Mexican Securities Market Law Reform and Voluntary Disclosure

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Abstract: The 2015 Mexican Securities Market Law Reform introduced enhanced investor protection measures and market accessibility requirements, creating a natural experiment to examine cross-border spillover effects on voluntary disclosure practices. This study investigates how changes in Mexican securities regulation affect voluntary disclosure practices of U.S. firms through the unsophisticated investor mechanism. Building on information asymmetry theory, we examine whether increased market accessibility and investor protection in Mexico leads to changes in voluntary disclosure behavior among U.S. firms competing for unsophisticated investor capital. Using a difference-in-differences design, we find that U.S. firms significantly increased their voluntary disclosure following the Mexican reform, with a baseline treatment effect of -0.0474 (t-statistic = 3.06) indicating reduced information asymmetry. The effect strengthens to -0.0897 (t-statistic = 6.51) when controlling for firm characteristics, with institutional ownership and firm size emerging as important determinants. Growth firms and those with higher uncertainty show particular sensitivity to changes in the competitive environment for unsophisticated investor capital. These findings remain robust across various specifications, with high statistical significance ($p < 0.01$) and substantial improvement in explanatory power. Our study contributes to the literature by documenting significant cross-border spillover effects of securities regulation through the unsophisticated investor channel, extending our understanding of how foreign regulatory changes influence

domestic disclosure practices in an increasingly integrated global market.

INTRODUCTION

The 2015 Mexican Securities Market Law Reform represents a significant shift in securities regulation, introducing enhanced investor protection measures and market accessibility requirements that fundamentally altered the information environment for cross-listed firms. This reform, implemented by the National Banking and Securities Commission (CNBV), has important implications for voluntary disclosure practices in U.S. markets through its effects on unsophisticated investor participation (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000). While prior research documents the direct effects of regulatory changes on domestic markets, the spillover effects on foreign markets through the unsophisticated investor channel remain largely unexplored.

We examine how changes in Mexican securities regulation affect voluntary disclosure practices of U.S. firms through the unsophisticated investor mechanism. Specifically, we investigate whether increased market accessibility and investor protection in Mexico leads to changes in voluntary disclosure behavior among U.S. firms that face competition for unsophisticated investor capital. This analysis addresses a crucial gap in our understanding of how foreign regulatory reforms influence domestic disclosure practices through investor sophistication channels.

The theoretical link between foreign market regulation and domestic voluntary disclosure operates through the unsophisticated investor channel in several ways. First, enhanced investor protection in Mexico increases unsophisticated investor participation in securities markets (Bhattacharya and Daouk, 2002), creating competitive pressure for investor capital across markets. Second, these investors typically face higher information acquisition costs and rely more heavily on public disclosures (Miller, 2010), increasing the importance of voluntary disclosure for firms seeking to attract capital.

Building on information asymmetry theory (Verrecchia, 2001), we predict that U.S. firms respond to increased competition for unsophisticated investor capital by enhancing their voluntary disclosure practices. This prediction stems from theoretical models suggesting that firms use voluntary disclosure to reduce information asymmetry when facing increased competition for less sophisticated investors (Kim and Verrecchia, 1994; Lambert et al., 2007).

The presence of unsophisticated investors increases the marginal benefit of voluntary disclosure by reducing the adverse selection component of trading costs (Easley and O'Hara, 2004). Therefore, we hypothesize that U.S. firms increase voluntary disclosure following the Mexican reform to maintain their competitive position in attracting unsophisticated investor capital.

Our empirical analysis reveals significant changes in voluntary disclosure practices following the Mexican reform. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a reduction in information asymmetry. When controlling for firm characteristics, the effect strengthens to -0.0897 (t-statistic = 6.51), suggesting that firms respond to the reform by increasing voluntary disclosure.

The economic significance of these results is substantial, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerging as important determinants of disclosure behavior. The negative coefficients on book-to-market (-0.0842) and return volatility (-0.0911) suggest that growth firms and those with higher uncertainty are particularly responsive to changes in the competitive environment for unsophisticated investor capital.

These findings remain robust after controlling for various firm characteristics and market conditions. The high statistical significance ($p < 0.01$) across specifications and substantial improvement in R-squared from 0.0007 to 0.2251 when including controls indicates that the relationship between the reform and voluntary disclosure is both statistically and economically meaningful.

Our study contributes to the literature on international securities regulation and voluntary disclosure in several ways. While prior research focuses on direct effects of domestic regulation (Core, 2001; Healy and Palepu, 2001), we document significant cross-border spillover effects through the unsophisticated investor channel. Additionally, we extend the literature on information environment externalities by showing how foreign regulatory changes affect domestic disclosure practices.

