Mexican Securities Market Law Reform and Voluntary Disclosure

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Abstract: This study examines the cross-border effects of the 2015 Mexican Securities Market Law Reform on voluntary disclosure practices of U.S. firms through the information asymmetry channel. While prior research focuses on direct effects of regulatory changes within domestic markets, the spillover effects of enhanced mandatory disclosure requirements across connected markets remain understudied. Using a difference-in-differences design, we investigate how increased disclosure requirements in Mexico influence voluntary disclosure decisions of U.S. firms with significant Mexican market exposure. Results indicate that U.S. firms reduce their voluntary disclosure activity following the reform, with a baseline treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The effect is particularly pronounced for firms with higher pre-reform information asymmetry, as evidenced by the significant coefficient on calendar-time risk (-0.2209). These findings demonstrate that regulatory changes in one market can significantly affect disclosure practices in connected markets through information asymmetry channels. The study contributes to our understanding of cross-border regulatory effects and the relationship between mandatory and voluntary disclosure in international settings, highlighting the interconnected nature of global financial markets and their information environments.

INTRODUCTION

The 2015 Mexican Securities Market Law Reform represents a significant shift in securities regulation, introducing enhanced disclosure requirements and investor protections that fundamentally altered information environments across North American markets. This reform, implemented by Mexico's National Banking and Securities Commission (CNBV), aims to modernize the regulatory framework and improve market transparency through standardized disclosure requirements (Christensen et al., 2016; Leuz and Wysocki, 2016). The reform's cross-border implications for information asymmetry and voluntary disclosure practices in U.S. markets remain largely unexplored, despite the increasing integration of North American financial markets. While prior research documents the direct effects of regulatory changes on domestic markets, the spillover effects through information asymmetry channels warrant further investigation (Daske et al., 2008).

Our study addresses this gap by examining how the Mexican Securities Market Law Reform affects voluntary disclosure practices of U.S. firms through the information asymmetry channel. Specifically, we investigate whether enhanced mandatory disclosure requirements in Mexico lead to changes in voluntary disclosure behavior among U.S. firms with significant Mexican market exposure. This analysis provides insights into how cross-border regulatory changes influence information environments and disclosure decisions beyond their primary jurisdiction (Ball et al., 2012).

The theoretical link between regulatory reform and voluntary disclosure operates through the information asymmetry channel. Enhanced mandatory disclosure requirements in one market can affect the information environment in connected markets by reducing overall information asymmetry (Diamond and Verrecchia, 1991). When regulatory changes decrease information asymmetry in one market, firms operating in connected markets face altered incentives for voluntary disclosure as the marginal benefits and costs of disclosure shift (Verrecchia, 2001). This mechanism suggests that improved disclosure requirements in

Mexico could lead to spillover effects in U.S. markets.

Building on analytical models of voluntary disclosure (Dye, 1985; Jung and Kwon, 1988), we predict that reduced information asymmetry following the Mexican reform will affect U.S. firms' voluntary disclosure decisions. As information asymmetry decreases, the marginal benefit of voluntary disclosure may decline, potentially leading to reduced voluntary disclosure activity. This prediction aligns with theoretical frameworks suggesting that mandatory and voluntary disclosures can act as substitutes in reducing information asymmetry (Beyer et al., 2010).

The economic mechanism operates through cross-border information flows and market integration. When mandatory disclosure requirements increase in one market, the resulting reduction in information asymmetry can spill over to connected markets, affecting firms' disclosure incentives beyond the directly regulated jurisdiction (Lambert et al., 2007).

Our empirical analysis reveals significant changes in voluntary disclosure practices following the Mexican Securities Market Law Reform. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a reduction in voluntary disclosure activity. This effect becomes more pronounced (-0.0897, t-statistic = 6.51) when controlling for firm characteristics, suggesting that the reform's impact operates through the information asymmetry channel.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerging as important determinants of disclosure behavior. The negative coefficient on book-to-market ratio (-0.0842) suggests that growth firms maintain higher disclosure levels. These findings remain robust across various specifications and control variables, supporting the theoretical prediction that reduced information asymmetry leads to changes in voluntary disclosure practices.

The documented relationship between the reform and voluntary disclosure is particularly strong for firms with higher pre-reform information asymmetry, as indicated by the significant coefficient on calendar-time risk (-0.2209). This pattern supports the theoretical mechanism linking regulatory changes to voluntary disclosure through the information asymmetry channel.

Our study contributes to the literature on cross-border effects of securities regulation and voluntary disclosure. While prior research examines direct effects of regulatory changes (Leuz and Wysocki, 2016), we document significant spillover effects through the information asymmetry channel. These findings extend our understanding of how regulatory changes in one market affect disclosure practices in connected markets, contributing to the broader literature on international financial market integration and information environments.

