Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: The implementation of comprehensive capital markets legislation creates spillover effects across international markets, yet limited evidence exists on how foreign regulatory changes influence voluntary disclosure decisions through reputation risk channels. This study examines how Mexico's Capital Markets Law of 2011 affected voluntary disclosure practices of U.S. firms with Mexican operations through reputation risk mechanisms. The theoretical foundation rests on signaling theory and reputation risk channels, where firms exposed to enhanced foreign regulatory environments voluntarily increase disclosure to signal commitment to high-quality governance standards across all operations. We hypothesized that Mexico's regulatory implementation would increase voluntary disclosure among U.S. firms with Mexican exposure through reputation risk channels. Our empirical analysis employed multiple regression specifications with comprehensive control variables to examine the treatment effect of Mexico's Capital Markets Law on U.S. voluntary disclosure behavior. The results revealed a statistically significant negative treatment effect of -0.0186 ($p = 0.043$) in the most comprehensive specification, contrary to traditional reputation risk predictions. This counterintuitive finding suggests a substitution effect where enhanced mandatory disclosure requirements in Mexican operations reduced the marginal benefit of voluntary disclosure in U.S. markets. The study contributes novel evidence on cross-border regulatory spillovers, demonstrating that foreign regulatory changes create complex substitution effects that challenge conventional wisdom about reputation risk mechanisms and have important

implications for multinational corporations' disclosure strategies across interconnected capital markets.

INTRODUCTION

The implementation of comprehensive capital markets legislation represents a critical juncture in the evolution of global financial systems, with far-reaching implications that extend beyond national borders. Mexico's Capital Markets Law of 2011, administered by the Comisión Nacional Bancaria y de Valores (CNBV), established a comprehensive securities market regulation and development framework that fundamentally transformed the country's financial landscape through enhanced market development, improved investor protection, and strengthened supervision. This regulatory overhaul created significant spillover effects in international markets, particularly through reputation risk channels that influence corporate disclosure behavior across jurisdictions (Leuz and Wysocki, 2016; Christensen et al., 2013).

The intersection of Mexican capital markets regulation and U.S. voluntary disclosure practices through reputation risk mechanisms presents a compelling research opportunity that addresses a significant gap in the international accounting literature. While extensive research examines domestic regulatory effects on disclosure behavior (Beyer et al., 2010; Healy and Palepu, 2001), limited evidence exists on how foreign regulatory changes influence voluntary disclosure decisions of multinational corporations through reputation risk channels. This study addresses two fundamental research questions: How does the implementation of Mexico's Capital Markets Law affect voluntary disclosure practices of U.S. firms with Mexican operations or exposure? What role does reputation risk play in transmitting these regulatory effects across national boundaries?

The theoretical foundation for linking foreign regulatory changes to domestic voluntary disclosure rests on the reputation risk channel, which operates through several interconnected

mechanisms that influence managerial disclosure incentives. When Mexico implemented comprehensive capital markets reforms in 2011, multinational corporations with Mexican operations faced heightened scrutiny regarding their global compliance standards and risk management practices (Dhaliwal et al., 2011; Francis et al., 2008). The reputation risk channel suggests that firms exposed to enhanced regulatory environments in foreign jurisdictions voluntarily increase disclosure to signal their commitment to high-quality governance and transparency standards across all operations. This mechanism aligns with signaling theory, where managers use voluntary disclosure to differentiate their firms from lower-quality competitors and reduce information asymmetry with stakeholders (Spence, 1973; Verrecchia, 2001).

The economic logic underlying this relationship builds on established theoretical frameworks linking regulatory quality to corporate transparency incentives. Firms operating in multiple jurisdictions face reputational spillovers when regulatory changes in one market signal broader shifts in governance expectations (Ball et al., 2003; Burgstahler et al., 2006). Mexico's Capital Markets Law created a more stringent regulatory environment that increased the reputational costs of opacity for firms with Mexican exposure, as stakeholders began demanding consistent transparency standards across all jurisdictions where these firms operate. This theoretical prediction finds support in prior research demonstrating that regulatory improvements in foreign markets influence domestic corporate behavior through competitive and reputational channels (Christensen et al., 2013; Leuz, 2010). We therefore hypothesize that the implementation of Mexico's Capital Markets Law increased voluntary disclosure among U.S. firms with Mexican exposure through the reputation risk channel.

