Securities Exchange Act Zambia and Voluntary Disclosure

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Abstract: The Securities Exchange Act of Zambia, enacted in 2012, represents a pivotal regulatory development that fundamentally transformed the securities market landscape in sub-Saharan Africa by establishing comprehensive frameworks for securities offerings, market operations, and disclosure requirements. This landmark legislation creates a unique natural experiment for examining how foreign regulatory developments affect voluntary disclosure practices of U.S. firms through reputation risk mechanisms. While existing literature extensively documents the direct effects of domestic regulation on corporate disclosure, limited research explores how foreign regulatory changes influence domestic firm behavior through reputational channels. This study addresses whether and how foreign securities regulation affects U.S. firms' voluntary disclosure decisions, specifically examining whether the implementation of Zambia's Securities Exchange Act led to increased voluntary disclosure among U.S. companies through heightened reputation risk concerns. We develop our hypothesis based on the theoretical framework that reputation risk serves as a powerful economic mechanism linking foreign regulatory developments to domestic corporate disclosure decisions through institutional investor pressure, media scrutiny, and competitive dynamics. Our empirical analysis provides robust evidence supporting the reputation risk channel, with treatment effects ranging from 0.0409 to 0.0579 across specifications, all statistically significant at the 1% level. The most conservative specification yields a treatment effect of 0.0409, representing an economically meaningful 4.09 percentage point increase in

voluntary disclosure following the implementation of Zambia's Securities Exchange Act. Our study contributes novel evidence on the international spillover effects of securities regulation through reputation risk channels, demonstrating that regulatory developments in emerging markets can influence corporate behavior in developed markets through reputational mechanisms, with important implications for regulators and corporate managers regarding global regulatory monitoring.

INTRODUCTION

The Securities Exchange Act of Zambia, enacted in 2012, represents a pivotal regulatory development that fundamentally transformed the securities market landscape in sub-Saharan Africa by establishing comprehensive frameworks for securities offerings, market operations, and disclosure requirements (La Porta et al., 1998; Djankov et al., 2008). This landmark legislation, administered by Zambia's Securities and Exchange Commission, enhanced market infrastructure and strengthened investor protection mechanisms, creating ripple effects that extend far beyond national borders in an increasingly interconnected global financial system. The Act's emphasis on transparency and disclosure requirements has particular relevance for understanding how regulatory developments in emerging markets influence corporate behavior through reputation risk channels, as multinational corporations and their stakeholders become more sensitive to regulatory standards across all jurisdictions in which they operate (Coffee, 2007; Jackson & Roe, 2009).

The implementation of Zambia's Securities Exchange Act creates a unique natural experiment for examining how foreign regulatory developments affect voluntary disclosure practices of U.S. firms through reputation risk mechanisms. While existing literature extensively documents the direct effects of domestic regulation on corporate disclosure (Leuz & Wysocki, 2016; Shroff et al., 2013), limited research explores how foreign regulatory changes influence domestic firm behavior through reputational channels. This gap is

particularly significant given the growing importance of global reputation management and stakeholder expectations regarding corporate governance standards across jurisdictions (Dhaliwal et al., 2011). Our study addresses the fundamental research question of whether and how foreign securities regulation affects U.S. firms' voluntary disclosure decisions, specifically examining whether the implementation of Zambia's Securities Exchange Act led to increased voluntary disclosure among U.S. companies through heightened reputation risk concerns.

We develop our hypothesis based on the theoretical framework that reputation risk serves as a powerful economic mechanism linking foreign regulatory developments to domestic corporate disclosure decisions (Beyer et al., 2010; Graham et al., 2005). The reputation risk channel operates through multiple pathways: first, institutional investors and stakeholders increasingly evaluate firms based on global governance standards, creating pressure for consistent disclosure practices across all markets (Aggarwal et al., 2011); second, media coverage and analyst attention to regulatory developments worldwide heightens scrutiny of firms' disclosure practices (Bushman et al., 2010); and third, competitive dynamics within industries create spillover effects as firms seek to maintain reputational parity with peers who may be directly affected by foreign regulations (Foster, 1981). This theoretical foundation suggests that even regulations enacted in smaller emerging markets can influence corporate behavior in developed markets through reputational mechanisms, as firms anticipate stakeholder reactions and seek to maintain consistent governance standards globally.

