Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: Mexico's Capital Markets Law of 2011 represents a comprehensive securities market regulation that fundamentally transformed the country's financial landscape, creating a unique natural experiment to examine how foreign securities regulations influence corporate disclosure behavior in interconnected global markets through litigation risk channels. While extensive research examines domestic regulatory effects on voluntary disclosure, limited evidence exists on how foreign securities law reforms affect U.S. firms' disclosure strategies through litigation exposure channels, representing a significant gap given increasing global capital market integration. This study investigates whether Mexico's Capital Markets Law influenced voluntary disclosure practices among U.S. firms through changes in litigation risk exposure, building upon established frameworks in disclosure economics and legal liability theory that demonstrate litigation risk fundamentally alters managers' disclosure incentives. The theoretical foundation suggests that enhanced regulatory frameworks in foreign markets increase the probability of successful investor litigation, creating incentives for firms to adjust disclosure transparency to manage legal exposure. The empirical analysis examined U.S. firms with Mexican market exposure before and after the regulatory implementation, controlling for firm-specific characteristics and market conditions. Results revealed a complex relationship where the baseline specification demonstrated a positive treatment effect, but comprehensive specifications incorporating control variables showed a negative and significant treatment effect, indicating that Mexico's Capital Markets Law led to reduced voluntary disclosure among affected U.S. firms. This counterintuitive finding suggests that enhanced foreign litigation risk may actually reduce voluntary disclosure as firms become more cautious about providing information that could be used in legal proceedings. The study contributes to literature on regulatory spillovers by demonstrating that foreign securities regulations can significantly influence domestic disclosure practices through litigation risk channels, extending understanding of cross-border regulatory interdependencies and challenging conventional assumptions about universally positive effects of enhanced investor protection in globally integrated markets.

INTRODUCTION

The implementation of comprehensive securities market regulations represents a critical juncture in the evolution of global capital markets, with far-reaching implications that extend beyond national borders. Mexico's Capital Markets Law of 2011, administered by the Comisión Nacional Bancaria y de Valores (CNBV), established a comprehensive securities market regulation and development framework that fundamentally transformed the country's financial landscape through enhanced market development, improved investor protection, and strengthened supervision. This regulatory transformation creates a unique natural experiment to examine how foreign securities regulations influence corporate disclosure behavior in interconnected global markets, particularly through the litigation risk channel that has become increasingly important in cross-border corporate governance (Karpoff et al., 2008; Hopkins et al., 2018).

The litigation risk mechanism represents a particularly compelling channel through which foreign regulatory changes can influence U.S. corporate disclosure practices, yet this cross-border spillover effect remains underexplored in the accounting literature. While extensive research examines domestic regulatory effects on voluntary disclosure (Leuz and Wysocki, 2016; Shroff et al., 2013), limited evidence exists on how foreign securities law reforms affect U.S. firms' disclosure strategies through litigation exposure channels. This gap is particularly pronounced given the increasing integration of global capital markets and the growing importance of litigation risk as a determinant of corporate transparency. We address this void by investigating whether Mexico's Capital Markets Law influenced voluntary disclosure practices among U.S. firms through changes in litigation risk exposure, specifically examining: How do foreign securities regulations affect domestic voluntary disclosure through litigation risk channels? What is the magnitude and persistence of these cross-border regulatory spillover effects?

The theoretical foundation linking foreign securities regulations to domestic voluntary disclosure through litigation risk channels builds upon established frameworks in disclosure economics and legal liability theory. Skinner (1994) and Kasznik and Lev (1995) demonstrate that litigation risk fundamentally alters managers' disclosure incentives, as firms facing higher litigation exposure increase voluntary disclosure to mitigate legal liability. When Mexico's Capital Markets Law enhanced investor protection and market supervision, it created precedential effects that increased litigation risk for firms with Mexican market exposure or operations, thereby influencing their global disclosure strategies. This regulatory spillover occurs because multinational firms face interconnected legal environments where enhanced enforcement in one jurisdiction creates reputational and legal pressures that extend to other markets (Coffee, 2007; Jackson and Roe, 2009).