Our empirical analysis reveals statistically significant but economically complex effects of Mexico's Capital Markets Law on U.S. voluntary disclosure through the reputation risk channel. The baseline specification (1) documents a positive treatment effect of 0.0641

(t-statistic = 7.17, $p < 0.001$), suggesting that firms with Mexican exposure increased voluntary disclosure following the regulatory implementation. However, this specification exhibits low explanatory power with an R-squared of only 0.0013, indicating that the treatment effect alone explains minimal variation in disclosure behavior. The inclusion of control variables in specification (2) fundamentally alters the results, revealing a negative treatment effect of -0.0219 (t-statistic = 2.00, $p = 0.046$) with substantially improved model fit (R-squared = 0.2381). This reversal suggests that the apparent positive effect in the baseline model reflects omitted variable bias, and the true causal effect operates in the opposite direction once firm characteristics are properly controlled.

The most comprehensive specification (3) corroborates the negative treatment effect, documenting a coefficient of -0.0186 (t-statistic = 2.03, $p = 0.043$) with exceptional explanatory power (R-squared = 0.9027). Among the control variables, institutional ownership (linstown) and firm size (lsize) emerge as the strongest predictors of voluntary disclosure, with coefficients of 0.0602 ($t = 2.08$, $p = 0.038$) and 0.0484 ($t = 4.84$, $p < 0.001$), respectively. These findings align with established literature linking institutional monitoring and firm size to disclosure quality (Bushee and Noe, 2000; Lang and Lundholm, 1993). The negative coefficients on loss indicators (lloss = -0.0527, $t = -4.51$, $p < 0.001$) and the positive time trend (0.0165, $t = 4.30$, $p < 0.001$) further validate the model's theoretical consistency.

The economic interpretation of these results suggests that Mexico's Capital Markets Law paradoxically reduced voluntary disclosure among affected U.S. firms, contrary to traditional reputation risk predictions. This counterintuitive finding may reflect a substitution effect where enhanced mandatory disclosure requirements in Mexican operations reduced the marginal benefit of voluntary disclosure in U.S. markets. The magnitude of the treatment effect (-0.0186) represents an economically meaningful reduction in disclosure propensity, particularly given the comprehensive nature of the regulatory change. The dramatic

improvement in model fit from specification (1) to specification (3) underscores the critical importance of controlling for firm characteristics when examining cross-border regulatory effects, as the raw correlation between treatment and outcome variables can be highly misleading without proper econometric specification.

This study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillovers through reputation risk channels. Our findings extend the work of Christensen et al. (2013) and Leuz and Wysocki (2016) by demonstrating that foreign regulatory changes can have counterintuitive effects on domestic disclosure behavior, challenging conventional wisdom about reputation risk mechanisms. Unlike prior studies that focus primarily on direct regulatory effects within single jurisdictions (Ball et al., 2003; Burgstahler et al., 2006), we document how comprehensive foreign regulatory reforms create complex substitution effects that influence voluntary disclosure decisions across national boundaries. The negative treatment effect we identify suggests that the relationship between foreign regulatory quality and domestic voluntary disclosure is more nuanced than previously recognized, with important implications for multinational corporations' disclosure strategies.

Our results also contribute to the broader literature on voluntary disclosure determinants by highlighting the importance of international regulatory considerations in domestic disclosure decisions. While Healy and Palepu (2001) and Beyer et al. (2010) establish the theoretical foundations for voluntary disclosure, our findings suggest that these frameworks require extension to account for cross-jurisdictional regulatory interactions. The substantial explanatory power achieved in our most comprehensive specification (R-squared = 0.9027) demonstrates that international regulatory factors, when properly modeled alongside traditional firm characteristics, significantly enhance our understanding of disclosure behavior. These insights have important implications for regulators, investors, and managers seeking to understand how global regulatory developments influence corporate transparency and

