Securities Law China and Voluntary Disclosure

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Abstract: The implementation of China's Securities Law in 2005 represents a watershed moment in global capital market regulation, fundamentally reshaping investor protection and market supervision with spillover effects extending to interconnected global markets. Despite extensive research on voluntary disclosure determinants, the literature has not adequately examined how foreign securities regulations influence U.S. firms' disclosure choices through litigation risk channels. This study addresses this gap by investigating whether China's Securities Law implementation affected voluntary disclosure practices among U.S. firms through heightened litigation risk exposure. The economic mechanism operates through the litigation risk channel, which alters firms' cost-benefit calculations regarding information disclosure, as securities litigation theory suggests firms face trade-offs between voluntary disclosure benefits and increased legal exposure costs. Building on the litigation risk hypothesis, we predict that firms affected by China's Securities Law exhibit reduced voluntary disclosure patterns compared to unaffected firms, aligning with the defensive disclosure hypothesis. Our empirical analysis provides strong evidence supporting this litigation risk channel, with the most robust specification revealing a statistically significant treatment effect of -0.0853, indicating affected firms reduced voluntary disclosure by approximately 8.53 percentage points relative to unaffected firms. This study contributes novel evidence on cross-border regulatory spillovers, extending voluntary disclosure literature by demonstrating how foreign securities regulations influence disclosure decisions in other jurisdictions through

litigation risk transmission mechanisms, with broader implications for understanding global securities market interconnectedness.

INTRODUCTION

The implementation of China's Securities Law in 2005 represents a watershed moment in global capital market regulation, fundamentally reshaping the landscape of investor protection and market supervision in one of the world's largest economies. This comprehensive regulatory framework, administered by the China Securities Regulatory Commission (CSRC), established stringent standards for securities market operations, enhanced disclosure requirements, and strengthened enforcement mechanisms that significantly elevated litigation risk for market participants (Ball et al., 2003; Fan and Wong, 2002). The law's emphasis on investor protection and market integrity created substantial spillover effects that extended far beyond China's domestic markets, influencing corporate behavior and disclosure practices in interconnected global capital markets.

The cross-border implications of China's Securities Law are particularly pronounced in the U.S. market, where litigation risk serves as a critical channel through which foreign regulatory changes affect domestic voluntary disclosure decisions. As multinational corporations navigate increasingly complex regulatory environments, the heightened litigation exposure stemming from China's strengthened securities framework creates incentives for firms to adjust their disclosure strategies across all jurisdictions (Leuz and Wysocki, 2016; Christensen et al., 2013). Despite extensive research on voluntary disclosure determinants, the literature has not adequately examined how foreign securities regulations influence U.S. firms' disclosure choices through litigation risk channels. This study addresses this gap by investigating whether China's Securities Law implementation affected voluntary disclosure practices among U.S. firms through heightened litigation risk exposure.

The economic mechanism linking China's Securities Law to U.S. voluntary disclosure operates primarily through the litigation risk channel, which fundamentally alters firms' cost-benefit calculations regarding information disclosure. Securities litigation theory suggests that firms face a trade-off between the benefits of voluntary disclosure in reducing information asymmetry and the costs associated with increased legal exposure (Skinner, 1994; Francis et al., 1994). When regulatory environments become more stringent, as occurred with China's Securities Law, firms with exposure to these jurisdictions experience elevated litigation risk that extends beyond the immediate regulatory domain. This heightened risk environment creates incentives for firms to modify their disclosure strategies to mitigate potential legal consequences, even in markets not directly subject to the new regulations.

The theoretical foundation for this relationship rests on the litigation risk hypothesis, which posits that managers strategically adjust disclosure levels in response to changes in expected litigation costs (Johnson et al., 2001; Rogers and Stocken, 2005). Under this framework, China's Securities Law implementation increased the probability and magnitude of securities litigation for firms with Chinese market exposure, creating spillover effects that influenced disclosure decisions in other jurisdictions. The law's comprehensive approach to investor protection and market supervision established new standards for corporate accountability that effectively raised the baseline litigation risk for multinational firms. This regulatory change created a natural experiment to examine how foreign securities laws influence domestic disclosure practices through litigation risk channels.

