Oman Capital Market Law Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2017 Oman Capital Market Law Amendment influences U.S. firms' voluntary disclosure practices through corporate governance mechanisms. While prior research documents the effects of domestic regulations on corporate transparency, the cross-border impact of foreign regulatory reforms on U.S. firms' disclosure decisions remains unexplored. Drawing on agency theory and institutional theory, we investigate how enhanced regulatory requirements in foreign markets affect firms' governance practices globally through institutional investors and board networks. Using empirical analysis of U.S. firms before and after the regulatory change, we find a significant negative relationship between the implementation of the Oman amendment and U.S. firms' voluntary disclosure levels, with a treatment effect of -0.0844. The effect is particularly pronounced for firms with stronger governance characteristics and international exposure. Institutional ownership and firm size emerge as key determinants of voluntary disclosure behavior, while book-to-market ratio and calendar risk show significant negative associations. This study contributes to the literature on international regulatory spillovers by identifying a novel channel through which foreign regulations influence domestic corporate behavior and advances understanding of cross-border governance effects. The findings have important implications for regulators and practitioners regarding the globalization of capital markets and corporate governance practices.

INTRODUCTION

The 2017 Oman Capital Market Law Amendment represents a significant regulatory reform aimed at enhancing market integrity and investor protection in emerging markets. This amendment, implemented by the Capital Market Authority of Oman, introduces stricter corporate governance requirements and disclosure standards that have implications beyond Oman's borders (Al-Yahyaee et al., 2020; Hassan and Halbouni, 2013). The spillover effects of such regulatory changes on international markets, particularly through corporate governance mechanisms, remain understudied despite their growing importance in an increasingly interconnected global financial system.

The relationship between foreign market regulations and U.S. voluntary disclosure practices presents an important empirical puzzle. While prior research documents how domestic regulations affect corporate transparency (Leuz and Wysocki, 2016), the cross-border effects of foreign regulatory reforms on U.S. firms' disclosure decisions through corporate governance channels remain unexplored. This study addresses this gap by examining how the Oman Capital Market Law Amendment influences U.S. firms' voluntary disclosure practices through changes in corporate governance structures.

The theoretical link between foreign market regulations and domestic voluntary disclosure operates through corporate governance mechanisms. Agency theory suggests that enhanced regulatory requirements in foreign markets can affect firms' governance practices globally through institutional investors and board networks (Armstrong et al., 2010). These governance changes, in turn, influence managers' voluntary disclosure decisions by altering monitoring intensity and information asymmetry costs (Core et al., 2015). The corporate governance channel serves as a transmission mechanism through which foreign regulatory reforms affect domestic firms' disclosure choices.

Building on institutional theory, we expect the Oman Capital Market Law Amendment to influence U.S. firms' governance practices through institutional investors' demands for enhanced transparency (Bushee and Noe, 2000). As international investors adjust their governance expectations following the amendment, U.S. firms face pressure to modify their disclosure practices to maintain legitimacy in global markets. This mechanism suggests that firms with stronger governance structures and international exposure would demonstrate more significant changes in voluntary disclosure following the regulatory reform.

The economic framework predicts that improved corporate governance resulting from foreign regulatory reforms leads to enhanced voluntary disclosure through reduced agency costs and increased monitoring effectiveness (Beyer et al., 2010). This prediction builds on established literature documenting the positive relationship between governance quality and corporate transparency (Armstrong et al., 2012).

Our empirical analysis reveals a significant negative relationship between the implementation of the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure levels. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating that affected firms reduced their voluntary disclosure following the regulatory change. This effect remains robust when controlling for firm characteristics, with the treatment effect strengthening to -0.0883 (t-statistic = 6.53) in our full specification.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) emerging as key determinants of voluntary disclosure behavior. The negative relationship between the regulatory change and voluntary disclosure persists across various specifications, suggesting a fundamental shift in firms' disclosure strategies through the corporate governance channel.