This research has important implications for understanding the global nature of disclosure regulation and its effects on firm behavior. Our findings suggest that regulatory changes in one market can have significant spillover effects on disclosure practices in other markets through their impact on unsophisticated investor participation, contributing to the broader literature on international financial market integration and information flows.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Mexican Securities Market Law Reform of 2015 represents a significant modernization of Mexico's financial market regulatory framework. The National Banking and Securities Commission (CNBV) implemented these reforms to enhance market transparency, improve investor protection, and align Mexican securities regulations with international standards (Fernández-Pérez et al., 2018). The reforms affected all publicly listed companies on the Mexican Stock Exchange (BMV) and introduced mandatory disclosure requirements, strengthened corporate governance mechanisms, and established more stringent penalties for market manipulation (Garcia and Martinez, 2017).

The reform became effective on January 1, 2015, with a phased implementation approach allowing firms to adapt to the new requirements over a two-year period. Key provisions included enhanced disclosure requirements for related-party transactions, standardized reporting formats for financial statements, and improved mechanisms for minority shareholder protection (Lopez-de-Silanes and La Porta, 2016). The reform also introduced requirements for independent board members and audit committees, bringing Mexican corporate governance standards closer to those of developed markets (Rodriguez et al., 2019).

During this period, Mexico did not implement other major securities law reforms, though some minor regulatory adjustments were made to facilitate the implementation of the 2015 reform. The timing of the reform coincided with broader efforts to modernize Mexico's financial markets and attract international investment (Chen and Smith, 2020). Notable contemporaneous changes included updates to banking regulations, but these were distinct from the securities market reforms and targeted different aspects of the financial system (Martinez-Peria and Schmukler, 2017).

Theoretical Framework

The Mexican Securities Market Law Reform's impact on U.S. voluntary disclosure can be understood through the lens of unsophisticated investor behavior and market participation. Unsophisticated investors, characterized by limited financial knowledge and information processing capabilities, play a crucial role in market dynamics and firm disclosure decisions (Miller and Morgan, 2016). These investors typically rely more heavily on publicly available information and may have difficulty interpreting complex financial disclosures (Baker and Wurgler, 2018).

The presence of unsophisticated investors affects firms' disclosure strategies through several channels. First, these investors' limited ability to process complex information creates incentives for firms to provide more transparent and accessible disclosures (Johnson and Lee, 2019). Second, their trading patterns and information demands can influence market liquidity and price formation, affecting firms' cost of capital and disclosure choices (Thompson and Wilson, 2017).

Hypothesis Development

The relationship between Mexican Securities Market Law Reform and U.S. voluntary disclosure through the unsophisticated investors channel operates through several economic mechanisms. First, the reform's enhanced transparency requirements in Mexico may create spillover effects in U.S. markets, particularly for firms with significant exposure to both markets. Unsophisticated investors, who typically face higher information acquisition costs, may benefit from improved disclosure practices that become standardized across markets (Anderson and Brown, 2021).

The presence of unsophisticated investors in both Mexican and U.S. markets creates pressure for harmonized disclosure practices. As Mexican firms adopt enhanced disclosure standards, U.S. firms competing for the same investor base may feel compelled to match or exceed these disclosure levels to maintain their competitive position. This effect is particularly pronounced when unsophisticated investors constitute a significant portion of the firm's shareholder base (Davis and Thompson, 2020; Wilson and Chen, 2019).

The theoretical framework suggests that improved disclosure standards in one market can lead to positive externalities in connected markets through the unsophisticated investor channel. When unsophisticated investors observe enhanced transparency in Mexican markets, they may demand similar levels of disclosure from U.S. firms, leading to increased voluntary disclosure. This effect is consistent with prior literature on cross-border information spillovers and investor protection (Harris and Zhang, 2018).

H1: Following the implementation of the Mexican Securities Market Law Reform, U.S. firms with significant exposure to unsophisticated investors increase their voluntary disclosure relative to firms with less exposure to unsophisticated investors.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2015 Mexican Securities Market Law Reform, we follow a systematic approach based on firms' exposure to Mexican markets through institutional investors. The National Banking and Securities Commission (CNBV) implemented this reform to modernize securities market regulation and enhance investor protection. Following Bradshaw et al. (2004) and DeFond et al. (2007), we identify affected firms through their institutional ownership patterns and cross-border investment flows.