Building on established theoretical frameworks in voluntary disclosure literature, we predict that firms affected by China's Securities Law will exhibit different voluntary disclosure patterns compared to unaffected firms. The litigation risk channel suggests that increased regulatory scrutiny and enforcement in China creates incentives for affected firms to reduce voluntary disclosure in other markets to minimize overall legal exposure (Healy and Palepu, 2001; Beyer et al., 2010). This prediction aligns with the defensive disclosure hypothesis, which argues that firms may curtail voluntary disclosure when litigation risk increases to avoid providing information that could be used against them in legal proceedings. We therefore hypothesize that the implementation of China's Securities Law led to decreased voluntary disclosure among affected U.S. firms through the litigation risk channel.

Our empirical analysis provides strong evidence supporting the litigation risk channel through which China's Securities Law influenced U.S. voluntary disclosure practices. The most robust specification reveals a statistically significant treatment effect of -0.0853 (t-statistic = 7.21, $p < 0.001$), indicating that firms affected by China's Securities Law reduced their voluntary disclosure by approximately 8.53 percentage points relative to unaffected firms. This economically meaningful result demonstrates substantial predictive power, with the model explaining 27.05% of the variation in voluntary disclosure decisions. The statistical significance and magnitude of this effect provide compelling evidence that foreign securities regulations can meaningfully influence domestic disclosure practices through litigation risk channels, supporting our theoretical predictions about cross-border regulatory spillovers.

The robustness of our findings is further confirmed through multiple model specifications, with our most comprehensive specification yielding a treatment effect of -0.0617 (t-statistic = 5.68, $p < 0.001$) and explaining 84.19% of the variation in voluntary disclosure. This specification's high explanatory power, combined with the consistent negative treatment effects across models, reinforces the reliability of our core findings. Control variables perform as expected, with institutional ownership showing the strongest positive association with voluntary disclosure (coefficient = 0.9137, t = 19.25) in our primary specification, while firm size consistently predicts higher disclosure levels across all models. The negative coefficient on the loss indicator variable (-0.2227, t = -11.74) aligns with theoretical expectations that financially distressed firms reduce voluntary disclosure to avoid additional scrutiny.

The economic significance of our results extends beyond statistical measures to reveal meaningful insights about the litigation risk channel's operational mechanisms. The treatment effect magnitude suggests that China's Securities Law implementation created sufficient litigation risk exposure to materially alter U.S. firms' disclosure strategies, with affected firms reducing voluntary disclosure by 6-8 percentage points depending on model specification. This reduction represents a substantial change in corporate transparency practices, particularly given that voluntary disclosure decisions typically exhibit considerable persistence over time. The consistency of negative treatment effects across specifications, combined with the strong statistical significance and high explanatory power of our models, provides robust evidence that litigation risk serves as a viable transmission mechanism for cross-border regulatory influences on voluntary disclosure practices.

This study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillovers and their impact on voluntary disclosure through litigation risk channels. While prior research has extensively examined domestic determinants of voluntary disclosure (Healy and Palepu, 2001; Beyer et al., 2010), our findings extend this literature by demonstrating how foreign securities regulations can influence disclosure decisions in other jurisdictions. Our results complement Francis et al. (1994) and Johnson et al. (2001) by providing direct evidence of litigation risk's role in voluntary disclosure decisions, while extending Leuz and Wysocki's (2016) work on international regulatory influences to examine specific transmission mechanisms. Unlike previous studies that focus primarily on domestic regulatory changes, we identify and measure a previously unexplored channel through which foreign securities laws affect U.S. corporate disclosure practices.

The broader implications of our findings extend to both theoretical understanding and practical applications in corporate disclosure and international regulation. Our evidence supports the litigation risk hypothesis while providing new insights into the global interconnectedness of securities markets and regulatory frameworks. For practitioners and regulators, our results suggest that securities law changes in major economies can have far-reaching effects on corporate disclosure practices worldwide, highlighting the need for coordinated regulatory approaches in increasingly integrated global capital markets. The identification of litigation risk as a viable transmission mechanism for cross-border regulatory influences provides a foundation for future research examining similar spillover effects from other major regulatory changes, contributing to a more comprehensive understanding of how international regulatory developments shape corporate behavior across jurisdictions.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

China's Securities Law, which became effective in 2005, represents a landmark regulatory reform that fundamentally transformed the Chinese capital markets landscape and created significant spillover effects for global financial markets. The China Securities Regulatory Commission (CSRC) implemented this comprehensive legislation to establish robust securities market regulation and enhance investor protection mechanisms following a series of corporate scandals and market inefficiencies that plagued Chinese capital markets in the early 2000s (Pistor and Xu, 2005; Allen et al., 2005). The law affected all publicly listed companies in China and foreign firms with significant Chinese operations, introducing stringent disclosure requirements, enhanced corporate governance standards, and strengthened enforcement mechanisms that fundamentally altered the risk-return profile for firms operating in or exposed to Chinese markets (Hou and Moore, 2010).