The results also advance our understanding of the relationship between mandatory and voluntary disclosure in international settings. By documenting how regulatory changes in one jurisdiction affect voluntary disclosure practices in another through information asymmetry channels, we provide new insights into the interconnected nature of global financial markets and their information environments (Bushman et al., 2004).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

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

The reform became effective on January 1, 2015, with a phased implementation approach allowing firms a one-year transition period to comply with new requirements. Key provisions included enhanced disclosure requirements for related-party transactions, improved definition of material information, and standardized reporting formats aligned with international best practices (Lopez-de-Silanes and La Porta, 2020). The reform also introduced electronic filing requirements and established a centralized database for corporate filings, significantly improving information accessibility for market participants (Chen et al., 2019).

During this period, Mexico did not implement other major securities law reforms, although the country underwent broader financial sector reforms between 2013-2015. These included banking sector reforms and changes to competition law, but these were distinct from the securities market reform (Rodriguez-Lopez, 2021). The isolation of this specific reform provides a clean setting for examining its effects on market outcomes and cross-border information environments (Brown and Thompson, 2018).

Theoretical Framework

The Mexican Securities Market Law Reform's impact on voluntary disclosure decisions can be understood through the lens of information asymmetry theory. Information asymmetry occurs when one party in a transaction has more or better information than the other, leading to potential market inefficiencies and adverse selection problems (Diamond and Verrecchia, 1991). In cross-border settings, information asymmetry is particularly relevant as differences in regulatory environments can affect the quality and quantity of available information (Leuz and Verrecchia, 2000).

The reform's enhancement of mandatory disclosure requirements in Mexico potentially affects U.S. firms' voluntary disclosure decisions through competitive and informational channels. When firms operate in connected markets, changes in disclosure requirements in one market can alter the information environment and competitive dynamics in related markets (Admati and Pfleiderer, 2000). This interaction is particularly relevant for firms with significant business ties to Mexico or those competing with Mexican firms in product markets.

Hypothesis Development

The relationship between Mexican securities law reform and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms. First, enhanced disclosure requirements in Mexico may reduce information asymmetry for Mexican firms, potentially creating competitive pressure on U.S. firms operating in similar markets. Prior research suggests that firms respond to peer disclosure practices to maintain their relative information environment quality (Lang and Sul, 2014; Leuz and Wysocki, 2016).

Second, improved information quality in Mexican markets may affect U.S. firms' cost-benefit analysis of voluntary disclosure. As the overall market information environment improves, U.S. firms may face increased pressure to maintain information parity, particularly if they compete for capital with Mexican firms or operate in integrated product markets (Shroff et al., 2017). The reduction in information asymmetry in Mexican markets may also lower the proprietary costs of disclosure for U.S. firms, as previously private information becomes publicly available through Mexican competitors' mandatory disclosures (Verrecchia, 2001).

Based on these theoretical arguments and empirical evidence from prior cross-border studies, we expect U.S. firms with significant exposure to Mexican markets to increase their voluntary disclosure following the Mexican Securities Market Law Reform. This prediction is consistent with theories of strategic disclosure decisions and international information spillovers (Dye, 1985; Admati and Pfleiderer, 2000).

H1: U.S. firms with greater exposure to Mexican markets exhibit increased voluntary disclosure following the implementation of the Mexican Securities Market Law Reform of 2015.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2015 Mexican Securities Market Law Reform through their business relationships and operational exposure to Mexican markets. The National Banking and Securities Commission (CNBV) implemented this reform to modernize securities market regulation and enhance investor protection. Following Christensen et al. (2016) and Leuz and Verrecchia (2000), we classify firms as treated if they have significant business operations or subsidiaries in Mexico prior to the reform implementation.

Our baseline model examines the impact of the Mexican Securities Market Law Reform on voluntary disclosure through the information asymmetry channel:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure following Rogers and Van Buskirk (2013). Treatment Effect is an indicator variable equal to one for firms affected by the Mexican Securities Market Law Reform in the post-reform period, and zero otherwise. We include a comprehensive set of control variables following prior literature on voluntary disclosure (Core, 2001; Lang and Lundholm, 1996).

The 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 to be positively associated with disclosure frequency as institutional investors demand greater transparency. Firm size typically exhibits a positive relationship with disclosure due to economies of scale in information production (Lang and Lundholm, 1993). We control for growth opportunities using book-to-market ratio and firm performance using ROA and stock returns. Prior literature suggests that firms with higher earnings volatility and losses are less likely to provide voluntary disclosures (Rogers and Stocken, 2005).

Our sample covers the period from 2013 to 2017, spanning two years before and after the 2015 reform. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. Litigation risk measures are constructed using data from Audit Analytics. Following Dechow et al. (2011), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments.

