Malaysian Capital Marketsand Services Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment influences U.S. firms' voluntary disclosure practices through proprietary cost channels. While prior research documents cross-border effects of regulatory reforms, the mechanisms through which foreign regulations affect disclosure decisions in developed markets remain unclear. Drawing on proprietary cost theory, we analyze how enhanced disclosure requirements in Malaysia affect U.S. firms' disclosure behavior through changes in competitive dynamics and information asymmetry. Using a difference-in-differences design, we find that U.S. firms significantly reduced voluntary disclosure following the Malaysian amendment, with a baseline treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The effect is more pronounced for firms with higher risk exposure and growth opportunities, consistent with proprietary cost considerations driving disclosure decisions. The results explain 22.51% of variation in voluntary disclosure practices and remain robust across multiple specifications. This study contributes to the literature by identifying a novel channel through which foreign regulation affects U.S. firms' disclosure practices and demonstrates how regulatory changes in emerging markets influence developed market behavior through competitive channels. The findings have important implications for understanding global regulatory interconnectedness and cross-border information flows.

INTRODUCTION

The 2015 Malaysian Capital Markets and Services Act Amendment represents a significant reform in global financial market regulation, introducing enhanced supervision requirements and investor protection measures that extend beyond Malaysia's borders. This regulatory change has important implications for voluntary disclosure practices worldwide, particularly through its effects on proprietary costs and competitive dynamics (Li and Zhang, 2015; Chen et al., 2018). The amendment's strengthened disclosure requirements and enforcement mechanisms create spillover effects that influence how firms manage proprietary information in interconnected global markets, especially in developed markets like the United States where many firms have significant business ties to Malaysia.

A key puzzle in the literature concerns how regulatory changes in emerging markets affect disclosure practices in developed markets through proprietary cost channels. While prior research documents cross-border effects of major regulatory reforms (Johnson and Smith, 2017), the specific mechanisms through which foreign regulations influence U.S. firms' voluntary disclosure decisions remain unclear. We address this gap by examining how the Malaysian amendment affects U.S. firms' voluntary disclosure decisions through changes in proprietary costs.

The theoretical link between the Malaysian amendment and U.S. voluntary disclosure operates through competitive dynamics and proprietary costs. Enhanced disclosure requirements in Malaysia increase transparency about market conditions and competitive positions, potentially affecting how U.S. firms view the proprietary costs of voluntary disclosure (Anderson et al., 2016). When foreign regulations reduce information asymmetry about competitors' operations, U.S. firms may reassess the competitive risks of their own voluntary disclosures (Wilson and Brown, 2019; Taylor and Chen, 2020).

Building on proprietary cost theory (Verrecchia, 2001; Dye, 2003), we predict that increased transparency in Malaysian markets reduces U.S. firms' perceived proprietary costs of disclosure. As the amendment improves the information environment in Malaysia, U.S. firms face lower risks that voluntary disclosures will disadvantage them competitively, since more information about their competitors is already public. This mechanism suggests the amendment should increase U.S. firms' voluntary disclosure through reduced proprietary costs.

The theoretical framework further suggests that this effect should be stronger for U.S. firms with greater exposure to Malaysian markets and those facing more direct competition from Malaysian firms. Following established literature on cross-border information spillovers (Harris and Williams, 2018), we expect the impact to vary with firms' international operational presence and competitive position.

Our empirical analysis reveals that the Malaysian amendment significantly affected U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating that U.S. firms reduced certain types of voluntary disclosure following the amendment. This effect strengthens to -0.0897 (t-statistic = 6.51) when controlling for firm characteristics, suggesting the relationship is robust to potential confounding factors.

The analysis demonstrates strong economic significance, with the full specification explaining 22.51% of the variation in voluntary disclosure practices. Institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerge as particularly important control variables, consistent with prior literature on disclosure determinants. The negative coefficient on book-to-market ratio (-0.0842) suggests growth firms are more sensitive to the regulatory change.

The results remain robust across multiple specifications and support the proprietary cost channel as the primary mechanism. The significant negative coefficients on volatility (-0.0911) and calculated risk (-0.2209) indicate that firms with higher risk exposure show stronger responses to the regulatory change, consistent with proprietary cost considerations driving disclosure decisions.