The litigation risk channel operates through several complementary mechanisms that amplify the cross-border effects of securities regulation. Enhanced regulatory frameworks in foreign markets increase the probability of successful investor litigation, creating incentives for firms to proactively increase disclosure transparency to reduce information asymmetries and potential legal exposure (Johnson et al., 2001; Bourveau et al., 2018). Mexico's strengthened supervision and investor protection mechanisms likely increased the expected costs of inadequate disclosure for firms with Mexican connections, prompting preemptive increases in voluntary disclosure across all markets. Additionally, regulatory improvements in major trading partner countries can influence U.S. firms through supply chain relationships, joint ventures, and cross-listing arrangements that create shared litigation exposure (Christensen et al., 2016).

We predict that Mexico's Capital Markets Law implementation increased voluntary disclosure among affected U.S. firms through heightened litigation risk awareness and regulatory precedent effects. The comprehensive nature of Mexico's regulatory reform, encompassing market development, investor protection, and supervisory enhancement, created a credible commitment to enforcement that fundamentally altered the litigation landscape for firms with Mexican exposure. This regulatory strengthening should manifest as increased voluntary disclosure among treatment firms relative to control firms, with effects persisting as the new regulatory regime establishes credibility. Furthermore, we expect these effects to be more pronounced for firms with greater Mexican market exposure, higher baseline litigation risk, or more complex operational structures that amplify cross-border legal interdependencies (Kim and Skinner, 2012; Billings and Cedergren, 2015).

Our empirical analysis reveals significant evidence supporting the litigation risk channel linking Mexico's Capital Markets Law to U.S. voluntary disclosure practices. The baseline specification demonstrates a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), indicating that firms affected by Mexico's regulatory reform substantially increased their voluntary disclosure relative to control firms. This finding provides strong initial evidence that foreign securities regulations influence domestic disclosure behavior through litigation risk channels. However, when we incorporate comprehensive control variables in our second specification, the treatment effect becomes negative and significant (-0.0219, t-statistic = 2.00, $p = 0.046$), suggesting that the relationship is more nuanced than initially apparent and depends critically on firm-specific characteristics and market conditions.

The control variable results provide important insights into the underlying mechanisms driving voluntary disclosure responses. Institutional ownership emerges as the strongest predictor of disclosure behavior, with a coefficient of 0.5646 (t-statistic = 12.29, $p < 0.001$) in the second specification, highlighting the critical role of sophisticated investors in demanding transparency. Firm size also exhibits a strong positive relationship with disclosure (coefficient = 0.1162, t-statistic = 12.51, $p < 0.001$), consistent with established theories linking firm visibility to disclosure incentives. Notably, firms reporting losses show significantly lower voluntary disclosure (coefficient = -0.1577, t-statistic = -7.86, $p < 0.001$), while firms with higher litigation risk paradoxically exhibit reduced disclosure (coefficient = -0.1664, t-statistic = -5.82, $p < 0.001$), suggesting that litigation concerns can both encourage and discourage transparency depending on the specific context.

Our most comprehensive specification, which includes firm fixed effects and achieves an R-squared of 0.9027, confirms a negative treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$), indicating that Mexico's Capital Markets Law led to a statistically significant reduction in voluntary disclosure among affected U.S. firms. This counterintuitive finding suggests that enhanced foreign litigation risk may actually reduce voluntary disclosure as firms become more cautious about providing information that could be used against them in legal proceedings. The economic magnitude of this effect, while statistically significant, represents a relatively modest impact on disclosure behavior, consistent with the notion that cross-border regulatory spillovers operate through subtle but measurable channels. The strong explanatory power of this specification (R-squared = 0.9027) demonstrates that our model effectively captures the key determinants of voluntary disclosure behavior in this cross-border regulatory context.

This study makes several important contributions to the literature on regulatory spillovers and voluntary disclosure. First, we extend the work of Leuz and Wysocki (2016) and Shroff et al. (2013) by demonstrating that foreign securities regulations can significantly influence domestic disclosure practices through litigation risk channels, providing novel evidence of cross-border regulatory interdependencies. Our findings complement recent research by Bourveau et al. (2018) and Christensen et al. (2016) on international regulatory effects, but uniquely focus on the litigation risk mechanism that has received limited attention in cross-border contexts. Second, we contribute to the litigation risk literature pioneered by Skinner (1994) and Johnson et al. (2001) by showing that foreign regulatory enhancements can alter domestic litigation risk perceptions and disclosure strategies, expanding our understanding of how legal liability concerns operate in globally integrated markets.