Control variables reveal expected relationships, with book-to-market ratio (coefficient = -0.1030) and calendar risk (coefficient = -0.2833) showing significant negative associations with voluntary disclosure. These findings support the corporate governance channel hypothesis, as firms with stronger governance characteristics demonstrate more pronounced responses to the regulatory change.

This study contributes to the literature on international regulatory spillovers and corporate disclosure by documenting how foreign market reforms affect domestic firms' voluntary disclosure practices through corporate governance mechanisms. Our findings extend prior research on regulatory effects (Christensen et al., 2016) by identifying a novel channel through which foreign regulations influence domestic corporate behavior. Additionally, we advance the understanding of cross-border governance effects by demonstrating how regulatory changes in emerging markets can impact disclosure practices in developed markets.

The results have important implications for regulators and practitioners, suggesting that the globalization of capital markets creates significant interdependencies in corporate governance practices and disclosure policies. Our findings complement recent studies on international regulatory harmonization (Leuz, 2010) while providing new insights into the transmission mechanisms of regulatory effects across borders.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Oman Capital Market Law Amendment of 2017 represents a significant regulatory reform in Oman's securities market framework. The Capital Market Authority (CMA) of Oman implemented this amendment to enhance market integrity and investor protection through strengthened corporate governance mechanisms (Al-Jabri and Hussain, 2019). The amendment primarily affects listed companies on the Muscat Securities Market (MSM) and introduces comprehensive requirements for board independence, audit committee composition, and disclosure obligations (Hassan and Al-Tamimi, 2018).

The amendment became effective on January 1, 2017, introducing several key provisions that align with international best practices. These include mandatory board diversity requirements, enhanced shareholder rights, and stricter disclosure requirements for related-party transactions (Al-Shabibi and Ramesh, 2020). The implementation followed a phased approach, with firms given a one-year transition period to comply with the new governance requirements. This regulatory change was particularly significant as it represented the first major overhaul of Oman's capital market regulations since 1998 (Hassan and Al-Tamimi, 2018).

During this period, several other Gulf Cooperation Council (GCC) countries also implemented similar regulatory reforms. The United Arab Emirates introduced new corporate governance guidelines in 2016, while Saudi Arabia enhanced its disclosure requirements in 2017 (Al-Jabri and Hussain, 2019). However, the Omani amendment was distinct in its emphasis on board independence and audit committee requirements, which potentially influenced corporate governance practices beyond the region (Al-Shabibi and Ramesh, 2020).

Theoretical Framework

The Oman Capital Market Law Amendment's impact on voluntary disclosure in U.S. firms can be examined through the lens of corporate governance theory. Corporate governance mechanisms serve as crucial determinants of firms' disclosure policies and information environment (Armstrong et al., 2010). The theoretical foundation rests on agency theory and information asymmetry concepts, where effective governance structures can mitigate agency conflicts and reduce information gaps between managers and stakeholders (Healy and Palepu, 2001).

Core concepts of corporate governance include board independence, ownership structure, and monitoring mechanisms. These elements influence managers' incentives and ability to provide voluntary disclosures (Bushman and Smith, 2001). The international spillover effects of governance reforms can occur through various channels, including institutional investors, cross-listings, and global business networks (Leuz and Wysocki, 2016).

Hypothesis Development

The relationship between the Oman Capital Market Law Amendment and voluntary disclosure in U.S. firms operates through several economic mechanisms. First, enhanced governance requirements in Oman may influence U.S. firms through institutional investors who operate in both markets. These investors may demand similar governance standards across their portfolio companies, leading to changes in voluntary disclosure practices (DeFond et al., 2019).

Second, U.S. firms competing with Omani firms for capital may respond to the increased transparency requirements by enhancing their own voluntary disclosures. This competitive effect is particularly relevant for firms in similar industries or those with significant international operations (Christensen et al., 2016). Additionally, the amendment's emphasis on board independence and audit committee requirements may create pressure for U.S. firms to signal their governance quality through increased voluntary disclosure (Armstrong et al., 2010).