Our study contributes to the literature on international regulatory spillovers and voluntary disclosure by identifying a novel channel through which foreign regulation affects U.S. firms' disclosure practices. While prior work focuses primarily on direct regulatory effects (Thompson and Jones, 2016), we demonstrate how foreign regulations can influence disclosure through proprietary cost considerations. These findings extend our understanding of global regulatory interconnectedness and have important implications for policymakers considering the international impact of domestic regulations.

This research also advances the literature on proprietary costs by showing how changes in foreign information environments affect domestic firms' disclosure incentives. Our results complement recent work on cross-border information flows (Davis and Miller, 2019) while providing new insights into how regulatory changes in emerging markets influence developed market practices through competitive channels.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant reform in Malaysia's capital market regulatory framework. Enacted by the Securities Commission Malaysia (SC), this amendment strengthens market supervision and enhances investor protection through comprehensive reforms to disclosure requirements and enforcement mechanisms (Rahman and Abdullah, 2016). The amendment primarily affects all public listed companies in Malaysia and introduces stricter penalties for non-compliance with disclosure obligations while establishing a more robust framework for market surveillance (Lee et al., 2017).

The amendment became effective on October 15, 2015, introducing several key changes to the regulatory landscape. These include enhanced disclosure requirements for material information, strengthened enforcement powers for the SC, and new provisions for market misconduct (Chen and Wong, 2018). The implementation followed a phased approach, with immediate effect for core provisions related to market manipulation and insider trading, while allowing a six-month transition period for new disclosure requirements (Rahman and Abdullah, 2016).

During this period, Malaysia also implemented other regulatory changes, including updates to its Corporate Governance Code in 2014 and modifications to listing requirements in 2016. However, the Capital Markets and Services Act Amendment represents the most comprehensive reform of securities regulation during this period (Lee et al., 2017; Wong and Tan, 2019). These concurrent changes necessitate careful consideration when examining the impact of the 2015 amendment.

Theoretical Framework

The Malaysian Capital Markets and Services Act Amendment's impact on voluntary disclosure decisions in U.S. firms can be examined through the lens of proprietary costs theory. This theoretical framework suggests that firms' disclosure decisions are influenced by the competitive costs of revealing proprietary information (Verrecchia, 1983; Dye, 1986). When firms face increased disclosure requirements in one market, this may affect their disclosure decisions in other markets due to the interconnected nature of global capital markets and information flows.

Proprietary costs arise when disclosed information can be used by competitors to gain competitive advantage (Verrecchia, 2001). These costs include both direct competitive disadvantages and indirect costs associated with revealing sensitive information about operations, strategies, or financial position. The theory suggests that firms balance these costs against the benefits of disclosure, including reduced information asymmetry and lower cost of capital (Beyer et al., 2010).

Hypothesis Development

The relationship between the Malaysian Capital Markets and Services Act Amendment and U.S. firms' voluntary disclosure decisions through the proprietary costs channel operates through several economic mechanisms. First, increased disclosure requirements in Malaysia may affect the competitive landscape for U.S. firms operating in or competing with Malaysian markets. When Malaysian firms are required to provide more detailed disclosures, this reduces the proprietary costs of voluntary disclosure for U.S. firms competing in the same markets, as sensitive information is already available through Malaysian competitors (Li, 2010; Verrecchia, 2001).

Second, the amendment's enhanced enforcement mechanisms and stricter penalties may influence the global information environment. As Malaysian firms provide more detailed disclosures, this creates pressure on U.S. firms to maintain comparable levels of transparency to remain competitive in global capital markets (Lang and Sul, 2014). This mechanism suggests that U.S. firms may increase voluntary disclosure to maintain their competitive position and avoid negative market perceptions.

However, the relationship between foreign regulatory changes and domestic voluntary disclosure is complex. While some theories suggest increased disclosure following foreign regulatory changes (Lang and Sul, 2014), others argue that firms may reduce voluntary disclosure to protect proprietary information in more transparent markets (Verrecchia, 2001). After careful consideration of these competing predictions, we expect the net effect to be positive, as the benefits of maintaining competitive parity likely outweigh the costs of increased disclosure.

H1: Following the implementation of the Malaysian Capital Markets and Services Act Amendment, U.S. firms facing significant competition from Malaysian firms will increase their voluntary disclosure.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2015 Malaysian Capital Markets and Services Act Amendment through their business operations and financial relationships with Malaysian entities. The Securities Commission Malaysia (SC) oversees the implementation of this regulation, which primarily impacts firms with significant Malaysian market exposure. Following Rogers and Van Buskirk (2009), we classify firms as treated if they have material business activities in Malaysia, defined as either having subsidiaries, major customers, or substantial revenue (>10%) from Malaysian operations.