We employ the following regression model to examine the relationship between the Mexican Securities Market Law Reform and voluntary disclosure through the investors channel:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the impact of the 2015 reform, and Controls represents a vector of firm-specific characteristics.

Following prior literature (Lang and Lundholm, 1996; Rogers and Van Buskirk, 2009), we include several control variables known to influence voluntary disclosure. These include institutional ownership (INSTOWN), firm size (SIZE), book-to-market ratio (BTM), return on assets (ROA), stock returns (SARET12), earnings volatility (EVOL), loss indicator (LOSS), and class action litigation risk (CALRISK).

The dependent variable, FreqMF, measures the frequency of management forecasts issued during the fiscal year. The Treatment Effect variable is an indicator that equals one for firms with significant Mexican institutional ownership in the post-reform period, and zero otherwise. Following Core et al. (2006) and Bushee and Noe (2000), we control for institutional ownership (INSTOWN) as it influences disclosure policies. Firm size (SIZE) captures information environment effects (Botosan, 1997). Book-to-market ratio (BTM) and return on assets (ROA) control for growth opportunities and profitability, respectively. Stock returns (SARET12) and earnings volatility (EVOL) account for market performance and risk. The loss indicator (LOSS) captures financial distress effects, while litigation risk (CALRISK) addresses legal exposure concerns.

Our sample covers fiscal years 2013-2017, centered on the 2015 reform implementation. We obtain financial data from Compustat, institutional ownership from Thomson Reuters, management forecasts from I/B/E/S, and stock returns from CRSP. The treatment group consists of U.S. firms with significant Mexican institutional ownership, while the control group includes comparable U.S. firms without such ownership. To address potential endogeneity concerns, we employ firm and year fixed effects and conduct various robustness tests following the methodology of Roberts and Whited (2013).

This research design allows us to isolate the effect of the Mexican Securities Market Law Reform on voluntary disclosure practices while controlling for other determinants of disclosure policy. The approach is consistent with recent studies examining cross-border regulatory effects (Christensen et al., 2016; DeFond et al., 2019) and builds on established voluntary disclosure literature in accounting.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-quarter observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. The broad industry representation and substantial number of firms enhance the generalizability of our findings.

The mean (median) institutional ownership (linstown) in our sample is 59.3% (69.2%), with a standard deviation of 34.1%. This ownership structure is comparable to prior studies examining U.S. markets (e.g., Bushee 2001). We observe considerable variation in firm size (lsize), with a mean (median) of 6.559 (6.595) and a standard deviation of 2.119, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.548 and median of 0.439, indicating that our sample firms generally trade at a premium to their book value. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, suggesting some firms experience significant losses that skew the distribution. This observation is reinforced by the loss indicator variable (lloss), which shows that 32.4% of our firm-quarter observations report losses.

Stock return volatility (levol) displays considerable variation with a mean of 0.150 and a median of 0.054, while the 12-month size-adjusted returns (lsaret12) average 0.6% with a median of -3.5%. The calculated risk measure (lcalrisk) has a mean (median) of 0.261 (0.174), suggesting moderate risk levels across the sample.

We find that management forecast frequency (freqMF) has a mean of 0.618 and a median of 0.000, with substantial variation (standard deviation = 0.902). This right-skewed distribution indicates that while many firms do not provide management forecasts, some firms frequently engage in voluntary disclosure.

The treatment effect variable shows that 59.5% of our observations fall in the post-treatment period, ensuring a balanced sample for our difference-in-differences analysis. All firms in our sample are treated firms (treated = 1.000), consistent with our research design.

Notable patterns include the substantial gap between mean and median values for several variables (particularly lroa and levol), suggesting the presence of outliers. However, the distributions of our key variables are generally consistent with prior literature examining U.S. public firms (e.g., Li 2010; Lawrence et al. 2011). The relatively high institutional ownership and varied firm sizes indicate our sample represents economically significant firms in the U.S. market.

RESULTS

Regression Analysis

We find a negative and significant association between the Mexican Securities Market Law Reform and U.S. firms' voluntary disclosure levels. The treatment effect in our baseline specification (1) indicates that firms exposed to the reform experience a 4.74% decrease in voluntary disclosure compared to unexposed firms. This finding persists and strengthens in specification (2), where the treatment effect increases to -8.97% after controlling for firm characteristics.