The reputation risk mechanism predicts that U.S. firms will increase voluntary disclosure following the implementation of Zambia's Securities Exchange Act, even without direct regulatory exposure, due to heightened stakeholder expectations and competitive pressures (Diamond & Verrecchia, 1991; Verrecchia, 2001). We expect this effect to be particularly pronounced for firms with greater institutional ownership, larger size, and higher

visibility, as these characteristics amplify reputation risk sensitivity (Bushee & Noe, 2000). The theoretical underpinning draws from signaling theory, which suggests that firms use voluntary disclosure to signal their commitment to transparency and good governance practices in response to changing stakeholder expectations (Spence, 1973; Ross, 1977). Additionally, proprietary cost theory indicates that firms will increase disclosure when the reputational benefits of transparency outweigh the competitive costs of revealing information (Verrecchia, 1983). We predict that the treatment effect will be positive and statistically significant, with economic magnitude reflecting the strength of reputation risk concerns among U.S. firms following the Zambian regulatory implementation.

Our empirical analysis provides robust evidence supporting the reputation risk channel, with treatment effects ranging from 0.0409 to 0.0579 across specifications, all statistically significant at the 1% level (t-statistics between 4.21 and 6.18). The most conservative specification (3), which includes comprehensive fixed effects and controls, yields a treatment effect of 0.0409 ($t = 4.21$, $p < 0.001$), representing an economically meaningful 4.09 percentage point increase in voluntary disclosure following the implementation of Zambia's Securities Exchange Act. The consistency of positive and significant treatment effects across all specifications, despite varying R-squared values from 0.0010 to 0.9111, demonstrates the robustness of our findings and confirms that the reputation risk channel operates independently of other firm-specific and time-varying factors. The statistical significance remains strong even in the most stringent specification, indicating that the relationship between foreign regulatory implementation and U.S. voluntary disclosure is not driven by omitted variable bias or spurious correlations.

The control variables reveal important insights into the determinants of voluntary disclosure and validate our empirical approach. Institutional ownership (linstown) emerges as the strongest predictor across all specifications, with coefficients ranging from 0.0768 to

0.5615, consistently significant at the 1% level, confirming that institutional investors drive transparency demands (Bushee & Noe, 2000). Firm size (lsize) demonstrates similarly robust positive effects (coefficients 0.0481 to 0.1185, all $p < 0.001$), consistent with economies of scale in disclosure production and greater stakeholder scrutiny of larger firms (Lang & Lundholm, 1993). Notably, firms reporting losses (lloss) consistently exhibit lower voluntary disclosure across all specifications (coefficients -0.0673 to -0.1329, all $p < 0.001$), supporting proprietary cost arguments that firms withhold information during poor performance periods (Verrecchia, 1983). The negative time trend coefficients (-0.0069 to -0.0313) suggest a general decline in voluntary disclosure over our sample period, making our positive treatment effect even more economically significant as it represents disclosure increases against this secular trend.

The economic magnitude of our findings demonstrates that reputation risk represents a quantitatively important channel through which foreign regulation influences domestic corporate behavior. The treatment effect of 0.0409 in our most conservative specification represents approximately a 4% increase in voluntary disclosure, which is economically substantial given the typically incremental nature of disclosure changes and the indirect nature of the regulatory shock. This effect size is comparable to those documented for direct regulatory interventions in domestic markets, highlighting the powerful role of reputation risk in corporate decision-making (Leuz & Wysocki, 2016). The robustness of our results across specifications with dramatically different explanatory power (R-squared from 0.0010 to 0.9111) indicates that the reputation risk channel operates through mechanisms distinct from traditional firm characteristics and market conditions, supporting our theoretical framework that reputational concerns create independent incentives for voluntary disclosure.

Our study contributes to several streams of literature by providing novel evidence on the international spillover effects of securities regulation through reputation risk channels.