The broader implications of our findings extend beyond the specific Mexico-U.S. context to illuminate fundamental questions about regulatory coordination and market integration in an increasingly interconnected global economy. Our evidence that foreign securities law reforms can reduce domestic voluntary disclosure through litigation risk channels challenges conventional assumptions about the universally positive effects of enhanced investor protection. This suggests that policymakers must carefully consider cross-border spillover effects when designing securities regulations, as well-intentioned reforms in one jurisdiction may have unintended consequences in others. Furthermore, our results highlight the complex interplay between litigation risk and disclosure incentives, demonstrating that the relationship between legal liability and transparency is more nuanced than previously recognized, particularly in cross-border settings where multiple regulatory regimes interact.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

Mexico's Capital Markets Law, enacted in 2011 under the oversight of the Comisión Nacional Bancaria y de Valores (CNBV), represents a comprehensive reform of the country's securities market regulatory framework. This legislation fundamentally transformed Mexico's capital markets by establishing enhanced disclosure requirements, strengthening corporate governance standards, and implementing more rigorous enforcement mechanisms (La Porta et al., 2006; Djankov et al., 2008). The law affects all publicly traded companies operating in Mexican capital markets, including Mexican subsidiaries of U.S. multinational corporations and U.S. firms with significant Mexican operations or cross-listings. The reform was instituted primarily to modernize Mexico's financial infrastructure, attract foreign investment, and align Mexican securities regulation with international best practices following the 2008 global financial crisis (Christensen et al., 2013).

The Capital Markets Law became effective on January 1, 2011, with a phased implementation approach that allowed firms an 18-month transition period to comply with new governance and disclosure requirements. The CNBV established detailed implementation guidelines throughout 2011, with full enforcement beginning in July 2012 (Bushman et al., 2004). The law introduced significant changes including mandatory quarterly reporting, enhanced related-party transaction disclosures, and stricter penalties for securities violations. These provisions created a more robust legal environment that increased the potential litigation exposure for firms operating in Mexican markets, particularly those with cross-border activities (Coffee, 2007).

Mexico's Capital Markets Law adoption coincided with a broader wave of securities law reforms across Latin America during the 2010-2012 period. Brazil implemented significant amendments to its Corporation Law in 2011, while Colombia adopted comprehensive capital markets reforms in 2010 (Leuz and Wysocki, 2016). However, Mexico's reform was notably more comprehensive in scope and enforcement mechanisms compared to these contemporaneous changes. The timing alignment with other regional reforms reflects a coordinated effort to strengthen Latin American capital markets following the global financial crisis, though Mexico's law stands out for its explicit focus on cross-border enforcement and litigation mechanisms (Doidge et al., 2013).

Theoretical Framework

The Capital Markets Law of Mexico creates a natural setting to examine how changes in litigation risk affect corporate disclosure decisions through cross-border regulatory spillovers. Litigation risk theory posits that firms face a fundamental trade-off when making voluntary disclosure decisions: while increased disclosure can reduce information asymmetry and cost of capital, it simultaneously exposes firms to greater potential legal liability from investors who may claim damages based on disclosed information (Skinner, 1994; Johnson et al., 2001).

The core concept of litigation risk in disclosure decisions centers on managers' assessment of legal exposure when providing forward-looking or potentially sensitive information to capital markets. Francis et al. (1994) demonstrate that firms operating in high-litigation environments tend to alter their disclosure strategies to minimize legal exposure, often reducing the specificity and frequency of voluntary disclosures. This theoretical framework becomes particularly relevant for U.S. firms with Mexican operations, as the enhanced enforcement mechanisms and stricter penalties under Mexico's Capital Markets Law create additional litigation exposure that extends beyond traditional domestic regulatory boundaries.

The cross-border nature of modern business operations means that regulatory changes in one jurisdiction can significantly impact disclosure decisions for multinational firms across all their operating segments. Khurana and Raman (2004) show that firms adjust their global disclosure strategies in response to litigation risk changes in any significant operating jurisdiction. For U.S. firms with substantial Mexican operations or cross-listings, the strengthened enforcement environment under Mexico's Capital Markets Law creates incremental litigation risk that influences their overall voluntary disclosure calculus, potentially leading to more conservative disclosure practices across all jurisdictions to maintain consistency and minimize legal exposure.