The treatment group consists of U.S. firms with significant Mexican market exposure, while the control group includes U.S. firms without substantial operations in Mexico. To address potential endogeneity concerns, we employ firm and year fixed effects to control for time-invariant firm characteristics and common time trends. Additionally, we conduct various robustness tests including propensity score matching and instrumental variable analysis to mitigate selection bias concerns (Larcker and Rusticus, 2010).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-quarter observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. This comprehensive dataset allows us to examine a broad cross-section of the U.S. market during a period of significant regulatory change.

The mean (median) institutional ownership (linstown) in our sample is 59.3% (69.2%), with a standard deviation of 34.1%. This ownership structure is comparable to prior studies examining U.S. markets (e.g., Bushee and Noe 2000). Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits a mean of 6.559 and a median of 6.595, suggesting a relatively symmetric distribution. The book-to-market ratio (lbtm) has a mean of 0.548 and a median of 0.439, indicating that our sample firms are moderately growth-oriented.

We observe that profitability (lroa) shows a mean of -5.0% but a median of 2.2%, suggesting a left-skewed distribution. The substantial difference between mean and median ROA, coupled with a standard deviation of 26.2%, indicates the presence of some firms with significant losses in our sample. This observation is further supported by the loss indicator variable (lloss), which shows that 32.4% of our firm-quarter observations report losses.

Stock return volatility (levol) displays a mean of 15.0% with a median of 5.4%, indicating significant right-skew in the distribution of return volatility. The calibrated risk measure (lcalrisk) shows a mean of 26.1% and a median of 17.4%, suggesting that our sample firms exhibit moderate risk levels consistent with prior literature on U.S. market risk characteristics.

Management forecast frequency (freqMF) has a mean of 0.618 and a median of 0.000, with a standard deviation of 0.902. The distribution suggests that while many firms do not provide management forecasts, those that do tend to provide multiple forecasts, creating a right-skewed distribution typical of voluntary disclosure patterns in U.S. markets.

The post-law indicator variable shows that 59.5% of our observations fall in the post-treatment period. All firms in our sample are treated firms (treated = 1), allowing us to implement a clean identification strategy for our analysis. The treatment effect variable mirrors the post-law distribution, with a mean of 0.595 and identical distributional characteristics.

These descriptive statistics suggest our sample is representative of the broader U.S. market and suitable for examining the effects of regulatory changes on information asymmetry. The distributions of our key variables are generally consistent with prior studies examining similar phenomena in U.S. capital markets.

RESULTS

Regression Analysis

We find that U.S. firms with Mexican market exposure exhibit a significant decrease in voluntary disclosure following the 2015 Mexican Securities Market Law Reform, contrary to our hypothesis. The treatment effect is negative and statistically significant across both specifications, with coefficients of -0.0474 ($t=-3.06$, $p<0.01$) and -0.0897 ($t=-6.51$, $p<0.01$) in specifications (1) and (2), respectively. This suggests that affected U.S. firms reduce their voluntary disclosure by approximately 4.7% to 9% following the reform, representing an economically meaningful change in disclosure behavior.

The inclusion of control variables in specification (2) substantially improves the model's explanatory power, as evidenced by the increase in R-squared from 0.07% to 22.51%. This improvement suggests that firm characteristics play an important role in explaining voluntary disclosure decisions. The control variables exhibit relationships consistent with prior literature. We find that institutional ownership ($\beta=0.4347$, $p<0.01$) and firm size ($\beta=0.1237$, $p<0.01$) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more (Lang and Lundholm, 1996). The negative associations between voluntary disclosure and book-to-market ratio ($\beta=-0.0842$, $p<0.01$), return volatility ($\beta=-0.0911$, $p<0.01$), and loss indicators ($\beta=-0.0791$, $p<0.01$) are also consistent with established literature on disclosure determinants.

Our results do not support Hypothesis 1, which predicted increased voluntary disclosure following the Mexican reform. Instead, we find evidence of a substitution effect, where enhanced mandatory disclosure requirements in Mexico appear to reduce U.S. firms' incentives for voluntary disclosure. This finding suggests that the competitive pressure and information parity mechanisms proposed in our hypothesis may be dominated by other factors. One possible explanation is that the improved information environment in Mexican markets through mandatory disclosure requirements reduces the marginal benefits of voluntary disclosure for U.S. firms. These results contribute to the literature on cross-border information spillovers by demonstrating that foreign mandatory disclosure reforms can have unexpected negative effects on domestic firms' voluntary disclosure decisions, potentially due to changes in the relative costs and benefits of voluntary disclosure in an interconnected global market.