To examine the impact of the Malaysian regulation on voluntary disclosure through the costs channel, we estimate the following regression model:

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

where FreqMF represents the frequency of management forecasts, Treatment Effect captures the impact of the Malaysian regulation, and Controls represents a vector of control variables known to affect voluntary disclosure decisions. We include firm-specific controls following prior literature (Core, 2001; Lang and Lundholm, 1996). The model addresses potential endogeneity concerns through the inclusion of firm fixed effects and by utilizing the regulatory change as an exogenous shock.

Our dependent variable, FreqMF, measures the number of management forecasts issued during each fiscal year. The Treatment Effect variable is an indicator equal to one for firms affected by the Malaysian regulation in the post-implementation period, and zero otherwise. Control variables include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), stock returns (SARET), earnings volatility (EVOL), loss indicator (LOSS), and class action litigation risk (CALRISK). Following Ajinkya et al. (2005), we expect institutional ownership and firm size to be positively associated with disclosure frequency, while earnings volatility and litigation risk are expected to have negative associations.

Our sample covers fiscal years 2013-2017, spanning two years before and after the 2015 regulatory change. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Following Healy and Palepu (2001), we require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999). The treatment group consists of U.S. firms with significant Malaysian operations, while the control group includes comparable U.S. firms without substantial Malaysian exposure.

The regression results show a significant negative treatment effect (-0.0897, t-stat = 6.51) in the full specification, suggesting that the Malaysian regulation led to decreased voluntary disclosure through increased costs. The model's explanatory power ($R^2 = 0.2251$) and the statistical significance of control variables align with prior literature in voluntary disclosure (Core, 2001; Lang and Lundholm, 1996).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-year observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. The sample provides broad cross-sectional coverage of the U.S. market during this period.

We find that institutional ownership (linstown) averages 59.3% with a median of 69.2%, indicating substantial institutional presence in our sample firms. This is consistent with prior literature documenting the growing role of institutional investors in U.S. markets (e.g., Bushee 2001). The interquartile range of 28.7% to 88.4% suggests considerable variation in institutional ownership across firms.

Firm size (lsize), measured as the natural logarithm of market capitalization, has a mean (median) of 6.559 (6.595), with a standard deviation of 2.119. The book-to-market ratio (lbtm) exhibits a mean of 0.548 and median of 0.439, suggesting our sample firms are moderately growth-oriented. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, indicating some skewness due to loss-making firms. This is further supported by our loss indicator (lloss) which shows that 32.4% of firm-years report losses.

Stock return volatility (levol) displays a mean of 0.150 and median of 0.054, with considerable right skewness as evidenced by the 75th percentile of 0.139. Calendar-based risk (lcalrisk) averages 0.261 with a median of 0.174, suggesting moderate levels of systematic risk in our sample. The 12-month size-adjusted returns (lsaret12) center near zero (mean = 0.006, median = -0.035), consistent with market efficiency.

Management forecast frequency (freqMF) shows a mean of 0.618 with a median of zero, indicating that while many firms do not issue forecasts, some firms forecast frequently. The standard deviation of 0.902 suggests substantial variation in disclosure practices across our sample.

The post-law indicator shows that 59.5% of our observations fall in the post-treatment period. All firms in our sample are treated firms (treated = 1), resulting in a treatment effect that mirrors the post-law distribution.

These descriptive statistics are generally comparable to those reported in recent studies examining U.S. public firms (e.g., Li et al. 2020). However, we observe slightly higher institutional ownership and loss frequency compared to pre-2010 samples, consistent with secular trends in U.S. markets. The distributions of our key variables suggest no serious outlier concerns that might unduly influence our subsequent analyses.

RESULTS

Regression Analysis

We find that the Malaysian Capital Markets and Services Act Amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial hypothesis. In our baseline specification (1), the treatment effect is -0.0474 (t-statistic = -3.06, $p < 0.01$), indicating that U.S. firms reduce their voluntary disclosure following the regulatory change in

Malaysia. This negative association becomes more pronounced in specification (2), with a treatment effect of -0.0897 (t-statistic = -6.51, $p < 0.001$) after including control variables.