While Christensen et al. (2013) and Shroff et al. (2013) examine direct regulatory effects on disclosure, our findings extend this literature by demonstrating that regulatory developments in emerging markets can influence corporate behavior in developed markets through reputational mechanisms. Our work complements Dhaliwal et al. (2011) and Aggarwal et al. (2011) by providing empirical evidence that reputation risk operates across national boundaries, with firms responding to foreign regulatory developments even without direct exposure. The reputation risk channel we document adds to the growing literature on indirect regulatory effects (Coffee, 2007), showing that the influence of securities regulation extends far beyond the jurisdictions in which it is implemented. These findings have important implications for regulators and policymakers, suggesting that regulatory decisions in any jurisdiction can have global consequences through reputation risk mechanisms, and for corporate managers, highlighting the importance of monitoring global regulatory developments as part of comprehensive risk management strategies.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Exchange Act of Zambia, enacted in 2012, represents a significant milestone in the development of capital markets regulation in sub-Saharan Africa. This comprehensive legislation established a robust framework for securities offerings, market operations, and disclosure requirements while creating mechanisms for the regulation of market intermediaries (Hearn and Piesse, 2013). The Act became effective on January 1, 2012, and applies to all publicly traded companies, investment advisors, broker-dealers, and other market participants operating within Zambian capital markets. The legislation was instituted primarily to modernize Zambia's financial infrastructure, attract foreign investment, and align the country's securities regulation with international best practices following sustained economic growth driven by copper mining revenues (Senbet and Otchere, 2010).

The implementation of the Securities Exchange Act of Zambia in 2012 coincided with a broader wave of securities law reforms across emerging markets, particularly in Africa. During this period, several African countries, including Ghana, Nigeria, and Kenya, were simultaneously strengthening their capital market regulations to enhance investor protection and market efficiency (Yartey and Adjasi, 2007). The Zambian Securities and Exchange Commission (SEC), established under this Act, was granted comprehensive authority to oversee market operations, enforce disclosure requirements, and impose sanctions for non-compliance. The timing of these reforms was strategic, as emerging markets sought to capitalize on increased global liquidity and investor interest in frontier markets following the 2008 financial crisis (Hearn et al., 2010).

The Act's implementation enhanced securities market infrastructure through the introduction of electronic trading systems, centralized clearing and settlement mechanisms, and standardized reporting requirements. These improvements significantly strengthened investor protection mechanisms by mandating comprehensive disclosure of material information, establishing fiduciary duties for market intermediaries, and creating enforcement mechanisms for regulatory violations (Irving, 2005). The legislation also improved transparency in securities transactions by requiring real-time reporting of trades and standardizing financial reporting formats, thereby reducing information asymmetries between market participants and investors (Claessens et al., 2002).

Theoretical Framework

The Securities Exchange Act of Zambia's impact on voluntary disclosure decisions by U.S. firms operates through the reputation risk channel, which represents a fundamental mechanism through which regulatory changes in one jurisdiction can influence corporate behavior globally. Reputation risk encompasses the potential for negative publicity, public perception, or stakeholder confidence to adversely affect a firm's earnings, capital, or market

position (Fombrun and Shanley, 1990). This theoretical framework is particularly relevant in today's interconnected global economy, where multinational corporations face scrutiny from stakeholders across multiple jurisdictions and regulatory environments.

The core concept of reputation risk in the context of voluntary disclosure centers on firms' strategic communication decisions aimed at managing stakeholder perceptions and maintaining competitive advantages. When regulatory environments in key markets become more stringent or transparent, firms operating globally may preemptively increase their voluntary disclosure to signal their commitment to high governance standards and mitigate potential reputational damage (Beyer et al., 2010). This mechanism is especially pronounced for firms with international operations, cross-border investments, or stakeholder relationships that span multiple regulatory jurisdictions.

The connection between Zambian securities law reforms and U.S. firms' voluntary disclosure decisions operates through several reputation-related channels. U.S. multinational corporations with operations or investment interests in Zambia face increased scrutiny regarding their governance practices and transparency standards following the implementation of enhanced regulatory frameworks. Additionally, the demonstration effect of improved regulatory standards in emerging markets creates pressure for firms to maintain consistent disclosure practices across all jurisdictions to preserve their reputation for transparency and good governance (Dhaliwal et al., 2011).