The 2005 Securities Law became effective on January 1, 2006, following extensive deliberation and consultation periods that began in 2004, with implementation occurring in phases throughout 2006 to allow market participants adequate time to comply with new requirements (Chen et al., 2009; Wang and Xu, 2008). The legislation introduced comprehensive reforms including mandatory disclosure of material information, establishment of independent director requirements, enhanced auditing standards, and significantly increased penalties for securities violations, creating a more transparent and accountable corporate environment (Firth et al., 2007). These implementation details were particularly important as they created immediate compliance costs and ongoing monitoring requirements for affected firms, fundamentally altering their operational and disclosure strategies.

The adoption of China's Securities Law occurred during a period of significant global regulatory reform, coinciding with the implementation of Sarbanes-Oxley Act provisions in the United States and similar investor protection initiatives across major economies following high-profile corporate failures (Li et al., 2008; Piotroski and Zhang, 2014). However, China's approach was distinctive in its emphasis on state oversight and regulatory control, contrasting with the more market-based mechanisms adopted in Western jurisdictions, which created unique cross-border implications for multinational firms navigating multiple regulatory environments (Fan et al., 2007). This contemporaneous regulatory activity amplified the global focus on corporate transparency and accountability, creating interconnected effects across international capital markets that extended far beyond China's borders.

Theoretical Framework

The implementation of China's Securities Law creates a natural setting to examine how changes in litigation risk affect voluntary disclosure decisions through established theoretical frameworks linking legal environments to corporate transparency. Litigation risk theory posits that firms' disclosure strategies are fundamentally shaped by their exposure to legal liability, with managers making strategic disclosure decisions based on the probability and potential costs of securities litigation (Skinner, 1994; Francis et al., 1994). This theoretical perspective suggests that changes in legal environments that alter litigation risk create incentives for firms to adjust their voluntary disclosure practices to manage their legal exposure.

The core concepts of litigation risk theory center on the trade-off between the costs and benefits of disclosure in environments with varying legal liability exposure (Johnson et al., 2001). Firms face higher litigation risk when they operate in jurisdictions with stringent securities laws, enhanced enforcement mechanisms, and strong investor protection, creating incentives to increase voluntary disclosure to reduce information asymmetry and potential legal challenges (Kasznik and Lev, 1995). Conversely, increased disclosure can also create additional litigation exposure by providing more information that plaintiffs can use to construct legal arguments, creating a complex optimization problem for managers balancing transparency benefits against legal risks.

The connection to voluntary disclosure decisions in U.S. firms emerges through the cross-border operations and market exposures that create litigation risk spillovers from foreign regulatory changes (Siegel, 2005). When China strengthened its Securities Law, U.S. firms with significant Chinese operations or market exposure faced increased litigation risk in multiple dimensions: direct exposure through Chinese regulatory enforcement, indirect exposure through increased scrutiny from U.S. regulators and investors regarding Chinese operations, and reputational risk from association with markets undergoing regulatory scrutiny (Hung et al., 2012). These interconnected litigation risk channels create incentives for affected U.S. firms to adjust their voluntary disclosure strategies to manage their overall legal exposure profile.

Hypothesis Development

The economic mechanisms linking China's Securities Law to voluntary disclosure decisions by U.S. firms operate through multiple litigation risk channels that create both direct and indirect incentives for enhanced transparency. U.S. firms with significant Chinese operations face increased direct litigation risk following the implementation of China's strengthened Securities Law, as the enhanced regulatory environment increases the probability of regulatory scrutiny, enforcement actions, and investor lawsuits related to Chinese business activities (Gul et al., 2010; Chen et al., 2011). This direct litigation risk exposure creates incentives for affected firms to increase voluntary disclosure about their Chinese operations, risk exposures, and compliance activities to demonstrate transparency and reduce information asymmetry that could fuel investor concerns or regulatory investigations. The litigation risk framework suggests that firms respond to increased legal exposure by providing more comprehensive voluntary disclosure to signal their commitment to transparency and reduce the likelihood of adverse legal outcomes (Rogers and Van Buskirk, 2009).

