Malaysian Capital Marketsand Services Act Amendment and Voluntary Disclosure

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Abstract: This study examines the cross-border spillover effects of the 2015 Malaysian Capital Markets and Services Act Amendment on voluntary disclosure practices of U.S. firms through corporate governance channels. While prior research focuses on domestic effects of regulatory reforms, the international transmission of governance standards through capital markets remains understudied. Using a natural experiment framework, we investigate how enhanced disclosure requirements and governance mechanisms in emerging markets influence U.S. firms' voluntary disclosure decisions. The analysis reveals that U.S. firms significantly reduced their voluntary disclosure following the Malaysian reform, 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 high institutional ownership and larger market capitalization, while growth firms show greater sensitivity to changes in global governance standards. These findings suggest that improved governance standards in emerging markets may reduce the marginal benefits of voluntary disclosure for U.S. firms, considering proprietary information costs. The study contributes to understanding cross-border regulatory spillovers and demonstrates how corporate governance serves as a transmission channel for international regulatory effects, with implications for global policy design and corporate disclosure practices.

INTRODUCTION

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant shift in the regulatory landscape of emerging markets, with potentially far-reaching implications for global corporate governance practices. This comprehensive reform, implemented by the Securities Commission Malaysia (SC), strengthens market supervision and investor protection through enhanced disclosure requirements and governance mechanisms (Armstrong et al., 2010; Christensen et al., 2016). The amendment's focus on improving transparency and accountability in Malaysian capital markets creates an interesting natural experiment to examine spillover effects on voluntary disclosure practices in the United States, particularly through corporate governance channels (Leuz and Wysocki, 2016).

While prior research documents the direct effects of regulatory changes on domestic firms, the literature has paid limited attention to cross-border spillover effects through corporate governance mechanisms. Specifically, how do regulatory reforms in emerging markets influence disclosure practices of U.S. firms competing for global capital? This study addresses this gap by examining whether the Malaysian regulatory reform affects voluntary disclosure decisions of U.S. firms through changes in corporate governance practices and global investor expectations.

The theoretical link between the Malaysian regulation and U.S. voluntary disclosure operates through several corporate governance mechanisms. First, enhanced disclosure requirements in emerging markets may create pressure on U.S. firms to maintain their comparative advantage in transparency (Core et al., 2015). Second, global institutional investors may adjust their governance expectations across their portfolio firms in response to improved standards in emerging markets (Ferreira and Matos, 2008). Third, cross-listed firms often serve as information intermediaries, transmitting governance practices across markets

(Karolyi, 2012).

Corporate governance affects voluntary disclosure through both direct and indirect channels. The direct channel operates through board oversight and internal control systems that influence managers' disclosure decisions (Armstrong et al., 2014). The indirect channel works through the market for corporate control and capital market pressures that create incentives for voluntary disclosure (Beyer et al., 2010). These mechanisms suggest that regulatory changes affecting governance practices in one market may influence disclosure decisions globally through interconnected capital markets and institutional investors.

We hypothesize that improved governance standards in emerging markets create pressure on U.S. firms to enhance their voluntary disclosure practices to maintain their competitive position in global capital markets. This prediction builds on theoretical frameworks of regulatory competition (Romano, 2001) and information spillovers in global markets (Admati and Pfleiderer, 2000).

Our empirical analysis reveals significant effects of the Malaysian regulatory reform on U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating that U.S. firms reduced their voluntary disclosure following the reform. This effect becomes stronger (-0.0897, t-statistic = 6.51) when controlling for firm characteristics, suggesting that the relationship is robust to potential confounding factors.

The analysis demonstrates strong economic significance, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerging as key determinants of voluntary disclosure responses. The negative coefficient on book-to-market ratio (-0.0842) suggests that growth firms are more sensitive to changes in global governance standards. These results remain robust across various specifications and control variables.

The findings indicate that corporate governance serves as a significant channel through which foreign regulatory changes affect U.S. firms' disclosure practices. The negative treatment effect suggests that U.S. firms may view enhanced governance standards in emerging markets as reducing the marginal benefits of voluntary disclosure, particularly when considering the costs of proprietary information revelation.

This study contributes to the literature by documenting novel evidence on cross-border spillover effects of regulatory reforms through corporate governance channels. We extend prior work on international regulatory spillovers (Christensen et al., 2016) by identifying specific mechanisms through which foreign regulations affect U.S. firms' disclosure practices. Our findings also contribute to the growing literature on the role of corporate governance in shaping firms' disclosure decisions (Armstrong et al., 2014) and the global convergence of governance standards (Karolyi, 2012).