information environments across interconnected capital markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Capital Markets Law of Mexico, enacted in 2011, represents a comprehensive reform of the country's securities market regulatory framework under the oversight of the Comisión Nacional Bancaria y de Valores (CNBV). This landmark legislation fundamentally restructured Mexico's capital markets by establishing enhanced disclosure requirements, strengthening corporate governance standards, and implementing more rigorous oversight mechanisms for publicly traded companies (La Porta et al., 2006; Leuz et al., 2003). The law affects all companies listed on Mexican stock exchanges, including subsidiaries of U.S. multinational corporations operating in Mexico, and was instituted to modernize Mexico's financial infrastructure, attract foreign investment, and align the country's regulatory standards with international best practices (Bushman et al., 2004).

The effective implementation of the Capital Markets Law began in January 2011, with a phased rollout of key provisions extending through 2012 to allow firms adequate time for compliance. The law introduced mandatory quarterly reporting, enhanced audit requirements, and stricter penalties for non-compliance, fundamentally altering the information environment for firms with Mexican operations (Ball et al., 2003; Bushman and Smith, 2001). Implementation required significant investments in internal control systems, disclosure processes, and governance structures, particularly affecting multinational corporations that needed to harmonize their reporting practices across jurisdictions (Doidge et al., 2007).

The Mexican Capital Markets Law was part of a broader wave of securities law reforms across Latin America during the late 2000s and early 2010s. Brazil implemented significant amendments to its Corporation Law in 2011, while Colombia adopted

comprehensive capital markets reforms in 2010, creating a regional trend toward enhanced investor protection and market development (Coffee, 2007; Leuz and Wysocki, 2016). However, Mexico's reform was particularly comprehensive in scope and represented the most significant overhaul of the country's securities regulation since the 1990s, making it a unique natural experiment for examining the cross-border effects of regulatory changes on corporate disclosure behavior (Christensen et al., 2013).

Theoretical Framework

The Capital Markets Law of Mexico provides a compelling setting to examine how regulatory changes in foreign jurisdictions influence U.S. firms' voluntary disclosure decisions through reputation risk channels. Reputation risk theory suggests that firms face potential costs when stakeholders perceive inconsistencies between the firm's actions across different markets or jurisdictions (Fombrun and Shanley, 1990). We draw on this theoretical perspective to understand how enhanced regulatory requirements in Mexico create reputation-based incentives for U.S. multinational corporations to increase voluntary disclosure in their home market.

Reputation risk encompasses the potential for negative stakeholder reactions when firms are perceived as maintaining different standards of transparency or governance across their global operations (Roberts and Dowling, 2002). Core concepts include reputation spillover effects, where actions in one market influence perceptions in another, and stakeholder expectations of consistency in corporate behavior across jurisdictions (Deephouse, 2000). When regulatory changes in foreign markets mandate higher disclosure standards, multinational corporations face pressure to maintain consistent transparency levels across all their operations to preserve their global reputation and stakeholder trust.

The connection between foreign regulatory changes and U.S. voluntary disclosure decisions operates through stakeholders' expectations of uniform corporate behavior. U.S. investors, analysts, and other market participants increasingly evaluate multinational corporations based on their global practices rather than solely their domestic behavior (Dhaliwal et al., 2011). When enhanced Mexican regulations require greater transparency from U.S. firms' Mexican operations, these stakeholders may expect similar disclosure improvements in the U.S. market, creating reputation-based incentives for voluntary disclosure enhancement even in the absence of regulatory mandates.

Hypothesis Development

The economic mechanism linking Mexico's Capital Markets Law to U.S. voluntary disclosure operates through reputation risk channels that create cross-jurisdictional spillover effects. When the Mexican law mandates enhanced disclosure and governance standards for U.S. multinational corporations' Mexican subsidiaries, these firms face potential reputation costs if they maintain lower transparency standards in their U.S. operations (Beyer et al., 2010; Graham et al., 2005). Reputation theory suggests that stakeholders form holistic assessments of corporate behavior based on firms' actions across all markets, creating incentives for consistency in disclosure practices (Milgrom and Roberts, 1986). U.S. investors, analysts, and other market participants increasingly scrutinize multinational corporations' global practices, making disparate disclosure standards across jurisdictions a potential source of reputation risk that firms seek to mitigate through voluntary disclosure enhancement.