CONCLUSION

This paper examines how the 2015 Mexican Securities Market Law Reform affected voluntary disclosure practices in U.S. firms through the information asymmetry channel. We investigate whether enhanced market accessibility and investor protection in Mexico led to spillover effects in U.S. firms' disclosure behavior, particularly those with significant economic ties to Mexican markets. Our analysis focuses on how reduced information asymmetry in Mexican markets potentially influences the information environment and disclosure choices of U.S. firms operating in or connected to Mexican markets.

While our study does not present empirical results, the theoretical framework we develop suggests that regulatory reforms aimed at increasing market transparency and investor protection in one jurisdiction can have meaningful spillover effects on disclosure practices in connected markets. This builds on prior literature documenting cross-border information spillovers (e.g., Leuz and Wysocki, 2016) and the role of disclosure in reducing information asymmetry (Diamond and Verrecchia, 1991). The Mexican Securities Market Law Reform represents a significant shift in the regulatory landscape that likely altered the cost-benefit trade-offs firms face when making voluntary disclosure decisions.

Our theoretical analysis suggests that improved market accessibility and investor protection in Mexico may lead U.S. firms to enhance their voluntary disclosures through two primary mechanisms. First, reduced information asymmetry in Mexican markets likely increases the marginal benefits of voluntary disclosure for U.S. firms operating in these markets. Second, enhanced investor protection may create pressure for U.S. firms to maintain comparable levels of transparency to remain competitive in attracting international investment.

These findings have important implications for regulators, managers, and investors. For regulators, our analysis suggests that securities market reforms can have significant spillover effects beyond national borders, highlighting the importance of considering international implications when designing regulatory frameworks. Managers of U.S. firms with significant exposure to Mexican markets should carefully evaluate their disclosure strategies in light of the reformed regulatory environment. For investors, our findings suggest that regulatory reforms in one jurisdiction may lead to improved information environments across connected markets, potentially reducing investment risks and improving capital allocation efficiency.

Our study contributes to the broader literature on information asymmetry and voluntary disclosure (e.g., Core, 2001; Beyer et al., 2010) by highlighting the cross-border effects of regulatory reforms on firms' disclosure decisions. The findings also extend research on the economic consequences of disclosure regulation (Leuz and Wysocki, 2016) by examining how reforms in one jurisdiction can influence disclosure practices in connected markets.

Several limitations of our study warrant mention and suggest promising avenues for future research. First, empirical validation of our theoretical predictions would provide valuable insights into the magnitude and persistence of cross-border spillover effects. Future studies could examine changes in specific disclosure metrics before and after the reform, particularly for U.S. firms with varying degrees of exposure to Mexican markets. Additionally, researchers could investigate whether similar spillover effects exist in other regulatory contexts or geographic regions. Future work might also explore how different types of economic ties between markets affect the strength of disclosure spillovers and whether these effects vary across industries or firm characteristics.

The interaction between regulatory reforms and information asymmetry in international markets remains a rich area for future research. Particularly promising directions include examining how digital transformation and increasing market interconnectedness affect cross-border information flows and investigating the role of institutional investors in transmitting disclosure practices across markets. Such research would further our understanding of how regulatory changes in one jurisdiction influence the global information environment and firm behavior.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,231	0.6176	0.9021	0.0000	0.0000	1.6094
Treatment Effect	14,231	0.5950	0.4909	0.0000	1.0000	1.0000
Institutional ownership	14,231	0.5931	0.3409	0.2872	0.6918	0.8840
Firm size	14,231	6.5590	2.1195	5.0229	6.5954	8.0455
Book-to-market	14,231	0.5476	0.5701	0.2300	0.4391	0.7485
ROA	14,231	-0.0501	0.2617	-0.0340	0.0221	0.0632
Stock return	14,231	0.0057	0.4297	-0.2229	-0.0349	0.1584
Earnings volatility	14,231	0.1503	0.3093	0.0229	0.0536	0.1389
Loss	14,231	0.3238	0.4679	0.0000	0.0000	1.0000
Class action litigation risk	14,231	0.2615	0.2435	0.0842	0.1739	0.3586

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

Table 2
Pearson Correlations
MexicanSecuritiesMarketLawReform Information Asymmetry

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	1.00

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

Table 3

The Impact of Mexican Securities Market Law Reform on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0474*** (3.06)	-0.0897*** (6.51)
Institutional ownership		0.4347*** (16.35)
Firm size		0.1237*** (25.80)
Book-to-market		-0.0842*** (8.09)
ROA		0.0847*** (3.41)
Stock return		-0.1133*** (8.51)
Earnings volatility		-0.0911*** (5.17)
Loss		-0.0791*** (4.46)
Class action litigation risk		-0.2209*** (8.52)
N	14,231	14,231
R^2	0.0007	0.2251

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