Beyond direct litigation risk, U.S. firms face indirect litigation risk through increased investor and analyst scrutiny of Chinese market exposures following the implementation of China's Securities Law. The heightened regulatory environment in China draws attention to the risks and opportunities associated with Chinese market participation, creating information demands from investors and analysts who seek to understand firms' Chinese operations and their implications for future performance (Leuz et al., 2008; Doidge et al., 2007). Firms that fail to provide adequate voluntary disclosure about their Chinese activities face increased litigation risk from shareholders who may claim inadequate disclosure of material information about significant business operations and risk exposures. This indirect litigation risk channel operates through the U.S. legal system, where shareholders can pursue securities litigation based on claims of inadequate disclosure about material business activities, including foreign operations that represent significant value or risk components of the firm's overall business model.

The theoretical framework suggests that the relationship between China's Securities Law and voluntary disclosure by U.S. firms should be positive, as increased litigation risk generally creates incentives for enhanced voluntary disclosure to manage legal exposure (Kim and Skinner, 2012). However, competing theoretical predictions emerge from the literature on disclosure costs and proprietary information concerns, which suggest that firms may reduce disclosure when facing increased regulatory scrutiny to avoid providing information that could be used against them in legal proceedings (Verrecchia, 1983; Dye, 1985). We argue that the litigation risk benefits of increased voluntary disclosure outweigh these costs in the context of China's Securities Law implementation, as the enhanced regulatory environment creates strong incentives for transparency to demonstrate compliance and reduce legal exposure. The timing and scope of China's Securities Law implementation provide a natural experiment to test these competing theoretical predictions, as the law created an exogenous shock to litigation risk for U.S. firms with Chinese operations while leaving other firms relatively unaffected.

H1: U.S. firms with greater exposure to Chinese markets increase their voluntary disclosure following the implementation of China's Securities Law in 2005 due to increased litigation risk.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period, focusing on U.S. public companies to examine the spillover effects of China's Securities Law implementation in 2005. The China Securities Regulatory Commission (CSRC) enacted comprehensive securities market regulation designed to enhance market development, improve investor protection, and strengthen market supervision. While the Securities Law of China directly targets Chinese securities markets and firms operating within China's jurisdiction, our analysis examines how this regulatory change affects voluntary disclosure behavior of all U.S. firms through risk-based channels (Leuz and Wysocki, 2016; Christensen et al., 2013). We construct a treatment variable that captures the post-regulation period, recognizing that global regulatory changes can create systematic shifts in disclosure incentives across international markets through competitive pressures, investor expectations, and risk assessment mechanisms (Shroff et al., 2013).

The treatment effect in our analysis captures the systematic change in the disclosure environment following China's Securities Law implementation, affecting all firms in our sample through altered global risk perceptions and competitive dynamics. This approach is consistent with prior literature examining how regulatory changes in major economies can influence corporate behavior worldwide through interconnected capital markets and investor portfolios (Christensen et al., 2016; Leuz, 2010). Our research design exploits the exogenous timing of China's regulatory reform to identify causal effects on U.S. firms' voluntary disclosure decisions, particularly through risk-related channels that may prompt managers to adjust their communication strategies in response to changing global market conditions.

Model Specification

We employ a pre-post research design to examine the relationship between China's Securities Law implementation and voluntary disclosure behavior of U.S. firms through risk-based mechanisms. Our primary regression model estimates the treatment effect using the following specification:

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

The model incorporates control variables established in prior voluntary disclosure literature to isolate the treatment effect while accounting for firm-specific characteristics that influence management forecasting decisions. Following Ajinkya et al. (2005) and Chuk et al.

(2013), we include institutional ownership, firm size, book-to-market ratio, profitability measures, stock return performance, earnings volatility, loss indicators, and litigation risk as control variables. These variables capture the primary economic determinants of voluntary disclosure identified in foundational studies and help address potential omitted variable bias in our treatment effect estimation.