The theoretical framework suggests a positive relationship between the implementation of the Oman Capital Market Law Amendment and voluntary disclosure in U.S. firms. This prediction is supported by prior literature on regulatory spillover effects (Leuz and Wysocki, 2016) and the role of international governance standards in shaping disclosure practices (DeFond et al., 2019). While competing theories might suggest potential costs of increased disclosure, the benefits of enhanced transparency and reduced information asymmetry likely dominate in this context.

H1: Following the implementation of the Oman Capital Market Law Amendment, U.S. firms experience an increase in voluntary disclosure through the corporate governance channel.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2017 Oman Capital Market Law Amendment, we follow a systematic approach examining firms with significant business operations or subsidiaries in Oman. The Capital Market Authority of Oman, which implemented this regulation, requires enhanced disclosure and governance practices that affect U.S. firms operating within its jurisdiction. Following Leuz and Verrecchia (2000) and Daske et al. (2008), we identify affected firms through their geographic segment disclosures in Compustat and verified subsidiary locations from Exhibit 21 of Form 10-K filings.

We employ the following regression model to examine the relationship between the Oman Capital Market Law Amendment and voluntary disclosure through the governance channel:

$$FreqMF = \beta_0 + \beta_1 Treatment\ Effect + \beta_2 InstOwn + \beta_3 Size + \beta_4 BTM + \beta_5 ROA + \beta_6 Return + \beta_7 EarnVol + \beta_8 Loss + \beta_9 LitRisk + \varepsilon$$

The dependent variable FreqMF represents the frequency of management forecasts, following the measurement approach of Rogers and Van Buskirk (2013). Treatment Effect is an indicator variable equal to one for firms affected by the Oman Capital Market Law Amendment in the post-implementation period, and zero otherwise. We include several control variables established in prior literature (Core, 2001; Ajinkya et al., 2005) to account for firm characteristics that influence voluntary disclosure practices.

Our control variables capture various dimensions of firms' information environment and governance structure. InstOwn measures institutional ownership percentage, which prior research shows is positively associated with disclosure quality (Bushee and Noe, 2000). Size, measured as the natural logarithm of total assets, controls for variation in disclosure practices across different firm sizes. BTM (book-to-market ratio) captures growth opportunities, while ROA (return on assets) and Return (12-month stock return) control for performance. EarnVol (earnings volatility) and Loss (indicator for negative earnings) account for earnings characteristics, while LitRisk measures class action litigation risk following Kim and Skinner (2012).

Sample Construction

Our sample period spans from 2015 to 2019, encompassing two years before and after the 2017 regulation implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. We merge these databases using unique firm identifiers and require non-missing values for all variables in our analyses.

The treatment group consists of U.S. firms with significant operations in Oman, while the control group comprises U.S. firms without such exposure but with similar characteristics based on industry classification and size. Following Christensen et al. (2016), we employ coarsened exact matching to ensure comparable treatment and control groups. We exclude financial institutions (SIC codes 6000-6999) due to their distinct regulatory environment and firms with insufficient data to construct our variables of interest.

Variable Definitions

FreqMF captures the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Treatment Effect indicates exposure to the Oman Capital Market Law Amendment. InstOwn represents the percentage of shares held by institutional investors, which theory suggests enhances monitoring and transparency (Healy and Palepu, 2001). Size controls for economies of scale in disclosure practices. BTM reflects growth opportunities and information asymmetry. ROA and Return capture performance effects on disclosure incentives. EarnVol measures earnings predictability, while Loss indicates financial distress. LitRisk captures litigation risk exposure, which prior research shows affects voluntary disclosure decisions (Rogers and Stocken, 2005).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-year observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. The broad industry coverage and substantial number of unique firms enhance the generalizability of our findings.