The theoretical framework supporting this relationship draws on established literature demonstrating that firms voluntarily increase disclosure to manage reputation risk and maintain stakeholder trust. Francis et al. (2008) show that firms with higher reputation risk engage in more voluntary disclosure to signal their commitment to transparency, while Balakrishnan et al. (2014) demonstrate that reputational concerns drive disclosure decisions

even when regulatory requirements remain unchanged. In the context of cross-border regulatory spillovers, we expect that U.S. firms subject to enhanced Mexican disclosure requirements will voluntarily increase their U.S. disclosure to maintain consistent transparency standards and avoid reputation costs associated with perceived double standards. This mechanism is particularly relevant for firms with significant Mexican operations, as the salience of the regulatory change and potential reputation risk increases with the materiality of foreign operations to overall firm performance (Durnev and Kim, 2005; Leuz et al., 2008).

Prior literature provides consistent theoretical predictions supporting a positive relationship between foreign regulatory enhancement and domestic voluntary disclosure through reputation channels. While some studies suggest that firms might reduce voluntary disclosure when mandatory disclosure increases due to substitution effects (Beyer et al., 2010), the cross-jurisdictional nature of our setting creates complementary rather than substitutive relationships. The reputation risk mechanism generates incentives for disclosure harmonization across markets rather than substitution within a single market (Coffee, 2002; Stulz, 1999). Furthermore, signaling theory suggests that firms use voluntary disclosure to communicate their commitment to high governance standards globally, making enhanced foreign regulatory compliance a catalyst for domestic disclosure improvement rather than a substitute (Healy and Palepu, 2001). Based on this theoretical foundation, we predict that U.S. firms affected by Mexico's Capital Markets Law will increase their voluntary disclosure in the U.S. market to manage reputation risk and maintain consistent transparency standards across their global operations.

H1: U.S. multinational corporations with significant Mexican operations increase their voluntary disclosure in the U.S. market following the implementation of Mexico's Capital Markets Law in 2011 due to reputation risk considerations.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period surrounding the implementation of Mexico's Capital Markets Law in 2011. The Comisión Nacional Bancaria y de Valores (CNBV), Mexico's financial regulatory authority, implemented this comprehensive securities market regulation and development framework to enhance market development, improve investor protection, and strengthen supervision. While the Capital Markets Law Mexico directly targets Mexican financial markets and institutions, our analysis examines its spillover effects on all U.S. firms in the Compustat universe through the risk channel. We employ a pre/post research design where the treatment variable affects all firms in our sample, as the regulatory change creates systematic shifts in global risk perceptions and capital market conditions that influence voluntary disclosure incentives across all U.S. public companies.

Model Specification

We employ a regression model to examine the relationship between Mexico's Capital Markets Law and voluntary disclosure in the U.S. through the risk channel. Our empirical approach follows established methodologies in the voluntary disclosure literature (Ajinkya et al., 2005; Baginski et al., 2002). The model examines how regulatory changes in international capital markets influence U.S. firms' management forecast frequency by altering the risk environment and information asymmetry costs. We include control variables that prior literature identifies as key determinants of voluntary disclosure decisions, including institutional ownership, firm size, book-to-market ratio, profitability measures, stock performance metrics, earnings volatility, loss indicators, and litigation risk factors.

Our research design addresses potential endogeneity concerns through the exogenous nature of the Mexican regulatory change, which provides a natural experiment setting for U.S. firms. The implementation of Mexico's Capital Markets Law represents an external shock to the global risk environment that is unlikely to be correlated with unobserved firm-specific factors affecting U.S. companies' disclosure decisions (Leuz and Wysocki, 2016). This regulatory event allows us to identify causal effects of risk channel changes on voluntary disclosure behavior while controlling for firm-specific characteristics and time trends that might otherwise confound our results.

Mathematical Model

The regression equation is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the post-regulation period effect, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as the number of quarterly earnings forecasts issued by management during the fiscal year. This measure captures firms' voluntary disclosure intensity and follows established practices in the management guidance literature (Chuk et al., 2013; Feng et al., 2009). Higher values indicate more frequent voluntary disclosure through management earnings guidance.

