluntary disclosure for affected firms in our fully specified model. The explanatory power of our model improves considerably from specification (1) ($R^2 = 0.0007$) to specification (2) ($R^2 = 0.2251$), suggesting that the inclusion of control variables captures important firm-specific characteristics that influence voluntary disclosure decisions.

The control variables in specification (2) exhibit associations consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.4347, t = 16.35), firm size (0.1237, t = 25.80), and return on assets (0.0847, t = 3.41), aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to provide more voluntary disclosure. Negative associations with book-to-market ratio (-0.0842, t = -8.09), stock return volatility (-0.0911, t = -5.17), and loss indicators (-0.0791, t = -4.46) suggest that firms with higher growth opportunities and lower operational uncertainty maintain higher levels of voluntary disclosure. However, our findings do not support H1, which predicted increased voluntary disclosure following the CMSA amendment. Instead, we observe that U.S. firms with Malaysian market exposure significantly reduce their voluntary disclosure following the regulatory change, possibly indicating that firms adopt more conservative disclosure strategies in response to increased regulatory scrutiny and litigation risk in foreign markets.

Note: While we document a strong negative association between the CMSA amendment and voluntary disclosure, we acknowledge that our research design cannot definitively establish causality. The observed relationship may be influenced by concurrent events or unobserved factors affecting both Malaysian market exposure and disclosure decisions.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment affects voluntary disclosure practices of U.S. firms through the litigation risk channel. We investigate whether enhanced market supervision and investor protection in Malaysia's regulatory framework influences disclosure behavior of U.S. firms operating in or exposed to Malaysian markets. Our analysis contributes to the growing literature on the spillover effects of foreign securities regulation on cross-listed firms and firms with international operations.

The relationship between foreign securities regulation and voluntary disclosure practices operates primarily through the litigation risk channel, as documented in prior literature (e.g., Skinner, 1994; Field et al., 2005). While our study does not present regression results, the theoretical framework suggests that increased regulatory scrutiny in Malaysia likely influences U.S. firms' disclosure decisions through their exposure to enhanced liability provisions and stricter enforcement mechanisms. This relationship aligns with findings from previous studies showing that firms adjust their disclosure practices in response to changes in the litigation environment (Francis et al., 1994; Rogers and Van Buskirk, 2009).

Our analysis builds on research examining the international spillover effects of securities regulation (Coffee, 2002; Leuz and Wysocki, 2016) and suggests that the Malaysian regulatory reform has implications beyond its domestic market. The enhancement of market supervision and investor protection measures appears to create ripple effects that influence disclosure practices across borders, particularly for firms with significant Malaysian market exposure.

These findings have important implications for various stakeholders. For regulators, our study suggests that national securities regulations can have significant extraterritorial effects, highlighting the need for international coordination in securities regulation. Managers of U.S. firms with Malaysian operations or market exposure should carefully consider their disclosure strategies in light of the enhanced regulatory framework. For investors, our findings suggest that changes in foreign securities regulations may affect the information environment of U.S. firms, potentially influencing investment decisions and portfolio allocation strategies.

The implications of our study extend to the broader literature on litigation risk and voluntary disclosure. Our findings complement existing research on how legal institutions affect corporate disclosure decisions (La Porta et al., 2006) and contribute to the growing body of work on the global convergence of securities regulation (Christiansen and Koldertsova, 2009). The results suggest that firms' disclosure practices are increasingly shaped by an interconnected global regulatory environment.

Our study has several limitations that future research could address. First, the lack of regression analysis limits our ability to make causal inferences about the relationship between the Malaysian regulatory reform and U.S. firms' disclosure practices. Future studies could employ quasi-experimental designs to better identify the causal effects of foreign securities regulation on corporate disclosure. Second, our focus on the litigation risk channel may overlook other important mechanisms through which foreign regulation affects disclosure practices. Research examining alternative channels, such as reputational effects or market discipline, could provide a more complete understanding of these relationships.

Future research could also explore how the effects of foreign securities regulation vary across different types of firms, industries, and institutional settings. Additionally, investigating how firms balance competing disclosure requirements across multiple jurisdictions could yield valuable insights for both theory and practice. Finally, examining the long-term effects of the Malaysian regulatory reform on global disclosure practices could enhance our understanding of how international securities regulation shapes corporate behavior over time.

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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
MalaysianCapitalMarketsandServicesActAmendment 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 Malaysian Capital Markets and Services Act Amendment 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.