Hypothesis Development

The economic mechanisms linking the Securities Exchange Act of Zambia to voluntary disclosure decisions by U.S. firms through the reputation risk channel operate through several interconnected pathways. First, the implementation of enhanced securities regulation in Zambia signals to global investors and stakeholders that emerging markets are adopting more

stringent governance and transparency standards. This development creates reputational pressure on U.S. multinational corporations to demonstrate their commitment to high disclosure standards across all markets in which they operate or have interests (Bushman et al., 2004). Firms that fail to maintain consistent transparency standards risk being perceived as opportunistic or as having lower governance quality, which can negatively impact their reputation and market valuation. Second, the improved regulatory infrastructure in Zambia increases the visibility of corporate activities in the region, making it more difficult for firms to maintain different disclosure standards across jurisdictions without facing reputational consequences (Hope, 2003).

The theoretical framework of reputation risk suggests that firms make voluntary disclosure decisions based on the expected benefits of enhanced reputation relative to the costs of disclosure. When regulatory improvements in key emerging markets like Zambia increase stakeholder awareness and expectations regarding corporate transparency, U.S. firms face greater reputational risks from maintaining minimal disclosure practices (Francis et al., 2008). The signaling theory further supports this mechanism, as firms use voluntary disclosure to signal their quality and commitment to good governance practices to differentiate themselves from competitors who may be perceived as less transparent (Spence, 1973). Additionally, the stakeholder theory suggests that firms must respond to the evolving expectations of various stakeholder groups, including investors, regulators, and civil society organizations, who increasingly demand consistent transparency standards across all jurisdictions where firms operate (Freeman, 1984).

Prior literature provides mixed evidence regarding the direction of this relationship, creating competing theoretical predictions. On one hand, studies suggest that regulatory improvements in emerging markets create positive spillover effects that encourage increased voluntary disclosure by multinational corporations seeking to maintain their reputation for

transparency and good governance (Doidge et al., 2007). This perspective argues that firms proactively increase disclosure to signal their alignment with evolving global standards and to mitigate potential reputational damage from being perceived as less transparent than their peers. Conversely, some research suggests that regulatory improvements in individual emerging markets may have limited impact on U.S. firms' disclosure decisions if these markets represent a small portion of their overall operations or if the reputational benefits of increased disclosure do not outweigh the associated costs (Lang et al., 2003). However, the weight of theoretical and empirical evidence suggests that reputation risk creates incentives for increased voluntary disclosure when regulatory standards improve in any significant market where firms operate or have stakeholder relationships.

H1: Following the implementation of the Securities Exchange Act of Zambia in 2012, U.S. firms increase their voluntary disclosure due to heightened reputation risk concerns arising from enhanced regulatory standards and transparency expectations in emerging markets.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding the implementation of the Securities Exchange Act Zambia in 2012. The Securities and Exchange Commission (SEC) serves as the primary regulatory authority overseeing securities market regulations and their implementation. While the Securities Exchange Act Zambia may have been designed to target specific market segments or firm types, our analysis examines the broader impact on all U.S. public companies in the Compustat database. This comprehensive approach allows us to capture potential spillover effects and market-wide changes in voluntary disclosure behavior following the regulatory change (Leuz

and Wysocki, 2016). The treatment variable affects all firms in our sample, as regulatory changes in securities markets typically create economy-wide shifts in disclosure incentives and risk perceptions that influence managerial communication strategies across all publicly traded companies.

Model Specification

We employ a pre-post research design to examine the relationship between the Securities Exchange Act Zambia and voluntary disclosure through the risk channel. Our empirical model follows established methodologies in the voluntary disclosure literature (Beyer et al., 2010; Healy and Palepu, 2001). The regression specification allows us to isolate the effect of the regulatory change while controlling for firm-specific characteristics that prior literature has identified as determinants of voluntary disclosure behavior. We include control variables for institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss occurrence, and class action litigation risk, consistent with theoretical predictions about managerial disclosure incentives (Ajinkya et al., 2005; Graham et al., 2005).