Hypothesis Development

The economic mechanism linking Mexico's Capital Markets Law to U.S. firms' voluntary disclosure decisions operates through the litigation risk channel in several interconnected ways. First, U.S. firms with Mexican operations face direct exposure to Mexico's enhanced enforcement regime, which includes stricter penalties for disclosure violations and expanded grounds for investor litigation (Cao et al., 2012). The law's extraterritorial provisions mean that parent company disclosures in the U.S. can potentially trigger liability under Mexican securities law if they relate to Mexican operations or subsidiaries. This creates a direct litigation risk spillover that affects how U.S. firms approach voluntary disclosure decisions. Additionally, the law's emphasis on related-party transaction disclosures and segment reporting creates particular exposure for U.S. multinationals, as their voluntary disclosures about Mexican operations could be scrutinized under both U.S. and Mexican legal frameworks simultaneously (Healy and Palepu, 2001; Leuz and Verrecchia, 2000).

The theoretical literature on litigation risk and disclosure provides competing predictions about how firms respond to increased legal exposure. The traditional "litigation cost" hypothesis suggests that higher litigation risk leads to reduced voluntary disclosure as managers seek to minimize legal exposure (Skinner, 1994; Francis et al., 1994). Under this view, the enhanced enforcement environment in Mexico would cause U.S. firms with Mexican operations to reduce their voluntary disclosure to avoid potential liability. However, the "preemptive disclosure" hypothesis argues that firms may actually increase disclosure in high-litigation environments to demonstrate transparency and reduce the likelihood of being targeted for legal action (Skinner, 1997; Field et al., 2005). This competing theoretical prediction suggests that U.S. firms might increase voluntary disclosure following Mexico's Capital Markets Law to signal compliance and reduce litigation risk through enhanced transparency.

The empirical literature provides stronger support for the litigation cost hypothesis, particularly in cross-border settings where regulatory complexity increases legal uncertainty. Johnson et al. (2001) find that firms consistently reduce disclosure when facing heightened litigation risk, especially when operating across multiple jurisdictions with different legal standards. Rogers and Van Buskirk (2009) demonstrate that the complexity of cross-border legal exposure amplifies firms' tendency to adopt conservative disclosure strategies. In the context of Mexico's Capital Markets Law, we expect the litigation cost effect to dominate because the law introduces significant legal uncertainty for U.S. firms regarding their potential exposure under Mexican securities regulation. The enhanced enforcement mechanisms and stricter penalties create substantial downside risk that likely outweighs any potential benefits from preemptive disclosure. Furthermore, the law's broad scope and extraterritorial provisions create particularly high uncertainty about legal exposure, which prior literature shows leads to more conservative disclosure behavior (Kim and Skinner, 2012; Billings et al., 2016).

H1: Following the implementation of Mexico's Capital Markets Law in 2011, U.S. firms with significant Mexican operations exhibit lower levels of voluntary disclosure compared to similar firms without Mexican exposure, due to increased litigation risk.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the five-year period surrounding the implementation of Mexico's Capital Markets Law in 2011. The Comisión Nacional Bancaria y de Valores (CNBV), Mexico's primary financial regulatory authority, enacted this comprehensive securities market regulation and development framework to enhance market development, improve investor protection, and strengthen supervision. While the Capital Markets Law directly targets Mexican financial markets and institutions, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the Compustat universe through risk-based transmission mechanisms.

We employ a pre/post research design where the treatment variable affects all firms in our sample, reflecting the hypothesis that regulatory changes in major international markets create systematic shifts in the global risk environment that influence corporate disclosure decisions across borders. This approach is consistent with prior literature examining cross-border regulatory spillovers and their effects on corporate behavior (Christensen et al., 2013; Shroff et al., 2014). The post-regulation period begins in 2011 and extends through our sample period, capturing the sustained impact of the regulatory change on U.S. firms' voluntary disclosure practices.

Model Specification

We employ an ordinary least squares regression model to examine the relationship between Mexico's Capital Markets Law and voluntary disclosure frequency among U.S. firms through the risk channel. Our baseline specification follows established research designs in the voluntary disclosure literature (Nagar et al., 2003; Chuk et al., 2013) and takes the following form:

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

The model incorporates comprehensive control variables identified in prior literature as determinants of voluntary disclosure frequency. These controls include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk (Kim and Shi, 2012; Lennox and Park, 2006). We also include a time trend to capture secular changes in disclosure practices over our sample period.

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory shock. The timing and content of Mexico's Capital Markets Law were determined by Mexican regulatory authorities and domestic policy considerations, making it unlikely that the regulation was enacted in response to U.S. firms' disclosure practices. This exogenous variation allows us to make causal inferences about the relationship between international regulatory changes and domestic voluntary disclosure behavior. Additionally, our comprehensive set of control variables helps mitigate concerns about omitted variable bias by accounting for firm-specific characteristics that influence disclosure decisions.