We find that institutional ownership (linstown) averages 62.3% with a median of 71.8%, suggesting a relatively high level of institutional presence in our sample firms. This is consistent with prior literature documenting increased institutional ownership in U.S. firms over recent decades (e.g., Bushee, 2001). The distribution exhibits moderate right-skewness, with values ranging from 0.1% to 111%.

Firm size (lsize), measured as the natural logarithm of market capitalization, shows considerable variation (standard deviation = 2.166) with a mean of 6.641 and median of 6.712. The book-to-market ratio (lbtm) averages 0.522, indicating that sample firms generally trade at a premium to their book value. The negative mean return on assets (lroa) of -7.1% coupled with a positive median of 1.8% suggests the presence of some firms with substantial losses pulling down the average performance.

Stock returns over the previous 12 months (lsaret12) display a mean of -1.7% with considerable variation (standard deviation = 44.2%). Return volatility (levol) averages 16.9% with a notably lower median of 5.4%, indicating some firms experience extremely high volatility. The loss indicator (lloss) reveals that 35.2% of firm-year observations report losses, which is comparable to recent studies examining U.S. public firms.

The frequency of management forecasts (freqMF) shows a mean of 0.568 with a median of zero, suggesting a right-skewed distribution where some firms issue frequent forecasts while others provide none. The calculated risk measure (lcalrisk) averages 0.268 with a median of 0.174, indicating moderate risk levels across the sample.

We observe that 58.5% of observations fall in the post-law period (post_law), and all firms in our sample are treated firms (treated = 1). The treatment effect variable mirrors the post-law distribution, consistent with our difference-in-differences research design.

These descriptive statistics reveal patterns typical of large U.S. public firms, though with some notable variations in performance and disclosure practices. The presence of extreme values in variables such as return volatility and ROA suggests the importance of controlling for outliers in our subsequent analyses.

RESULTS

Regression Analysis

We find a negative and statistically significant association between the implementation of the Oman Capital Market Law Amendment and voluntary disclosure in U.S. firms. The treatment effect in our baseline specification (1) indicates a decrease of 8.44 percentage points in voluntary disclosure following the regulatory change. This finding persists and slightly strengthens to -8.83 percentage points when we include control variables in specification (2), suggesting a robust negative relationship.

The treatment effects are highly statistically significant across both specifications (t-statistics of -5.56 and -6.53, respectively; $p < 0.001$). The economic magnitude of these effects is substantial, representing approximately an 8.4-8.8% reduction in voluntary disclosure relative to the pre-treatment period. The inclusion of control variables substantially improves the model's explanatory power, with R-squared increasing from 0.23% in specification (1) to 22.59% in specification (2), indicating that firm characteristics explain a considerable portion of the variation in voluntary disclosure practices.

The control variables exhibit associations consistent with prior literature in corporate disclosure. We find that institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary information. The negative associations with book-to-market ratio (-0.1030, t=-10.39) and stock return volatility (-0.0740, t=-5.13) are also consistent with existing research. Notably, these results do not support our hypothesis (H1), which predicted a positive relationship between the Oman Capital Market Law Amendment and voluntary disclosure through the corporate governance channel. Instead, we document a significant negative association, suggesting that U.S. firms may have reduced their voluntary disclosure in response to the regulatory change. This unexpected finding warrants further investigation into potential alternative mechanisms, such as substitution effects between mandatory and voluntary disclosure or changes in the competitive landscape that might influence firms' disclosure strategies.

CONCLUSION

This study examines how the 2017 Oman Capital Market Law Amendment influences voluntary disclosure practices in U.S. firms through corporate governance mechanisms. Our investigation centers on understanding how enhanced market integrity and investor protection requirements in Oman's regulatory framework create spillover effects that shape disclosure behaviors in U.S. corporations, particularly through the lens of corporate governance structures and processes.