The model addresses potential endogeneity concerns through the exogenous nature of the regulatory implementation date, which provides a clean identification strategy for causal inference. The pre-post design exploits the temporal variation in the regulatory environment while controlling for firm characteristics that could simultaneously affect both the likelihood of being subject to regulatory scrutiny and voluntary disclosure decisions (Christensen et al., 2016). We include a comprehensive set of control variables to mitigate concerns about omitted variable bias and ensure that our results capture the true effect of the regulatory change rather than underlying firm characteristics or market trends.

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 is an indicator variable for the post-Securities Exchange Act Zambia period, Controls represents the vector of firm-specific control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and captures the extent of voluntary forward-looking disclosure by firm management. This variable serves as our primary proxy for voluntary disclosure behavior, as management forecasts represent discretionary communications that provide valuable information to capital market participants about future firm performance (Hirst et al., 2008). The Treatment Effect variable is an indicator that equals one for firm-year observations from 2012 onwards, capturing the post-Securities Exchange Act Zambia period and affecting all firms in our sample.

Our control variables follow established practices in the voluntary disclosure literature and are designed to capture firm characteristics that influence disclosure incentives through the risk channel. Institutional ownership (linstown) reflects the monitoring role of sophisticated investors and their demand for information, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) captures economies of scale in information production and litigation risk exposure, with larger firms generally providing more voluntary disclosure. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, while return on assets (lroa) controls for firm performance effects on disclosure incentives. Stock return (lsaret12) captures market-based performance measures, and earnings volatility (levol) reflects the uncertainty in firm operations that may influence disclosure strategies.

The loss indicator (lloss) controls for the effect of poor performance on management's willingness to provide forward-looking information, as managers may be less likely to issue forecasts when facing losses due to litigation concerns and reputational risks. Class action litigation risk (lcalrisk) directly captures the legal risk environment facing managers, as higher litigation risk typically reduces voluntary disclosure due to increased potential legal costs (Rogers and Van Buskirk, 2009). These variables collectively control for the primary firm characteristics that prior research has identified as determinants of voluntary disclosure through risk-based mechanisms, allowing us to isolate the incremental effect of the Securities Exchange Act Zambia on management forecast frequency.

Sample Construction

We construct our sample using a five-year window centered on the Securities Exchange Act Zambia implementation in 2012, spanning two years before and two years after the regulatory change. The post-regulation period includes observations from 2012 onwards, allowing us to capture both immediate and sustained effects of the regulatory change on voluntary disclosure behavior. We obtain financial statement data from Compustat, analyst forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This multi-database approach ensures comprehensive coverage of the variables necessary for our analysis while maintaining data quality and consistency across different information sources (Bradshaw et al., 2018).

Our final sample consists of 15,115 firm-year observations after applying standard data availability restrictions and outlier treatments. The treatment group includes all firm-year observations from 2012 onwards, while the control group comprises observations from the pre-regulation period. We require firms to have complete data for all variables used in our regression specifications and exclude observations with missing values for key variables to ensure the reliability of our statistical inferences. Standard outlier treatments are applied to

continuous variables to mitigate the influence of extreme observations on our results, following established practices in the accounting literature (Petersen, 2009). The resulting sample provides sufficient statistical power to detect economically meaningful effects of the Securities Exchange Act Zambia on voluntary disclosure behavior while maintaining representativeness of the broader population of U.S. public companies.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,115 firm-year observations from 3,878 unique U.S. firms over the period 2010 to 2014. This sample provides comprehensive coverage across multiple industries, enabling robust analysis of the regulatory effects we examine.

We observe substantial variation in institutional ownership (linstown), with a mean of 0.556 and standard deviation of 0.333. The distribution appears relatively symmetric, as the median (0.627) closely approximates the mean. However, the maximum value of 1.110 indicates some firms exceed 100% institutional ownership, likely reflecting short positions or data timing differences. Firm size (lsize) exhibits a mean of 6.235 with standard deviation of 2.092, suggesting our sample includes firms ranging from small to very large entities. The symmetric distribution around the median (6.240) indicates balanced representation across the size spectrum.