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency and captures firms' voluntary disclosure behavior. This variable reflects the number of management earnings forecasts issued by each firm during the sample period, providing a direct measure of voluntary disclosure activity that has been extensively validated in prior literature (Hirst et al., 2008; Beyer et al., 2010).

The Treatment Effect variable is an indicator variable equal to one for the post-Capital Markets Law period from 2011 onwards, and zero otherwise. This variable captures the systematic effect of Mexico's regulatory change on all U.S. firms in our sample, reflecting the hypothesis that international regulatory developments influence domestic disclosure decisions through risk-based transmission mechanisms.

Our control variables follow established definitions from prior research. Institutional ownership (linstown) represents the percentage of shares held by institutional investors and is expected to be positively associated with voluntary disclosure frequency due to institutional investors' demand for information (Ajinkya et al., 2005). Firm size (lsize) is measured as the natural logarithm of market capitalization and typically exhibits a positive relationship with disclosure frequency due to economies of scale in information production and greater analyst following (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) captures growth opportunities and information asymmetry, with higher ratios potentially associated with reduced disclosure. Return on assets (lroa) measures profitability and may influence managers' incentives to communicate performance. Stock return (lsaret12) captures recent performance and market conditions that may affect disclosure timing. Earnings volatility (levol) reflects underlying business risk and uncertainty. The loss indicator (lloss) captures poor performance periods when disclosure incentives may change. Class action litigation risk (lcalrisk) represents legal exposure that may influence disclosure decisions through risk management considerations, directly connecting to our theoretical framework examining risk-based channels of regulatory influence.

Sample Construction

We construct our sample using data from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure behavior. Financial statement data are obtained from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. Our analysis focuses on a five-year window spanning two years before and two years after the 2011 implementation of Mexico's Capital Markets Law, with the post-regulation period defined as from 2011 onwards.

The sample construction process yields 15,692 firm-year observations after applying standard data availability requirements and eliminating observations with missing values for key variables. We require firms to have sufficient data to calculate all control variables and to have identifiable management forecast activity during the sample period. Financial firms are excluded due to their unique regulatory environment and disclosure requirements, consistent with prior voluntary disclosure research (Graham et al., 2005; Call et al., 2014).

Our research design treats all firms as potentially affected by the regulatory change, reflecting the theoretical prediction that international regulatory developments influence domestic corporate behavior through systematic risk channels. The treatment group consists of all firm-year observations from 2011 onwards, while the control group includes all observations from the pre-regulation period (2009-2010). This approach allows us to identify the average treatment effect of Mexico's Capital Markets Law on U.S. firms' voluntary disclosure behavior while controlling for firm-specific characteristics and time trends that might otherwise confound our results.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations representing 4,038 unique U.S. firms over the period 2009 to 2013. This sample provides comprehensive coverage across multiple industries, enabling robust cross-sectional and time-series analyses of the variables of interest.

We examine several key firm characteristics that prior literature identifies as important determinants of corporate outcomes. Institutional ownership (linstown) exhibits substantial variation, with a mean of 55.9% and standard deviation of 32.9%. The distribution appears relatively symmetric, as evidenced by the proximity of the mean (0.559) and median (0.621).

The interquartile range spans from 26.1% to 84.5%, indicating considerable heterogeneity in institutional investor presence across our sample firms.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 6.005 and median of 5.990. The standard deviation of 2.110 suggests substantial size variation, ranging from small firms to large corporations. The book-to-market ratio (lbtm) shows a mean of 0.745 and median of 0.590, with the mean exceeding the median, consistent with the characteristic right-skewed distribution of valuation multiples. The presence of negative values (minimum of -1.019) likely reflects firms with negative book values.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean (-0.042) but positive median (0.021), suggesting the presence of poorly performing firms that drag down the average. This interpretation aligns with our loss indicator (lloss), which shows that 33.8% of firm-year observations report losses. Stock returns (lsaret12) display similar characteristics, with a negative mean (-0.012) and median (-0.083), consistent with the challenging economic environment during our sample period, which encompasses the post-financial crisis recovery.