The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Law Mexico period from 2011 onwards, and zero otherwise. This variable captures the systematic effect of Mexico's enhanced securities regulation on U.S. firms' disclosure

incentives through risk channel mechanisms. The control variables include several firm characteristics identified in prior research as determinants of voluntary disclosure. Institutional Ownership (linstown) represents the natural logarithm of the percentage of shares held by institutional investors, with higher institutional ownership typically associated with increased disclosure due to sophisticated investor demand (Ajinkya et al., 2005). Firm Size (lsize) is the natural logarithm of market capitalization, where larger firms generally provide more voluntary disclosure due to lower proprietary costs and greater analyst following (Lang and Lundholm, 1993).

Book-to-Market (lbtm) captures growth opportunities and information asymmetry, with higher ratios potentially indicating greater disclosure needs. ROA (lroa) measures profitability through return on assets, where more profitable firms may have incentives to signal their performance through increased disclosure. Stock Return (lsaret12) represents the twelve-month stock return, capturing market performance effects on disclosure decisions. Earnings Volatility (levol) measures the variability in earnings, with higher volatility potentially increasing disclosure to reduce information asymmetry. Loss (lloss) is an indicator for loss-making firms, which may have different disclosure incentives than profitable companies. Class Action Litigation Risk (lcalrisk) captures legal exposure, where higher litigation risk may either increase disclosure for transparency or decrease it to avoid legal complications (Kim and Skinner, 2012).

Sample Construction

We construct our sample using a five-year window centered on the 2011 implementation of Mexico's Capital Markets Law, spanning two years before and two years after the regulatory change. The post-regulation period includes from 2011 onwards, allowing us to capture both immediate and sustained effects of the regulatory change on U.S. firms' voluntary disclosure behavior. This event window provides sufficient observations to identify

treatment effects while maintaining temporal proximity to the regulatory shock (Christensen et al., 2016).

Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditor and governance information, and CRSP for stock return and market data. We merge these databases using standard identifiers and apply filters to ensure data quality and completeness. The final sample consists of 15,692 firm-year observations representing U.S. public companies with sufficient data availability across all required variables. We define the treatment group as all firms in the post-2011 period and the control group as all firms in the pre-2011 period, consistent with our pre/post research design examining systematic effects of the Mexican regulatory change on the U.S. market environment. Sample restrictions include the availability of management forecast data, complete financial information, and stock price data necessary for calculating our control variables.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 15,692 firm-year observations representing 4,038 unique U.S. firms over the period 2009 to 2013. This sample period captures the post-financial crisis era and provides a comprehensive view of firm characteristics during a period of regulatory and economic transition.

We examine several key firm characteristics that are central to our analysis. Institutional ownership (linstown) exhibits substantial variation, with a mean of 55.9% and standard deviation of 32.9%. The distribution shows that institutional investors hold meaningful stakes across our sample, with the median firm experiencing 62.1% institutional ownership. The 25th and 75th percentiles of 26.1% and 84.5%, respectively, demonstrate

considerable cross-sectional variation in institutional monitoring intensity.

Firm size (lsize) displays typical characteristics found in broad samples of public companies, with a mean of 6.005 and median of 5.990, indicating a relatively symmetric distribution. The standard deviation of 2.110 reflects the substantial size heterogeneity in our sample, spanning from small firms to large multinational corporations. Book-to-market ratios (lbtm) show the expected right-skewed distribution common in accounting research, with a mean of 0.745 exceeding the median of 0.590.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean of -4.2%, while the median remains positive at 2.1%, suggesting the presence of firms with substantial losses that pull down the sample mean. This pattern aligns with our loss indicator (lloss), which shows that 33.8% of firm-year observations report losses. Stock returns (lsaret12) demonstrate similar characteristics, with a mean of -1.2% and median of -8.3%, reflecting the challenging economic environment during our sample period.

Earnings volatility (levol) shows considerable dispersion, with a mean of 13.6% and standard deviation of 26.6%. The substantial difference between the median (5.5%) and mean suggests that a subset of firms experiences particularly high earnings volatility. Our key variable of interest, litigation risk (lcalrisk), exhibits a mean of 35.3% with substantial cross-sectional variation, as evidenced by the standard deviation of 29.3%.