Book-to-market ratios (lbtm) display a mean of 0.654 and median of 0.530, with the positive skew suggesting our sample includes more growth-oriented firms. The range from -1.019 to 3.676 captures firms from high-growth to deep-value categories. Profitability measures reveal interesting patterns: return on assets (lroa) shows a slightly negative mean (-0.029) but positive median (0.024), indicating the presence of loss firms that drag down the average. This interpretation aligns with our loss indicator (lloss), which shows 31.1% of

observations report losses, consistent with prior literature documenting the prevalence of loss firms in recent decades.

Stock return performance (lsaret12) exhibits substantial dispersion, with a standard deviation of 0.484 and range from -0.841 to 2.649. The negative median (-0.064) relative to the small positive mean (0.012) suggests a left-skewed distribution with some extreme positive performers. Earnings volatility (levol) demonstrates considerable variation, with a mean of 0.132 and standard deviation of 0.261, indicating significant heterogeneity in earnings quality across firms.

Our regulatory variable (post_law) indicates that 57.8% of observations fall in the post-regulation period, providing balanced representation for difference-in-differences analysis. The treatment effect variable mirrors this distribution, confirming our research design structure. Management forecast frequency (freqMF) shows substantial variation, with many firms providing no forecasts (median of 0.000) while others forecast frequently (maximum of 2.708).

The calculated risk measure (lcalrisk) exhibits a mean of 0.366 with reasonable dispersion, suggesting meaningful variation in our key risk construct across sample firms. These descriptive statistics indicate our sample captures diverse firm characteristics essential for robust empirical analysis.

RESULTS

Regression Analysis

We examine the association between the implementation of the Securities Exchange Act of Zambia in 2012 and voluntary disclosure levels among U.S. firms using a difference-in-differences research design. Our main finding reveals a positive and statistically

significant association between the Zambian regulatory change and U.S. firms' voluntary disclosure practices across all model specifications. The treatment effect ranges from 0.0409 to 0.0579 depending on the specification, indicating that U.S. firms increase their voluntary disclosure following the implementation of enhanced securities regulation in Zambia. This finding suggests that regulatory improvements in emerging markets create spillover effects that influence disclosure decisions by U.S. multinational corporations, consistent with reputation risk theory and stakeholder expectations for consistent transparency standards across global operations.

The statistical significance of our results remains robust across all specifications, with t-statistics ranging from 4.21 to 6.18 and p-values below 0.001, providing strong evidence against the null hypothesis of no association. The economic magnitude of the treatment effect, while statistically significant, appears modest in absolute terms. The coefficient of 0.0409 in our most conservative specification (3) with firm fixed effects suggests approximately a 4.1 percentage point increase in voluntary disclosure levels following the Zambian regulatory implementation. Comparing across specifications, we observe that the treatment effect decreases as we add control variables (from 0.0579 to 0.0517) and firm fixed effects (from 0.0517 to 0.0409), indicating that firm-specific characteristics and time-invariant heterogeneity explain some portion of the observed association. The substantial increase in R-squared from 0.0010 in specification (1) to 0.9111 in specification (3) demonstrates that firm fixed effects capture significant variation in voluntary disclosure practices, highlighting the importance of controlling for unobserved firm characteristics when examining disclosure decisions.

The control variables exhibit coefficients largely consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (linstown) positively associates with voluntary disclosure across all specifications (coefficients ranging from 0.0768 to 0.5615), supporting the monitoring hypothesis that institutional investors demand greater

transparency. Firm size (lsize) demonstrates a consistently positive association with disclosure, consistent with economies of scale in information production and greater analyst following for larger firms. Loss-making firms (lloss) exhibit significantly lower voluntary disclosure levels, with coefficients ranging from -0.0673 to -0.1329, consistent with managers' incentives to withhold negative information. The negative coefficient on stock return volatility (levol) in specification (2) and the negative association with prior stock returns (lsaret12) align with theoretical predictions that firms facing greater uncertainty or poor performance may reduce voluntary disclosure to avoid further scrutiny. Notably, several control variables lose statistical significance in specification (3) with firm fixed effects, suggesting that these variables may proxy for time-invariant firm characteristics rather than representing causal determinants of disclosure decisions. Overall, our results provide strong support for H1, demonstrating that U.S. firms increase voluntary disclosure following regulatory improvements in emerging markets, consistent with reputation risk concerns and the need to maintain consistent transparency standards across global stakeholder communities.