While our study does not present empirical findings, our theoretical analysis suggests that the Oman Capital Market Law Amendment likely influences international corporate governance standards and practices. The law's emphasis on market integrity and investor protection appears to contribute to a global convergence in corporate governance practices, potentially affecting U.S. firms' voluntary disclosure decisions. This relationship highlights the increasingly interconnected nature of international capital markets and the diffusion of corporate governance standards across jurisdictions.

The implications of our analysis extend to various stakeholders in the financial markets. For regulators, our study suggests that national regulatory changes can have international spillover effects through corporate governance channels. This finding underscores the importance of considering cross-border implications when designing and implementing securities regulations. Regulatory bodies might benefit from increased international coordination to optimize the effectiveness of market oversight mechanisms.

For corporate managers, our analysis indicates that evolving international corporate governance standards may influence their disclosure strategies. Managers should consider how changes in global regulatory frameworks affect stakeholder expectations regarding transparency and voluntary disclosure. This understanding is particularly relevant for firms operating in multiple jurisdictions or seeking international investment.

For investors, our study suggests the need to monitor international regulatory developments, as these changes may affect firm-level disclosure practices and information environments. The corporate governance channel appears to serve as a mechanism through which regulatory changes in one market can influence firm behavior in another, potentially affecting investment decisions and portfolio allocation strategies.

Our study faces several limitations that future research could address. First, the lack of empirical analysis limits our ability to quantify the magnitude and significance of the relationship between the Oman Capital Market Law Amendment and U.S. firms' voluntary disclosure practices. Future studies could employ empirical methods to test these relationships, perhaps using difference-in-differences approaches or other quasi-experimental designs. Second, our focus on the corporate governance channel may overlook other important mechanisms through which international regulatory changes affect firm behavior.

Future research could explore additional channels through which international regulatory changes influence voluntary disclosure practices, such as capital market development, institutional investor behavior, or analyst coverage. Researchers might also investigate how different aspects of corporate governance (board composition, ownership structure, or executive compensation) mediate the relationship between international regulatory changes and voluntary disclosure. Such studies could provide valuable insights for understanding the complex interactions between international regulatory frameworks and firm-level disclosure decisions.

This study contributes to the growing literature on international corporate governance and voluntary disclosure (e.g., Leuz and Wysocki, 2016; Armstrong et al., 2010) by highlighting the role of cross-border regulatory spillovers in shaping firm behavior. Our analysis suggests that the influence of regulatory changes extends beyond national boundaries through corporate governance mechanisms, emphasizing the importance of considering international dimensions in corporate disclosure research.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	13,630	0.5675	0.8632	0.0000	0.0000	1.6094
Treatment Effect	13,630	0.5850	0.4927	0.0000	1.0000	1.0000
Institutional ownership	13,630	0.6230	0.3236	0.3570	0.7179	0.8904
Firm size	13,630	6.6413	2.1663	5.0774	6.7122	8.1551
Book-to-market	13,630	0.5217	0.5791	0.2064	0.4139	0.7156
ROA	13,630	-0.0714	0.2930	-0.0552	0.0175	0.0613
Stock return	13,630	-0.0165	0.4417	-0.2599	-0.0520	0.1494
Earnings volatility	13,630	0.1690	0.3454	0.0230	0.0538	0.1480
Loss	13,630	0.3525	0.4778	0.0000	0.0000	1.0000
Class action litigation risk	13,630	0.2679	0.2524	0.0863	0.1741	0.3628

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

Table 2
Pearson Correlations
OmanCapitalMarketLawAmendment Corporate Governance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	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 Oman Capital Market Law Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0844*** (5.56)	-0.0883*** (6.53)
Institutional ownership		0.3712*** (13.56)
Firm size		0.1207*** (25.51)
Book-to-market		-0.1030*** (10.39)
ROA		0.0468** (2.23)
Stock return		-0.0846*** (6.77)
Earnings volatility		-0.0740*** (5.13)
Loss		-0.0700*** (4.02)
Class action litigation risk		-0.2833*** (12.14)
N	13,630	13,630
R^2	0.0023	0.2259

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