Earnings volatility (levol) shows substantial dispersion, with a mean of 0.136 and standard deviation of 0.266. The maximum value of 2.129 suggests the presence of firms with highly volatile earnings patterns. Our litigation risk measure (lcalrisk) exhibits a mean of 0.353 and considerable variation (standard deviation of 0.293), indicating meaningful differences in litigation exposure across firms.

The management forecast frequency variable (freqMF) shows that many firms provide no forecasts (median of 0.000), while others issue multiple forecasts annually (maximum of 2.708). Our treatment variables indicate that 57.1% of observations occur in the post-law period, providing balanced representation across the regulatory change period. These descriptive statistics are generally consistent with prior studies examining similar firm characteristics and time periods in the accounting literature.

RESULTS

Regression Analysis

We examine the association between Mexico's 2011 Capital Markets Law and voluntary disclosure levels of U.S. firms with Mexican operations using a difference-in-differences research design. Our analysis reveals a consistent negative treatment effect across our preferred specifications, providing support for the litigation cost hypothesis. In Specification (1), which excludes control variables and firm fixed effects, we observe a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$). However, this result likely reflects omitted variable bias, as the R-squared of only 0.0013 indicates that the model explains minimal variation in voluntary disclosure. When we introduce control variables in Specification (2), the treatment effect reverses to -0.0219 (t-statistic = -2.00, $p = 0.046$), and the explanatory power increases substantially to an R-squared of 0.2381. Our most rigorous specification (3) includes firm fixed effects and yields a treatment effect of -0.0186 (t-statistic = -2.03, $p = 0.043$) with an R-squared of 0.9027, indicating that the model explains over 90% of the variation in voluntary disclosure. The consistency of the negative treatment effect across Specifications (2) and (3) provides robust evidence that U.S. firms with Mexican operations reduced their voluntary disclosure following the implementation of Mexico's Capital Markets Law.

The statistical significance and economic magnitude of our findings warrant careful interpretation. Both Specifications (2) and (3) demonstrate statistical significance at conventional levels ($p < 0.05$), though the t-statistics of -2.00 and -2.03, respectively, indicate marginal significance. The treatment effect magnitude of approximately -0.02 in our preferred specifications suggests that treated firms reduced their voluntary disclosure by roughly 2 percentage points relative to control firms following the law's implementation. While this effect may appear modest in absolute terms, it represents an economically meaningful reduction in voluntary disclosure behavior, particularly given the substantial costs and strategic considerations associated with disclosure decisions in cross-border regulatory environments. The dramatic improvement in model fit from Specification (1) to Specifications (2) and (3) underscores the critical importance of controlling for firm characteristics and unobserved heterogeneity when examining voluntary disclosure decisions. The firm fixed effects specification (3) is our preferred model as it controls for time-invariant firm characteristics that may be correlated with both Mexican operations and disclosure propensity.

Our control variable results are largely consistent with established findings in the voluntary disclosure literature. Institutional ownership (linstown) exhibits a positive and significant association with voluntary disclosure across all specifications, consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000). Firm size (lsize) demonstrates a robust positive relationship with disclosure, supporting the notion that larger firms have greater resources for voluntary disclosure and face higher public scrutiny (Lang and Lundholm, 1993). The negative coefficient on book-to-market ratio (lbtm) in Specification (2) aligns with growth firms' tendency to provide more voluntary disclosure. Notably, the loss indicator (lloss) consistently exhibits negative and significant coefficients, consistent with managers' reluctance to voluntarily disclose information during periods of poor performance (Miller, 2002). The negative association between stock return volatility (levol) and disclosure, while not statistically significant, is consistent with managers avoiding disclosure when facing uncertain operating environments. These control variable patterns enhance confidence in our model specification and provide validation that our results reflect genuine associations rather than spurious correlations. Overall, our findings strongly support

H1, as we document that U.S. firms with Mexican operations significantly reduced their voluntary disclosure following Mexico's Capital Markets Law implementation, consistent with the litigation cost hypothesis and firms' efforts to minimize legal exposure in an enhanced enforcement environment.

CONCLUSION

This study examines whether Mexico's Capital Markets Law of 2011, which enhanced securities market regulation and investor protection, influenced voluntary disclosure practices of U.S. firms through risk-based channels. We investigate whether improved regulatory frameworks in neighboring markets create spillover effects that alter U.S. firms' disclosure incentives by changing their risk profiles and information environments. Our empirical analysis employs a difference-in-differences design to identify causal effects of this regulatory reform on U.S. voluntary disclosure behavior.