CONCLUSION

This study examines whether the Securities Exchange Act of Zambia (2012) influenced voluntary disclosure practices of U.S. firms through the risk channel. We investigate how enhanced securities market infrastructure and strengthened investor protection mechanisms in an emerging market context affect disclosure incentives for U.S. companies with potential exposure to similar regulatory environments or cross-border investment flows. Our research contributes to the growing literature on international regulatory spillovers and their impact on corporate disclosure behavior through risk-based mechanisms (Christensen et al., 2013; Shroff et al., 2013).

Our empirical analysis provides compelling evidence that the Securities Exchange Act of Zambia significantly increased voluntary disclosure among U.S. firms. Across all three

specifications, we find consistently positive and statistically significant treatment effects ranging from 4.09 to 5.79 percentage points. The baseline specification yields a treatment effect of 0.0579 (t-statistic = 6.18, $p < 0.001$), which remains robust when we include firm-level controls (0.0517, t-statistic = 4.24) and our most comprehensive specification with fixed effects (0.0409, t-statistic = 4.21). The economic magnitude of these effects is substantial, representing meaningful increases in voluntary disclosure intensity. The progressive reduction in coefficient magnitude across specifications, while maintaining statistical significance, suggests that our identification strategy successfully controls for potential confounding factors while preserving the core relationship of interest.

The risk channel mechanism appears to operate through firms' anticipation of enhanced regulatory scrutiny and investor protection standards that could potentially extend to their operations or investment opportunities. The negative coefficients on our risk measures (lcalrisk) in specifications 2 and 3 support the theoretical prediction that firms with higher baseline risk exposure respond more strongly to regulatory changes that enhance transparency and investor protection. We interpret these findings as evidence that U.S. firms proactively increased their voluntary disclosure to signal quality and reduce information asymmetries in response to evolving global standards for securities market regulation and investor protection.

Our findings carry important implications for multiple stakeholders. Regulators should recognize that securities market reforms, even in smaller emerging markets, can generate positive spillover effects on disclosure practices in developed markets through risk-based channels. This suggests that international coordination of securities regulation may yield broader benefits than previously understood, supporting arguments for harmonized disclosure standards and cross-border regulatory cooperation (Leuz and Wysocki, 2016). The evidence indicates that regulatory improvements in one jurisdiction can enhance overall market transparency globally, providing additional justification for supporting securities market

development initiatives worldwide.

For corporate managers, our results highlight the importance of monitoring international regulatory developments and their potential impact on disclosure strategies. The significant positive treatment effects suggest that firms benefit from proactively enhancing voluntary disclosure in response to evolving global regulatory environments. Managers should consider how international regulatory changes might affect stakeholder expectations and adjust their disclosure policies accordingly to maintain competitive positioning and reduce information risk premiums. The risk channel mechanism implies that firms with greater exposure to regulatory uncertainty or cross-border operations may need to be particularly attentive to international developments in securities regulation.

Investors can interpret our findings as evidence that international regulatory improvements contribute to enhanced information environments in global capital markets. The positive relationship between the Zambian Securities Exchange Act and U.S. firm disclosure suggests that regulatory developments in emerging markets may serve as catalysts for improved transparency more broadly. This has implications for portfolio allocation decisions and risk assessment, as regulatory spillovers can reduce information asymmetries and potentially lower cost of capital across markets (Lambert et al., 2007; Armstrong et al., 2010).

We acknowledge several limitations that provide opportunities for future research. First, our identification strategy relies on the assumption that the timing of the Zambian Securities Exchange Act was exogenous to U.S. firm disclosure decisions, which, while plausible, cannot be definitively established. Second, we focus specifically on the risk channel but acknowledge that other mechanisms, such as competitive effects or institutional investor pressure, may also contribute to the observed relationship. Future research could explore these alternative channels and their relative importance in explaining international regulatory spillovers.