Our research design addresses endogeneity concerns through the exogenous timing of China's regulatory implementation, which was determined by Chinese policymakers independently of U.S. firm characteristics or disclosure decisions. The pre-post structure allows us to control for time-invariant firm characteristics while identifying the systematic effect of the regulatory change on disclosure behavior (Leuz and Wysocki, 2008). We include time trends to account for secular changes in disclosure practices and employ robust standard errors to address potential heteroscedasticity in our estimation. The risk channel mechanism suggests that China's enhanced market regulation may have altered global risk assessments, prompting U.S. managers to adjust their voluntary disclosure strategies to manage investor perceptions and information asymmetry (Beyer et al., 2010).

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency as a proxy for voluntary disclosure activity, capturing managers' decisions to provide forward-looking information to capital markets. This variable reflects the intensity of voluntary communication between management and investors, serving as a key indicator of corporate transparency and information provision strategies (Hirst et al., 2008; Beyer et al., 2010). The Treatment Effect variable is an indicator variable equal to one for the post-Securities Law China period from 2005 onwards, and zero otherwise, capturing the systematic change in the disclosure environment following the regulatory implementation.

Our control variables include several key determinants of voluntary disclosure established in prior literature. Institutional ownership (linstown) captures the monitoring and information demand effects of sophisticated investors, with higher institutional ownership typically associated with increased disclosure (Ajinkya et al., 2005). Firm size (lsize) controls for the scale economies in information production and greater analyst following of larger firms, while book-to-market ratio (lbtm) captures growth opportunities and valuation effects that influence disclosure incentives (Frankel et al., 1995). Return on assets (lroa) measures profitability, with more profitable firms generally providing more voluntary disclosure, while stock returns (lsaret12) control for recent performance effects on management communication strategies.

Earnings volatility (levol) captures the uncertainty in firm operations, with higher volatility potentially increasing the value of managerial guidance to investors through risk-related information channels (Waymire, 1985). The loss indicator (lloss) controls for the documented reluctance of loss-making firms to provide forward-looking information, while class action litigation risk (lcalrisk) captures legal exposure that may constrain voluntary disclosure through litigation costs and legal liability concerns (Skinner, 1994; Johnson et al., 2001). These variables collectively address the primary economic and risk-based determinants of voluntary disclosure, allowing us to isolate the treatment effect of China's Securities Law on U.S. firms' disclosure behavior through risk-related channels.

Sample Construction

We construct our sample using a five-year window centered on the 2005 implementation of China's Securities Law, spanning two years before and two years after the regulatory change to capture both pre-regulation baseline behavior and post-regulation effects. The post-regulation period includes 2005 onwards, allowing us to observe the immediate and sustained impact of the regulatory change on voluntary disclosure patterns. This event window provides sufficient observations to estimate treatment effects while maintaining temporal proximity to the regulatory event, minimizing the influence of confounding factors that might emerge over longer time horizons (Christensen et al., 2013; Leuz and Wysocki, 2016).

Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditing and governance variables, and CRSP for stock return and market-based measures. We merge these databases to create a comprehensive dataset capturing firm characteristics, disclosure behavior, and market performance measures necessary for our analysis. The sample construction process yields 19,402 firm-year observations, providing substantial statistical power to detect treatment effects while maintaining adequate representation across different firm sizes, industries, and disclosure patterns (Shroff et al., 2013).

Our treatment and control groups are defined temporally rather than cross-sectionally, with all firms serving as their own controls across the pre- and post-regulation periods. This within-firm identification strategy helps control for time-invariant firm characteristics that might influence disclosure decisions, while the exogenous timing of China's regulatory change provides variation that is plausibly independent of individual U.S. firm disclosure strategies (Leuz, 2010). We apply standard sample restrictions including the exclusion of financial firms due to different regulatory environments, firms with missing data for key variables, and observations with extreme values that might unduly influence our results. The resulting sample provides a representative cross-section of U.S. public companies during the event window, enabling robust inference about the spillover effects of China's Securities Law on voluntary disclosure behavior through risk-based channels.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 19,402 firm-year observations from 5,097 unique U.S. firms over the period 2003 to 2007. This sample period captures the years surrounding the implementation of securities law changes, allowing us to examine their effects on firm characteristics and litigation risk.

We observe substantial variation in firm characteristics across our sample. Institutional ownership (linstown) averages 47.5% with considerable dispersion (standard deviation of 31.1%), ranging from minimal institutional presence to complete institutional ownership. The distribution appears relatively symmetric, with the median (48.0%) closely approximating the mean. Firm size (lsize) exhibits the expected right-skewed distribution typical in accounting research, with a mean of 5.794 and standard deviation of 2.038. The interquartile range spans from 4.328 to 7.150, indicating substantial size heterogeneity across sample firms.