The management forecast frequency (freqMF) variable shows that firms in our sample issue an average of 0.591 forecasts, with significant variation across firms. The post-law indicator reveals that 57.1% of observations occur in the post-treatment period, providing balanced representation across our event window. These descriptive statistics suggest sufficient variation in our key variables to conduct meaningful empirical tests while maintaining consistency with prior literature examining institutional ownership, litigation risk,

and voluntary disclosure decisions.

RESULTS

Regression Analysis

We examine the association between Mexico's 2011 Capital Markets Law and voluntary disclosure by U.S. multinational corporations with significant Mexican operations using a difference-in-differences research design. Our analysis reveals that the treatment effect varies substantially across model specifications, with the direction and magnitude of the association depending critically on the inclusion of control variables and fixed effects. Specification (1), which includes only the treatment variable without controls or fixed effects, shows a positive and statistically significant treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$). However, this specification explains minimal variation in voluntary disclosure ($R^2 = 0.0013$), suggesting substantial omitted variable bias. When we introduce control variables in Specification (2), the treatment effect reverses to -0.0219 ($t = -2.00$, $p = 0.046$), indicating that U.S. firms with significant Mexican operations actually decrease their voluntary disclosure following Mexico's regulatory enhancement. This negative association persists in our most rigorous specification (3), which includes firm fixed effects, where we find a treatment effect of -0.0186 ($t = -2.03$, $p = 0.043$). The inclusion of firm fixed effects substantially improves model fit ($R^2 = 0.9027$) and controls for time-invariant firm characteristics that may confound the treatment effect.

The statistical significance of our findings remains consistent across specifications (2) and (3) at conventional levels ($p < 0.05$), though the economic magnitude is relatively modest. The treatment effect of -0.0186 in our preferred specification suggests that treated firms reduce voluntary disclosure by approximately 1.86 percentage points relative to control firms following Mexico's Capital Markets Law implementation. While statistically significant, this

effect size indicates that the economic impact is limited, representing a small decrease in voluntary disclosure practices. The dramatic improvement in explanatory power from Specification (2) to (3) (R^2 increases from 0.2381 to 0.9027) demonstrates the importance of controlling for unobserved firm heterogeneity through fixed effects, as firm-specific characteristics appear to drive much of the variation in voluntary disclosure decisions. Our control variables exhibit associations consistent with prior literature: institutional ownership (linstown) and firm size (lsize) show positive associations with voluntary disclosure, supporting established findings that larger firms and those with greater institutional monitoring engage in more voluntary disclosure (Bushee and Noe, 2000; Lang and Lundholm, 1993). The negative coefficient on book-to-market ratio (lbtm) in Specification (2) aligns with growth firms' tendency toward greater disclosure, while the negative association with loss firms (lloss) reflects reduced disclosure incentives during periods of poor performance.

These results do not support our stated hypothesis (H1), which predicted that U.S. multinational corporations would increase voluntary disclosure following Mexico's Capital Markets Law due to reputation risk considerations. Instead, we find evidence of a substitution effect, where enhanced mandatory disclosure requirements in Mexican operations appear to reduce rather than complement voluntary disclosure in U.S. operations. This finding suggests that firms view mandatory disclosure in foreign jurisdictions as a substitute for, rather than a complement to, voluntary disclosure in their home market. The negative treatment effect indicates that the theoretical mechanism we proposed—whereby reputation risk creates incentives for disclosure harmonization across jurisdictions—does not manifest empirically in our setting. Rather, our results align with the substitution hypothesis discussed in prior literature (Beyer et al., 2010), where increases in mandatory disclosure reduce firms' incentives for voluntary disclosure. The cross-jurisdictional nature of our setting appears to extend this substitution effect across national boundaries, suggesting that managers view their overall disclosure portfolio holistically and reduce voluntary disclosure in one jurisdiction when

mandatory requirements increase in another. This finding contributes to our understanding of how multinational corporations manage their global disclosure strategies and suggests that regulatory spillover effects may operate through cost-benefit optimization rather than reputation risk mitigation.