The risk channel mechanism warrants further investigation through more granular analysis of firm-level risk characteristics and their interaction with international regulatory changes. Future studies could examine whether the effects vary systematically across different types of risk exposure, such as operational risk, financial risk, or regulatory risk. Additionally, researchers could investigate whether similar spillover effects occur following securities market reforms in other emerging markets, providing broader evidence on the generalizability of our findings. Cross-country studies examining the determinants of regulatory spillover intensity could yield valuable insights for both academic understanding and policy development. Finally, future research could explore the persistence of these disclosure effects and whether they represent permanent shifts in corporate transparency or temporary responses to regulatory uncertainty.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,115	0.6167	0.9038	0.0000	0.0000	1.6094
Treatment Effect	15,115	0.5782	0.4939	0.0000	1.0000	1.0000
Institutional ownership	15,115	0.5557	0.3328	0.2470	0.6272	0.8479
Firm size	15,115	6.2355	2.0920	4.7004	6.2399	7.7034
Book-to-market	15,115	0.6535	0.6211	0.2864	0.5297	0.8725
ROA	15,115	-0.0290	0.2325	-0.0201	0.0244	0.0667
Stock return	15,115	0.0124	0.4842	-0.2589	-0.0644	0.1631
Earnings volatility	15,115	0.1318	0.2613	0.0230	0.0533	0.1344
Loss	15,115	0.3111	0.4630	0.0000	0.0000	1.0000
Class action litigation risk	15,115	0.3664	0.2946	0.1209	0.2731	0.5647
Time Trend	15,115	1.9319	1.4211	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
Securities Exchange Act Zambia 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	**0.03**	0.00	**0.08**	**-0.03**	**0.03**	**0.03**	**-0.02**	**-0.08**	**-0.31**
FreqMF	**0.03**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	**-0.02**	**-0.17**	**-0.26**	**-0.03**
Institutional ownership	0.00	**0.41**	1.00	**0.63**	**-0.24**	**0.32**	**-0.03**	**-0.23**	**-0.29**	**0.06**
Firm size	**0.08**	**0.44**	**0.63**	1.00	**-0.37**	**0.35**	**0.03**	**-0.24**	**-0.40**	**0.10**
Book-to-market	**-0.03**	**-0.17**	**-0.24**	**-0.37**	1.00	**0.07**	**-0.18**	**-0.13**	**0.06**	**-0.03**
ROA	**0.03**	**0.22**	**0.32**	**0.35**	**0.07**	1.00	**0.08**	**-0.51**	**-0.59**	**-0.11**
Stock return	**0.03**	**-0.02**	**-0.03**	**0.03**	**-0.18**	**0.08**	1.00	**0.04**	**-0.08**	**0.04**
Earnings volatility	**-0.02**	**-0.17**	**-0.23**	**-0.24**	**-0.13**	**-0.51**	**0.04**	1.00	**0.33**	**0.12**
Loss	**-0.08**	**-0.26**	**-0.29**	**-0.40**	**0.06**	**-0.59**	**-0.08**	**0.33**	1.00	**0.17**
Class action litigation risk	**-0.31**	**-0.03**	**0.06**	**0.10**	**-0.03**	**-0.11**	**0.04**	**0.12**	**0.17**	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 Securities Exchange Act Zambia on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0579*** (6.18)	0.0517*** (4.24)	0.0409*** (4.21)
Institutional ownership		0.5615*** (11.47)	0.0768*** (2.58)
Firm size		0.1185*** (12.32)	0.0481*** (4.83)
Book-to-market		-0.0446*** (2.89)	0.0017 (0.18)
ROA		0.0344 (0.91)	0.0012 (0.07)
Stock return		-0.0480*** (4.04)	-0.0119 (1.63)
Earnings volatility		-0.0698** (1.99)	-0.0440 (0.96)
Loss		-0.1329*** (6.12)	-0.0673*** (5.52)
Class action litigation risk		-0.1746*** (5.40)	-0.0146 (1.04)
Time Trend		-0.0313*** (6.72)	-0.0069* (1.75)
Firm fixed effects	No	No	Yes
N	15,115	15,115	15,115
R^2	0.0010	0.2352	0.9111

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