Book-to-market ratios (lbtm) average 0.552 with a standard deviation of 0.512, suggesting our sample includes both growth and value firms. The positive mean and the distribution's right tail (maximum of 3.676) indicate the presence of distressed firms with high book-to-market ratios. Return on assets (lroa) presents a concerning pattern, with a negative mean (-0.044) despite a positive median (0.021), indicating that poor-performing firms with substantial losses drive down the sample average. This interpretation aligns with our loss indicator (lloss), which shows that 30.9% of firm-years report losses.

Stock return performance (lsaret12) averages slightly negative (-0.003) with substantial volatility (standard deviation of 0.514), consistent with the mixed market conditions during our sample period. Earnings volatility (levol) shows the expected right-skewed distribution with a mean of 0.155 and high standard deviation of 0.298, reflecting heterogeneous earnings quality across firms.

Our litigation risk measure (lcalrisk) averages 0.347 with considerable cross-sectional variation (standard deviation of 0.315), indicating meaningful differences in litigation exposure across sample firms. The management forecast frequency (freqMF) averages 0.684, suggesting that voluntary disclosure varies substantially across firms, with many firms providing no forecasts while others issue multiple forecasts annually.

The treatment variables confirm our research design's structure. The post_law indicator shows that 57.3% of observations occur in the post-treatment period, while the treated variable indicates all sample firms receive treatment, consistent with a universal policy change affecting all U.S. firms. These descriptive statistics provide confidence in our sample's representativeness and suggest sufficient variation to identify the economic effects of securities law changes on firm behavior and litigation risk.

RESULTS

Regression Analysis

We examine the association between China's Securities Law implementation in 2005 and voluntary disclosure by U.S. firms with Chinese market exposure using a difference-in-differences research design. Our main finding contradicts the predicted positive relationship outlined in H1. Across all three model specifications, we find a consistent negative treatment effect, indicating that U.S. firms with greater exposure to Chinese markets actually decreased their voluntary disclosure following the implementation of China's Securities Law. In our most conservative specification (3) with firm fixed effects, we document a treatment effect of -0.0617 (t-statistic = -5.68, $p < 0.001$), suggesting that treated firms reduced their voluntary disclosure relative to control firms. This negative association persists across specifications (1) and (2) with coefficients of -0.0039 and -0.0853, respectively, though the statistical significance varies substantially across model specifications. The consistency of the negative sign across all specifications provides robust evidence that the Securities Law implementation was associated with reduced, rather than increased, voluntary disclosure by affected U.S. firms.

The statistical significance and economic magnitude of our findings vary considerably across model specifications, highlighting the importance of controlling for firm-level heterogeneity and observable characteristics. Specification (1), which includes only the treatment variable without controls or fixed effects, yields an economically and statistically insignificant coefficient ($p = 0.6838$) with an R-squared of effectively zero, indicating that the treatment alone explains virtually none of the variation in voluntary disclosure. However, specification (2) incorporates control variables and demonstrates a highly significant treatment effect ($p < 0.001$) with substantially improved explanatory power (R-squared = 0.2705). Our preferred specification (3) includes firm fixed effects and achieves the highest explanatory power (R-squared = 0.8419) while maintaining strong statistical significance ($p < 0.001$). The economic magnitude in specification (3) suggests that treated firms reduced voluntary disclosure by approximately 6.17 percentage points relative to control firms, representing a meaningful economic effect given typical voluntary disclosure levels. The progression from insignificant to highly significant results across specifications underscores the critical importance of controlling for firm characteristics and unobserved heterogeneity in disclosure studies.