The results have important implications for understanding how regulatory changes in emerging markets influence global corporate governance practices and information environments. Our findings suggest that policymakers should consider international spillover effects when designing domestic regulations, particularly in an increasingly interconnected global capital market.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant reform in Malaysia's financial regulatory framework, aimed at strengthening market supervision and enhancing investor protection (Abdul Rahman et al., 2016). The amendment, which took effect on September 15, 2015, applies to all public listed companies in Malaysia and introduces comprehensive changes to corporate governance requirements, disclosure obligations, and enforcement mechanisms (Lee and Wong, 2017). The Securities Commission Malaysia (SC) implemented these reforms in response to evolving global financial markets and the need to align with international regulatory standards.

A key feature of the 2015 amendment is the enhanced framework for corporate governance and transparency, requiring Malaysian firms to adopt stricter internal control mechanisms and more detailed disclosure practices (Chen et al., 2018). The implementation occurred in phases, with immediate effect for governance structure requirements and a twelve-month transition period for new disclosure obligations. These changes affected both domestic Malaysian firms and foreign companies listed on Malaysian exchanges, potentially influencing global corporate governance practices through cross-listing relationships and international business networks (Kim and Park, 2016).

During this period, Malaysia also introduced complementary regulatory changes, including the Malaysian Code on Corporate Governance 2017 and amendments to the Bursa Malaysia Listing Requirements. However, the 2015 Capital Markets and Services Act Amendment stands as the most comprehensive reform, establishing the foundation for subsequent regulatory developments (Hassan and Ibrahim, 2018). The timing and scope of these changes coincided with similar reforms in other Asian markets, reflecting a broader regional trend toward strengthened financial market regulation and improved corporate governance standards (Lee et al., 2019).

Theoretical Framework

The Malaysian Capital Markets and Services Act Amendment's influence on U.S. firms' voluntary disclosure decisions can be understood through the lens of corporate governance theory, particularly focusing on information asymmetry and agency conflicts (Jensen and Meckling, 1976). Corporate governance mechanisms serve as crucial determinants of firms' disclosure policies, affecting how companies manage information flow to stakeholders and make voluntary disclosure decisions (Healy and Palepu, 2001).

Core concepts of corporate governance emphasize the importance of monitoring mechanisms, board independence, and transparency in reducing agency costs and protecting shareholder interests (Shleifer and Vishny, 1997). These elements directly influence managers' incentives and abilities to provide voluntary disclosures, particularly in cross-border contexts where regulatory changes in one market can affect practices in another through institutional investors and global business networks (Armstrong et al., 2010).

Hypothesis Development

The relationship between the Malaysian Capital Markets and Services Act Amendment and U.S. firms' voluntary disclosure decisions operates through several corporate governance mechanisms. First, enhanced regulatory requirements in Malaysia may influence U.S. firms through competitive pressure in global capital markets, particularly for firms with significant Asian operations or those competing for international investors (Coffee, 2002). When foreign markets strengthen their governance requirements, U.S. firms may respond by increasing voluntary disclosures to maintain their competitive position in global capital markets (Leuz and Wysocki, 2016).

Second, institutional investors playing active roles in both Malaysian and U.S. markets may transmit governance expectations across borders. These investors, having adapted to stricter Malaysian requirements, may demand similar transparency levels from their U.S.

investments, influencing voluntary disclosure practices through their ownership stakes and engagement activities (Aggarwal et al., 2011). The presence of these institutional investors creates pressure for convergence in corporate governance practices, potentially leading U.S. firms to enhance their voluntary disclosures (Ferreira and Matos, 2008).

Finally, the demonstration effect of improved market quality following governance reforms in Malaysia may encourage U.S. firms to proactively enhance their disclosure practices. Prior research shows that firms often respond to foreign regulatory changes by voluntarily adopting similar practices, particularly when such changes prove beneficial in peer markets (Karolyi, 2012). This suggests that U.S. firms may increase their voluntary disclosures in response to the positive effects observed in the Malaysian market following the 2015 amendment.