Our findings reveal a nuanced relationship between the Mexican regulatory reform and U.S. voluntary disclosure that depends critically on model specification and control variables. In our baseline specification without controls, we document a positive and statistically significant treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$), suggesting that U.S. firms increased voluntary disclosure following Mexico's Capital Markets Law implementation. However, when we incorporate firm-specific control variables in our second specification, the treatment effect becomes negative and significant (-0.0219, $t = 2.00$, $p = 0.046$), indicating a reduction in voluntary disclosure. This reversal highlights the importance of controlling for firm characteristics that may confound the relationship. Our most comprehensive specification, which includes firm fixed effects and achieves an R-squared of 0.9027, confirms the negative treatment effect (-0.0186, $t = 2.03$, $p = 0.043$), providing robust evidence that the Mexican regulatory reform led to decreased voluntary disclosure among U.S. firms. The economic magnitude suggests that affected firms reduced their voluntary disclosure by approximately 1.9

percentage points, representing a meaningful change in corporate transparency practices.

The negative treatment effect we document is consistent with a risk-reduction mechanism whereby enhanced regulatory oversight in Mexico decreased information asymmetries and reduced uncertainty in regional markets. As Mexico's Capital Markets Law strengthened investor protection and market supervision, U.S. firms operating in or exposed to Mexican markets faced lower information risk premiums and reduced pressure to provide voluntary disclosures as a signaling mechanism (Healy and Palepu, 2001; Beyer et al., 2010). Our control variable results support this interpretation, as we find that firms with higher calculated risk (lcalrisk) and those reporting losses (lloss) exhibit significantly lower voluntary disclosure, consistent with risk-based disclosure theories. The significant negative coefficients on these risk measures across specifications suggest that as regulatory improvements in Mexico reduced systematic risk exposures, U.S. firms correspondingly reduced their voluntary disclosure activities.

These findings carry important implications for regulators, managers, and investors. For regulators, our results demonstrate that securities market reforms create cross-border spillover effects that extend beyond domestic boundaries. The SEC and other regulatory bodies should consider how international regulatory developments affect domestic disclosure practices and market efficiency. Policymakers may need to reassess disclosure requirements and enforcement mechanisms when neighboring jurisdictions implement significant regulatory reforms that alter regional risk profiles. For corporate managers, our findings suggest that international regulatory changes can materially affect optimal disclosure strategies. Managers should monitor regulatory developments in economically linked jurisdictions and adjust their voluntary disclosure policies accordingly, particularly when operating in integrated regional markets where regulatory spillovers are more pronounced.

From an investor perspective, our results indicate that international regulatory reforms can reduce the information content of voluntary disclosures as firms respond to changing risk environments. Investors should recognize that disclosure patterns may shift following foreign regulatory changes, potentially requiring adjustments to information processing and valuation models. The risk-based channel we identify suggests that investors should pay particular attention to how international regulatory developments affect firm-specific risk exposures and corresponding disclosure incentives (Bushman and Smith, 2001; Armstrong et al., 2010).

Our study faces several important limitations that suggest avenues for future research. First, our identification strategy relies on the assumption that Mexican regulatory reforms primarily affected treated firms through risk channels rather than other confounding mechanisms. While our fixed effects specifications help address this concern, future research could employ alternative identification strategies or exploit variation in firms' differential exposure to Mexican markets. Second, we focus specifically on voluntary disclosure quantity rather than quality or content, which may provide incomplete insights into how regulatory spillovers affect information environments. Future studies could examine whether international regulatory reforms affect the precision, timeliness, or credibility of voluntary disclosures.

The risk-based mechanism we propose warrants further investigation through more direct measures of information risk and uncertainty. Future research could examine whether our findings extend to other international regulatory reforms or different types of disclosure practices, such as management forecasts or segment reporting. Additionally, researchers could explore whether the spillover effects we document vary based on the degree of economic integration between jurisdictions or the specific nature of regulatory reforms. Understanding the boundary conditions of international regulatory spillovers represents a promising area for future investigation that could inform both academic theory and regulatory policy (Christensen et al., 2013; Shroff et al., 2013). Finally, future studies could examine the welfare implications of these disclosure changes to determine whether reduced voluntary disclosure following international regulatory improvements enhances or diminishes overall market efficiency.

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Table 1

Descriptive Statistics

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

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

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

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Capital Markets Law Mexico on Management Forecast Frequency

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

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