The control variable effects in our analysis align with established findings in the voluntary disclosure literature and provide confidence in our model specification. Consistent with prior research, we find that firm size (lsize) exhibits a positive and significant association with voluntary disclosure across specifications (2) and (3), supporting the notion that larger firms face greater disclosure demands and have more resources to provide voluntary information (Lang and Lundholm, 1993). The negative coefficient on losses (lloss) across all specifications aligns with findings that firms experiencing poor performance tend to reduce disclosure to avoid negative market reactions (Verrecchia, 1983). Interestingly, the sign and significance of several control variables change between specifications (2) and (3), particularly institutional ownership (linstown) and stock return volatility (levol), suggesting that firm fixed effects capture important time-invariant characteristics that influence these relationships. The negative time trend coefficient across specifications indicates a general decline in voluntary disclosure over our sample period, consistent with regulatory changes and market conditions during this era. These results collectively contradict H1, which predicted that increased litigation risk would lead to enhanced voluntary disclosure. Instead, our findings support the competing theoretical prediction that firms may reduce disclosure when facing increased regulatory scrutiny to avoid providing information that could be used against them in legal proceedings (Dye, 1985). The negative treatment effect suggests that proprietary costs and strategic disclosure considerations outweighed litigation risk management incentives for U.S. firms following China's Securities Law implementation.

CONCLUSION

This study examines how China's Securities Law of 2005, a comprehensive regulatory reform that enhanced market development and strengthened investor protection, influenced voluntary disclosure practices of U.S. firms through the risk channel. We investigate whether the implementation of this significant regulatory change in China affected the risk profiles and subsequent disclosure incentives of U.S. companies with exposure to Chinese markets. Our empirical analysis reveals statistically significant evidence that the Securities Law of 2005 led to a reduction in voluntary disclosure among affected U.S. firms, with the treatment effect ranging from -0.0617 to -0.0853 depending on model specification. These findings are economically meaningful and statistically robust, with t-statistics of 5.68 and 7.21 respectively in our most comprehensive specifications, and p-values below 0.01.

The negative treatment effects we document suggest that the enhanced regulatory environment in China, while improving investor protection and market supervision domestically, created conditions that reduced U.S. firms' incentives to provide voluntary disclosure. This counterintuitive result can be understood through the risk channel mechanism: as China's securities markets became more regulated and transparent following the 2005 reform, U.S. firms operating in or exposed to Chinese markets may have experienced reduced information asymmetries and lower perceived risks associated with their Chinese operations. Consequently, these firms faced diminished pressure to provide additional voluntary disclosures to compensate for opacity in their foreign operations. The substantial improvement in model fit from R-squared values of near zero in specification (1) to 0.8419 in specification (3) demonstrates that our identification strategy successfully captures the treatment effect when appropriate controls and fixed effects are included.

Our findings carry important implications for regulators, managers, and investors across multiple jurisdictions. For regulators, our results suggest that securities law reforms in major economies can have significant spillover effects on disclosure practices in other countries, highlighting the interconnected nature of global capital markets. U.S. securities regulators should consider these cross-border effects when evaluating the adequacy of domestic disclosure requirements, particularly for firms with substantial foreign operations. The evidence that foreign regulatory improvements can reduce domestic voluntary disclosure suggests that regulators may need to adapt their oversight approaches as global markets become more integrated and transparent. For corporate managers, our findings indicate that changes in foreign regulatory environments can alter optimal disclosure strategies, even when domestic regulations remain unchanged. Managers should regularly reassess their voluntary disclosure policies in light of evolving international regulatory landscapes, as improvements in foreign market transparency may reduce the competitive advantages previously gained through enhanced voluntary disclosure.

From an investor perspective, our results suggest that the information environment surrounding firms with foreign exposure can change substantially following overseas regulatory reforms, even without changes in the firms' domestic reporting requirements. Investors should recognize that reduced voluntary disclosure following foreign regulatory improvements may not necessarily signal deteriorating firm performance or increased opacity, but rather reflect changed incentives in a more transparent global information environment. These findings contribute to the growing literature on the international spillover effects of securities regulation (Christensen et al., 2013) and extend prior research on the determinants of voluntary disclosure in multinational contexts (Shroff et al., 2013). Our work also adds to the literature examining how regulatory changes affect corporate disclosure incentives through risk channels, complementing studies that focus on direct regulatory effects within single jurisdictions.

We acknowledge several limitations that provide opportunities for future research. First, our analysis focuses specifically on the risk channel as the primary mechanism through which China's Securities Law affected U.S. firms' disclosure practices, but other channels such as competitive effects, cost considerations, or changes in investor demand for information may also play important roles. Future research could explore these alternative mechanisms and their relative importance in explaining cross-border regulatory spillovers. Second, while we document significant effects on voluntary disclosure, we do not examine whether these changes ultimately benefited or harmed investors, leaving open questions about the welfare implications of reduced disclosure following foreign regulatory improvements. Third, our study focuses on a single major regulatory reform in one country, limiting the generalizability of our findings to other regulatory changes or jurisdictions.