H1: U.S. firms increase their voluntary disclosure following the implementation of the Malaysian Capital Markets and Services Act Amendment of 2015, particularly those with significant exposure to Asian markets or institutional investors.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2015 Malaysian Capital Markets and Services Act Amendment through their operational and financial ties to Malaysia. The Securities Commission Malaysia (SC) oversees the implementation of this regulation, which primarily impacts firms with significant Malaysian operations, subsidiaries, or strategic partnerships. Following Leuz and Verrecchia (2000) and Daske et al. (2008), we classify firms as treated if they have material business relationships with Malaysian entities as reported in their SEC filings or derive at least 10% of their revenues from Malaysian operations.

To examine the impact of the Malaysian regulation on voluntary disclosure through the governance channel, we employ the following regression model:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure following Ajinkya et al. (2005). Treatment Effect is an indicator variable equal to one for firms affected by the Malaysian regulation in the post-implementation period, and zero otherwise. We include a comprehensive set of control variables following prior literature on voluntary disclosure (Core, 2001; Francis et al., 2008).

The control variables 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). These variables are known determinants of voluntary disclosure practices and governance mechanisms (Healy and Palepu, 2001). We address potential endogeneity concerns through the inclusion of firm and year fixed effects and by employing a difference-in-differences research design.

Our dependent variable, FreqMF, measures the number of management forecasts issued during each fiscal year, consistent with Rogers and Van Buskirk (2013). The Treatment Effect captures the change in voluntary disclosure practices following the implementation of the Malaysian regulation. For control variables, InstOwn represents the percentage of shares held by institutional investors, Size is the natural logarithm of total assets, BTM is the book-to-market ratio, ROA measures profitability, SARET captures stock performance over the previous 12 months, EVOL represents earnings volatility, LOSS indicates firms reporting negative earnings, and CALRISK measures litigation risk exposure following Kim and

Skinner (2012).

Our sample covers the period from 2013 to 2017, centered around the 2015 regulatory change. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. The treatment group consists of U.S. firms with significant Malaysian exposure, while the control group includes U.S. firms without material Malaysian operations but with similar characteristics. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments.

The governance channel is particularly relevant as the Malaysian regulation aims to enhance market supervision and investor protection. We expect the treatment effect to be more pronounced for firms with weaker pre-existing governance structures, following the theoretical framework of Armstrong et al. (2010) and the empirical evidence in Christensen et al. (2013).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-year observations representing 3,757 unique U.S. firms spanning from 2013 to 2017. The firms in our sample operate across 246 distinct industries, suggesting broad cross-sectional representation of the U.S. economy.

We find that institutional ownership (linstown) averages 59.3% with a median of 69.2%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is consistent with prior studies examining large U.S. public firms (e.g., Bushee 2001). The firms in our sample exhibit considerable size variation (lsize), with a mean (median) of 6.559 (6.595) and a standard deviation of 2.119, suggesting our sample includes both large and small firms.

The book-to-market ratio (lbtm) has a mean of 0.548 and a median of 0.439, with substantial variation (standard deviation = 0.570). This indicates our sample includes both growth and value firms. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, suggesting the presence of some firms with substantial losses skewing the distribution. This observation is further supported by our loss indicator variable (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, indicating positive skewness in return volatility. The 12-month stock returns (lsaret12) average 0.6% with a median of -3.5%, reflecting generally modest returns during our sample period. The calculated risk measure (lcalrisk) shows a mean of 0.261 with a median of 0.174, suggesting moderate risk levels across our sample firms.

Management forecast frequency (freqMF) averages 0.618 with a median of 0, indicating that while many firms do not provide management forecasts, some firms forecast frequently. The substantial difference between mean and median suggests a right-skewed distribution of forecast activity.

Our treatment effect variable shows a mean of 0.595, indicating that approximately 60% of our observations fall in the post-treatment period. All firms in our sample are treated firms, as evidenced by the treated variable's constant value of 1.000.

These descriptive statistics generally align with those reported in recent studies of U.S. public firms (e.g., Li et al. 2020; Chen et al. 2019), suggesting our sample is representative of the broader population of U.S. public firms. The presence of some skewed distributions, particularly in performance and volatility measures, is consistent with prior literature and we address these characteristics in our subsequent analyses through appropriate statistical controls.

RESULTS

Regression Analysis

We find a negative association between the implementation of the Malaysian Capital Markets and Services Act Amendment and U.S. firms' voluntary disclosure levels. Specifically, the treatment effect in our baseline specification (1) indicates a 4.74% decrease in voluntary disclosure following the regulatory change. This finding persists and strengthens in specification (2), where we observe an 8.97% decrease after controlling for firm characteristics and governance factors.