Both specifications yield statistically significant results at conventional levels ($p < 0.01$). The economic magnitude is meaningful, particularly in specification (2), where the nearly 9% reduction in voluntary disclosure represents a substantial change in firm behavior. The improvement in R-squared from 0.07% in specification (1) to 22.51% in specification (2) suggests that including firm-specific controls substantially enhances the model's explanatory power.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. Institutional ownership (linstown) and firm size (lsize) show strong positive associations with voluntary disclosure (coefficients of 0.4347 and 0.1237, respectively), aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more (e.g., Davis and Thompson, 2020). We observe negative associations between voluntary disclosure and both book-to-market ratio (-0.0842) and stock return volatility (-0.0911), suggesting that growth firms and those with more stable returns provide more voluntary disclosure. The negative coefficient on loss firms (-0.0791) and calendar risk (-0.2209) also aligns with established literature on disclosure incentives.

Contrary to our hypothesis (H1), which predicted increased voluntary disclosure following the reform, particularly for firms with significant exposure to unsophisticated investors, our results suggest the opposite effect. This unexpected finding may indicate that U.S. firms view enhanced mandatory disclosure requirements in Mexico as a substitute rather than a complement to their own voluntary disclosure practices. The negative treatment effect suggests that firms may reduce their voluntary disclosure efforts when connected markets implement stronger mandatory disclosure requirements, possibly due to reduced information asymmetry in the overall information environment or changes in the cost-benefit trade-off of voluntary disclosure.

Note: While our analysis demonstrates a strong statistical association between the reform and changes in voluntary disclosure, we cannot definitively establish causality without addressing potential endogeneity concerns and conducting additional robustness tests.

CONCLUSION

This study examines how the 2015 Mexican Securities Market Law Reform influenced voluntary disclosure practices of U.S. firms through the unsophisticated investors channel. We investigate whether enhanced market accessibility and investor protections in Mexico led U.S. firms to adjust their voluntary disclosure practices in response to potential changes in their investor base. Our analysis focuses particularly on how the reform's provisions for retail investor participation affected information asymmetry and disclosure decisions.

While we cannot draw definitive causal conclusions due to the complex nature of cross-border regulatory changes, our investigation reveals important patterns in the relationship between foreign market reforms and domestic disclosure practices. The Mexican reform's emphasis on retail investor protection appears to have created incentives for U.S. firms to enhance their voluntary disclosure, particularly in areas most relevant to unsophisticated investors. This finding aligns with prior literature documenting how firms adjust their disclosure practices in response to changes in investor sophistication (Miller, 2010; Lawrence, 2013).

The observed relationship between the Mexican reform and U.S. firm disclosure practices suggests that cross-border regulatory changes can have significant spillover effects through the investor base channel. These findings extend the literature on the international dimensions of disclosure policy (Leuz and Wysocki, 2016) and contribute to our understanding of how firms respond to changes in the composition of their potential investor base.

Our findings have important implications for regulators, managers, and investors. For regulators, the results suggest that securities market reforms can have significant cross-border effects through their impact on investor composition. This highlights the need for international coordination in securities regulation and careful consideration of potential spillover effects. For managers, our findings indicate that changes in foreign market accessibility may necessitate adjustments to disclosure policies, particularly when these changes affect the sophistication level of the potential investor base. For investors, the results suggest that foreign market reforms can lead to enhanced information environments, potentially reducing information asymmetry and improving market efficiency.

These findings contribute to the broader literature on the role of unsophisticated investors in shaping corporate disclosure practices (Bloomfield, 2002; Miller and Skinner, 2015). They also extend our understanding of how cross-border regulatory changes affect firm behavior through indirect channels, complementing existing research on direct regulatory effects.

Several limitations of our study suggest promising avenues for future research. First, the complex nature of international regulatory changes makes it challenging to isolate the specific effect of the Mexican reform from other concurrent changes in the global market environment. Future research could exploit additional regulatory changes or use alternative identification strategies to better establish causality. Second, our focus on U.S. firms limits the generalizability of our findings. Future studies could examine how similar reforms affect firms in other countries, particularly those with different institutional environments. Finally, researchers could investigate other channels through which foreign market reforms affect domestic firm behavior, such as competition for capital or changes in analyst coverage.

The interaction between foreign market reforms and domestic disclosure practices through the unsophisticated investors channel remains a rich area for future research.

Particularly promising areas include examining the specific types of disclosures most affected by changes in investor sophistication, investigating the role of intermediaries in this process, and exploring how technological advances in information dissemination affect these relationships. Such research would further enhance our understanding of the increasingly interconnected global financial markets and the role of disclosure in facilitating efficient capital allocation.

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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
MexicanSecuritiesMarketLawReform Unsophisticated Investors

	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 Mexican Securities Market Law Reform 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.