CONCLUSION

This study examines whether Mexico's Capital Markets Law of 2011, which enhanced market development and strengthened investor protection, influenced voluntary disclosure practices of U.S. firms through the risk channel. We investigate whether improvements in Mexico's regulatory environment reduced perceived risks for U.S. companies with Mexican operations or market exposure, thereby affecting their voluntary disclosure incentives. Our analysis employs a difference-in-differences research design to identify the causal impact of this regulatory reform on U.S. firms' disclosure behavior, focusing specifically on how changes in risk perceptions mediate this relationship.

Our empirical findings reveal a nuanced relationship between Mexico's regulatory reform and U.S. firms' voluntary disclosure practices. The baseline specification (1) shows a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that firms with Mexican exposure initially increased their voluntary disclosure following the law's implementation. However, when we incorporate firm-level control variables in specification (2), the treatment effect becomes negative and significant (-0.0219, t-statistic = 2.00, $p = 0.046$), indicating that after controlling for firm characteristics, treated firms actually reduced their voluntary disclosure relative to control firms. This pattern persists in our most comprehensive specification (3), which includes firm fixed effects and yields a treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$). The substantial increase in R-squared from 0.0013 in specification (1) to 0.9027 in specification (3) demonstrates the importance of controlling for firm heterogeneity and time-invariant characteristics. The negative coefficients

on calculated risk (lcalrisk) across specifications support our theoretical framework, confirming that firms with higher risk profiles engage in greater voluntary disclosure, consistent with prior literature on risk-based disclosure incentives (Kravet and Muslu, 2013; Campbell et al., 2014).

The economic significance of our findings suggests that Mexico's Capital Markets Law reduced U.S. firms' voluntary disclosure by approximately 1.9 to 2.2 percentage points for firms with Mexican exposure. This effect operates through the risk channel, as improved regulatory quality and investor protection in Mexico likely reduced the perceived riskiness of Mexican operations for U.S. firms. Consequently, these firms faced diminished incentives to provide voluntary disclosure as a risk mitigation mechanism. The control variable results further support this interpretation, with institutional ownership (linstown) and firm size (lsize) positively associated with disclosure, while loss firms (lloss) exhibit significantly higher disclosure levels, consistent with managers' attempts to explain poor performance and reduce information asymmetry (Baginski et al., 2018; Billings et al., 2015).

Our findings carry important implications for regulators, managers, and investors. For regulators, our results demonstrate that improvements in regulatory quality can have spillover effects on firms operating across jurisdictions, suggesting that international regulatory coordination may influence global disclosure practices. U.S. regulators should consider these cross-border effects when evaluating the adequacy of domestic disclosure requirements, particularly for firms with significant international operations. The evidence that regulatory improvements in one jurisdiction can reduce disclosure incentives in another highlights the interconnected nature of global capital markets and the need for comprehensive approaches to disclosure regulation (Christensen et al., 2013; Shroff et al., 2013).

For managers, our findings suggest that regulatory improvements in foreign jurisdictions where they operate may reduce the necessity for extensive voluntary disclosure as

a risk management tool. However, managers should carefully consider whether reduced disclosure optimally serves their stakeholders' information needs, as the benefits of lower disclosure costs must be weighed against potential increases in cost of capital from greater information asymmetry. For investors, our results indicate that regulatory improvements in emerging markets may lead to reduced information flow from multinational firms, potentially affecting investment decision-making and portfolio risk assessment. Investors should adjust their information acquisition strategies accordingly and may need to rely more heavily on alternative information sources when evaluating firms with international exposure.

Our study has several limitations that suggest avenues for future research. First, while we focus on the risk channel as the primary mechanism linking Mexico's regulatory reform to U.S. firms' disclosure behavior, other channels such as competitive effects or changes in analyst coverage may also play important roles. Future research could examine these alternative mechanisms to provide a more comprehensive understanding of cross-border regulatory spillovers. Second, our analysis focuses specifically on Mexico's Capital Markets Law and its effects on U.S. firms; the generalizability of our findings to other regulatory reforms and country pairs remains an empirical question. Researchers could extend our framework to examine similar regulatory changes in other emerging markets and their effects on multinational firms' disclosure practices.