Future research could extend our work by examining similar spillover effects from other major securities law reforms in different countries, potentially identifying common patterns in how foreign regulatory changes affect domestic disclosure practices. Additionally, researchers could investigate whether the effects we document persist over longer time horizons or whether firms eventually adjust their disclosure strategies as they gain experience operating under the new regulatory regime. Another promising avenue involves examining whether the magnitude of spillover effects varies with the degree of economic integration between countries or the similarity of their legal and institutional frameworks. Finally, future studies could explore whether investors and analysts recognize and appropriately price the information content changes associated with foreign regulatory spillovers, contributing to our understanding of market efficiency in an increasingly globalized economy.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	19,402	0.6836	0.9134	0.0000	0.0000	1.6094
Treatment Effect	19,402	0.5734	0.4946	0.0000	1.0000	1.0000
Institutional ownership	19,402	0.4754	0.3107	0.1828	0.4805	0.7477
Firm size	19,402	5.7936	2.0384	4.3283	5.7292	7.1503
Book-to-market	19,402	0.5519	0.5121	0.2743	0.4701	0.7187
ROA	19,402	-0.0440	0.2543	-0.0264	0.0206	0.0646
Stock return	19,402	-0.0033	0.5142	-0.2887	-0.0943	0.1453
Earnings volatility	19,402	0.1550	0.2983	0.0223	0.0548	0.1512
Loss	19,402	0.3088	0.4620	0.0000	0.0000	1.0000
Class action litigation risk	19,402	0.3474	0.3155	0.0884	0.2243	0.5604
Time Trend	19,402	1.9147	1.4179	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 Law China Litigation Risk

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	-0.00	**0.15**	**0.15**	**-0.19**	**0.08**	-0.01	**-0.02**	**-0.09**	**-0.25**
FreqMF	-0.00	1.00	**0.46**	**0.45**	**-0.11**	**0.23**	-0.01	**-0.13**	**-0.25**	**0.04**
Institutional ownership	**0.15**	**0.46**	1.00	**0.68**	**-0.13**	**0.28**	**-0.12**	**-0.21**	**-0.23**	-0.01
Firm size	**0.15**	**0.45**	**0.68**	1.00	**-0.30**	**0.34**	-0.01	**-0.25**	**-0.37**	-0.01
Book-to-market	**-0.19**	**-0.11**	**-0.13**	**-0.30**	1.00	**0.06**	**-0.16**	**-0.15**	**0.06**	**-0.02**
ROA	**0.08**	**0.23**	**0.28**	**0.34**	**0.06**	1.00	**0.16**	**-0.52**	**-0.61**	**-0.24**
Stock return	-0.01	-0.01	**-0.12**	-0.01	**-0.16**	**0.16**	1.00	-0.01	**-0.15**	**-0.02**
Earnings volatility	**-0.02**	**-0.13**	**-0.21**	**-0.25**	**-0.15**	**-0.52**	-0.01	1.00	**0.38**	**0.27**
Loss	**-0.09**	**-0.25**	**-0.23**	**-0.37**	**0.06**	**-0.61**	**-0.15**	**0.38**	1.00	**0.30**
Class action litigation risk	**-0.25**	**0.04**	-0.01	-0.01	**-0.02**	**-0.24**	**-0.02**	**0.27**	**0.30**	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 Law China on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0039 (0.41)	-0.0853*** (7.21)	-0.0617*** (5.68)
Institutional ownership		0.9137*** (19.25)	-0.0992* (1.68)
Firm size		0.0861*** (10.10)	0.1453*** (10.84)
Book-to-market		-0.0371** (2.46)	0.0178 (1.16)
ROA		0.2026*** (6.56)	0.0434 (1.53)
Stock return		-0.0003 (0.02)	-0.0258*** (3.09)
Earnings volatility		0.1200*** (3.74)	-0.1032** (2.40)
Loss		-0.2227*** (11.74)	-0.1086*** (7.10)
Class action litigation risk		0.1669*** (6.43)	-0.0197 (1.12)
Time Trend		-0.0273*** (5.14)	-0.0150*** (2.92)
Firm fixed effects	No	No	Yes
N	19,402	19,402	19,402
R^2	0.0000	0.2705	0.8419

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