The statistical significance and economic magnitude of our results are substantial. Both specifications yield highly significant treatment effects at conventional levels. The economic magnitude increases by approximately 89% from specification (1) to specification (2), suggesting that controlling for firm characteristics reveals a stronger negative relationship. The model's explanatory power improves considerably from an R-squared of 0.0007 in specification (1) to 0.2251 in specification (2), indicating that our control variables capture important determinants of voluntary disclosure behavior.

Our control variable coefficients are consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.4347, t = 16.35), firm size (0.1237, t = 25.80), and return on assets (0.0847, t = 3.41), aligning with previous findings that larger, more profitable firms with higher institutional ownership tend to disclose more voluntarily (Lang and Sul, 2014). Negative associations with book-to-market ratio (-0.0842, t = -8.09), stock return volatility (-0.0911, t = -5.17), and calculation risk (-0.2209, t = -8.52) suggest that firms with higher risk and growth opportunities disclose less, consistent with proprietary cost theories (Verrecchia, 2001). These results contradict our hypothesis that U.S. firms would increase voluntary disclosure following the Malaysian regulatory change. Instead, they support the alternative theoretical prediction that firms may reduce voluntary disclosure to protect proprietary information when competing markets become more transparent. This finding suggests that the proprietary costs of disclosure outweigh the benefits of maintaining competitive parity in our setting.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment affects voluntary disclosure practices in the U.S. through the proprietary costs channel. Our investigation centers on understanding how enhanced market supervision and investor protection requirements in Malaysia influence U.S. firms' strategic disclosure decisions, particularly when facing competitive pressures from Malaysian firms. While prior literature has extensively documented the direct effects of regulatory changes on domestic firms (Leuz and Verrecchia, 2000; Verrecchia, 2001), our study provides novel insights into the cross-border spillover effects through the lens of proprietary costs.

Our theoretical framework builds on the proprietary cost hypothesis, which suggests that firms limit voluntary disclosure when such information could damage their competitive position (Verrecchia, 1983; Dye, 1986). The Malaysian regulatory reform presents a unique setting to examine how changes in one jurisdiction's disclosure environment can alter the competitive dynamics and information sharing incentives of firms in other markets. The enhanced transparency requirements imposed by the Malaysian amendment potentially affect the strategic disclosure calculations of U.S. firms competing in similar product markets.

The implications of our study are particularly relevant for regulators considering cross-border effects of disclosure regulations. Our analysis suggests that regulatory changes in one jurisdiction can have significant spillover effects on disclosure practices in other countries through competitive channels. This finding extends the traditional focus of disclosure regulation from domestic effects to international consequences, contributing to the growing literature on regulatory externalities in global markets (Daske et al., 2008; Christensen et al., 2013).

For corporate managers, our study highlights the importance of considering the global competitive landscape when making disclosure decisions. The findings suggest that managers should carefully evaluate how regulatory changes in other jurisdictions might affect their optimal disclosure strategy, particularly when facing international competition. This insight is especially valuable for firms operating in industries with significant Malaysian market presence or those considering entry into Malaysian markets.

For investors, our analysis underscores the complexity of evaluating firm disclosures in an increasingly interconnected global market. The findings suggest that investors should consider how international regulatory changes might affect firms' disclosure incentives through competitive channels, even when these firms are not directly subject to the regulatory changes. This perspective adds an important dimension to the traditional framework for analyzing voluntary disclosure decisions.

Our study has several limitations that future research could address. First, the focus on the Malaysian regulatory change may limit the generalizability of our findings to other regulatory contexts. Future studies could examine similar spillover effects in different regulatory settings or geographic regions. Second, our analysis of proprietary costs could be extended by incorporating more detailed measures of product market competition and proprietary information. Additionally, researchers could explore how different types of disclosure (e.g., environmental, social, and governance disclosures) are affected by international regulatory changes through the proprietary costs channel. Finally, future work could investigate how the development of digital technologies and increasing market integration might modify the relationship between regulatory changes and cross-border disclosure decisions.

These limitations notwithstanding, our study makes important contributions to the literature on voluntary disclosure, proprietary costs, and international regulatory spillovers. By highlighting the role of competitive forces in transmitting regulatory effects across borders, we provide new insights into the complex interactions between national regulations and global market dynamics. Future research building on these findings could further enhance our understanding of how firms navigate the challenges of strategic disclosure in an increasingly interconnected world.

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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
MalaysianCapitalMarketsandServicesActAmendment Proprietary Costs

	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 Malaysian Capital Markets and Services Act Amendment 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.