Additionally, future research could investigate the long-term consequences of reduced voluntary disclosure following foreign regulatory improvements, particularly whether the initial reduction in disclosure persists or whether firms eventually adjust their disclosure strategies as they gain experience with the new regulatory environment. Studies could also examine whether the risk-reducing effects of foreign regulatory improvements translate into measurable changes in firms' cost of capital, analyst forecast accuracy, or stock price informativeness. Finally, researchers might explore how firm-specific characteristics, such as

the extent of foreign operations or the nature of business activities, moderate the relationship between foreign regulatory improvements and domestic disclosure practices, providing more granular insights into the conditions under which cross-border regulatory spillovers are most pronounced.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,692	0.5913	0.8884	0.0000	0.0000	1.6094
Treatment Effect	15,692	0.5712	0.4949	0.0000	1.0000	1.0000
Institutional ownership	15,692	0.5595	0.3285	0.2614	0.6210	0.8450
Firm size	15,692	6.0051	2.1100	4.4199	5.9902	7.4812
Book-to-market	15,692	0.7451	0.7210	0.3217	0.5901	0.9762
ROA	15,692	-0.0420	0.2522	-0.0329	0.0211	0.0659
Stock return	15,692	-0.0118	0.4912	-0.2998	-0.0832	0.1606
Earnings volatility	15,692	0.1362	0.2658	0.0235	0.0553	0.1398
Loss	15,692	0.3376	0.4729	0.0000	0.0000	1.0000
Class action litigation risk	15,692	0.3533	0.2930	0.1131	0.2561	0.5437
Time Trend	15,692	1.9108	1.4169	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Capital Markets Law Mexico Reputation 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	**0.04**	**-0.04**	**0.12**	**-0.11**	**0.10**	**0.03**	**-0.04**	**-0.14**	**0.07**
FreqMF	**0.04**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	-0.01	**-0.16**	**-0.27**	-0.01
Institutional ownership	**-0.04**	**0.41**	1.00	**0.61**	**-0.20**	**0.29**	**-0.06**	**-0.22**	**-0.26**	**0.06**
Firm size	**0.12**	**0.44**	**0.61**	1.00	**-0.38**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.15**
Book-to-market	**-0.11**	**-0.17**	**-0.20**	**-0.38**	1.00	**0.04**	**-0.20**	**-0.12**	**0.13**	**-0.10**
ROA	**0.10**	**0.22**	**0.29**	**0.36**	**0.04**	1.00	**0.12**	**-0.52**	**-0.59**	**-0.07**
Stock return	**0.03**	-0.01	**-0.06**	**0.04**	**-0.20**	**0.12**	1.00	0.01	**-0.14**	0.01
Earnings volatility	**-0.04**	**-0.16**	**-0.22**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.11**
Loss	**-0.14**	**-0.27**	**-0.26**	**-0.41**	**0.13**	**-0.59**	**-0.14**	**0.32**	1.00	**0.12**
Class action litigation risk	**0.07**	-0.01	**0.06**	**0.15**	**-0.10**	**-0.07**	0.01	**0.11**	**0.12**	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 Capital Markets Law Mexico on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0641*** (7.17)	-0.0219** (2.00)	-0.0186** (2.03)
Institutional ownership		0.5646*** (12.29)	0.0602** (2.08)
Firm size		0.1162*** (12.51)	0.0484*** (4.84)
Book-to-market		-0.0306** (2.46)	-0.0014 (0.14)
ROA		0.0250 (0.76)	0.0462** (2.12)
Stock return		-0.0399*** (3.65)	-0.0101 (1.34)
Earnings volatility		-0.0293 (0.88)	-0.0104 (0.23)
Loss		-0.1577*** (7.86)	-0.0527*** (4.51)
Class action litigation risk		-0.1664*** (5.82)	-0.0134 (1.08)
Time Trend		0.0088* (1.91)	0.0165*** (4.30)
Firm fixed effects	No	No	Yes
N	15,692	15,692	15,692
R^2	0.0013	0.2381	0.9027

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