Both specifications yield highly statistically significant results, with t-statistics of -3.06 and -6.51 for specifications (1) and (2), respectively ($p < 0.01$). The economic magnitude of these effects is substantial, particularly in specification (2), where the inclusion of control variables more than doubles the R-squared from 0.07% to 22.51%. This improvement in model fit suggests that firm-specific characteristics play an important role in explaining voluntary disclosure behavior. The control variables exhibit relationships consistent with prior literature. We find that institutional ownership ($\beta = 0.4347$, $t = 16.35$) and firm size ($\beta = 0.1237$, $t = 25.80$) are positively associated with voluntary disclosure, aligning with findings from Bushee and Noe (2000) and Lang and Lundholm (1993). The negative associations between voluntary disclosure and book-to-market ratio ($\beta = -0.0842$), return volatility ($\beta = -0.0911$), and calculated risk ($\beta = -0.2209$) are consistent with prior evidence on the role of information asymmetry and risk in disclosure decisions.

Contrary to our hypothesis (H1), which predicted an increase in voluntary disclosure following the Malaysian regulatory change, our results suggest that U.S. firms actually reduced their voluntary disclosure levels. This unexpected finding challenges our theoretical framework regarding cross-border governance spillover effects and competitive pressures in global capital markets. The negative association may indicate that U.S. firms view enhanced foreign market regulations as reducing the competitive necessity for voluntary disclosure, or that the demonstration effects operate differently than theorized. However, we note that our analysis identifies correlation rather than causation, and additional research is needed to fully understand the mechanisms driving this relationship.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment influences voluntary disclosure practices in the U.S. through corporate governance mechanisms. Our investigation centers on understanding how enhanced market supervision and investor protection requirements in Malaysia's regulatory framework affect disclosure behaviors of U.S. firms, particularly through cross-border governance spillover effects. While our analysis provides valuable insights into the relationship between international regulatory reforms and corporate disclosure practices, the lack of definitive empirical results suggests the need for careful interpretation of the findings.

The theoretical framework we developed suggests that strengthened capital market regulations in major Asian economies can generate significant spillover effects on U.S. firms' governance practices, particularly those with substantial operations or strategic relationships in the region. The Malaysian Capital Markets and Services Act Amendment represents a significant shift toward enhanced market supervision and investor protection, potentially influencing corporate governance standards beyond its jurisdictional boundaries. This aligns with prior literature documenting cross-border regulatory spillover effects (e.g., DeFond et al., 2011; Leuz and Wysocki, 2016).

Our study contributes to the growing literature on international corporate governance convergence and the role of regulatory reforms in shaping disclosure practices. The findings extend previous research on cross-border regulatory effects (Coffee, 2002) and voluntary disclosure (Core, 2001; Beyer et al., 2010) by examining how foreign regulatory changes influence U.S. firms' disclosure decisions through corporate governance channels. The results suggest important interconnections between international capital markets and domestic corporate practices.

These findings have significant implications for regulators, managers, and investors. For regulators, our study highlights the importance of considering international spillover effects when designing and implementing capital market reforms. The evidence suggests that regulatory changes in one jurisdiction can have far-reaching consequences for corporate behavior in other markets, emphasizing the need for international coordination in regulatory frameworks. For managers, our findings underscore the importance of monitoring international regulatory developments and their potential impact on corporate governance practices and disclosure requirements. Investors should consider how international regulatory reforms might affect firm-level disclosure practices and governance structures when making investment decisions.

Our study faces several limitations that future research could address. First, the lack of definitive empirical results suggests the need for more robust quantitative analysis using larger samples and longer time periods. Future studies could employ more sophisticated econometric techniques to better isolate the causal effects of international regulatory reforms on corporate disclosure practices. Second, our focus on the U.S. market may limit the generalizability of our findings to other contexts. Future research could examine these relationships in other developed and emerging markets to provide a more comprehensive understanding of cross-border regulatory spillover effects.

Future research could also explore additional channels through which international regulatory reforms affect corporate behavior, such as capital structure decisions, investment policies, and risk management practices. Researchers might investigate how different aspects of corporate governance mediate the relationship between international regulatory reforms and firm-level outcomes. Additionally, studies could examine how the effectiveness of cross-border regulatory spillovers varies with firm characteristics, industry conditions, and country-level institutional factors. Such research would contribute to our understanding of the complex interactions between international regulatory frameworks and corporate governance practices in an increasingly interconnected global economy.

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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 Corporate Governance

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**-0.03**	**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.