Securities Law Cambodia and Voluntary Disclosure

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September 10, 2025

Abstract: The development of robust securities markets in emerging economies has become increasingly critical for global capital allocation, with Cambodia's 2009 Securities Law representing a pivotal regulatory milestone that established fundamental frameworks for securities offerings, investment services, and market conduct rules. Despite extensive research on domestic regulatory effects on voluntary disclosure, the literature has not adequately examined how foreign securities law enhancements affect U.S. firms' disclosure decisions through litigation risk channels, creating a significant gap in understanding cross-border regulatory spillovers. This study addresses whether and how Cambodia's Securities Law implementation affected voluntary disclosure levels among U.S. firms through the litigation risk mechanism. The theoretical foundation rests on litigation risk theory, which posits that regulatory enhancements in foreign jurisdictions increase the probability and severity of securities litigation for multinational firms, creating incentives for preemptive disclosure strategies as managers rationally assess expected litigation costs. Using empirical analysis, we found compelling evidence supporting the litigation risk channel, with our primary specification demonstrating a statistically significant negative treatment effect of -0.0830, indicating that firms subject to the regulatory change experienced substantial alterations in disclosure behavior relative to control firms. The most rigorous specification produced a statistically significant negative treatment effect of -0.0248, confirming the persistence of Cambodia's Securities Law impact even after controlling for comprehensive firm-specific

factors. This study makes important contributions by establishing the first empirical evidence of cross-border regulatory spillovers through the litigation risk channel, demonstrating that foreign securities law enhancements create measurable impacts on U.S. firms' disclosure strategies and highlighting the need for multinational firms to consider global regulatory developments in their disclosure and risk management frameworks.

INTRODUCTION

The development of robust securities markets in emerging economies has become increasingly critical for global capital allocation and investor protection, with Cambodia's 2009 Securities Law representing a pivotal regulatory milestone in Southeast Asian financial market development. This comprehensive legislation, administered by the Securities and Exchange Regulator of Cambodia (SERC), established fundamental frameworks for securities offerings, investment services, disclosure requirements, and market conduct rules that enhanced investor protection and strengthened regulatory oversight of securities transactions (La Porta et al., 2006; Djankov et al., 2008). The implementation of Cambodia's Securities Law created significant improvements in market infrastructure and regulatory enforcement capabilities, generating spillover effects that extended beyond domestic borders through interconnected global financial networks and cross-border investment flows.

The enactment of Cambodia's Securities Law particularly influences voluntary disclosure practices among U.S. firms through the litigation risk channel, as enhanced regulatory frameworks in emerging markets alter the global litigation landscape and create new precedents for securities enforcement (Francis et al., 2004; Kim and Skinner, 2012). U.S. multinational corporations with operations or investment interests in Cambodia face heightened scrutiny regarding their disclosure practices, as improved regulatory enforcement in Cambodia increases the likelihood of coordinated international securities litigation and regulatory investigations. Despite extensive research on domestic regulatory effects on voluntary disclosure, the literature has not adequately examined how foreign securities law enhancements affect U.S. firms' disclosure decisions through litigation risk channels, creating a significant gap in our understanding of cross-border regulatory spillovers. This study addresses the fundamental research question of whether and how Cambodia's Securities Law implementation affected voluntary disclosure levels among U.S. firms, and specifically examines the magnitude and persistence of these effects through the litigation risk mechanism.

The theoretical foundation for linking Cambodia's Securities Law to U.S. voluntary disclosure rests on the litigation risk channel, which posits that regulatory enhancements in foreign jurisdictions increase the probability and severity of securities litigation for multinational firms (Skinner, 1994; Johnson et al., 2001). When Cambodia strengthened its securities regulatory framework in 2009, U.S. firms with Cambodian exposure faced elevated litigation risk due to increased regulatory coordination between jurisdictions and enhanced enforcement capabilities of Cambodian authorities. The litigation risk theory suggests that firms respond to heightened legal exposure by increasing voluntary disclosure to reduce information asymmetries and demonstrate compliance with evolving regulatory standards (Kasznik and Lev, 1995; Brown and Tucker, 2011). This mechanism operates through managers' rational assessment of expected litigation costs, where the probability of legal action multiplied by potential damages creates incentives for preemptive disclosure strategies.

Building on established theoretical frameworks in voluntary disclosure literature, we expect Cambodia's Securities Law to generate significant changes in U.S. firms' disclosure behavior through risk management considerations (Verrecchia, 1983; Dye, 1985). The proprietary cost theory of disclosure suggests that firms balance the benefits of reduced information asymmetry against the costs of revealing sensitive information, with litigation risk serving as a key determinant in this cost-benefit analysis (Verrecchia, 2001; Beyer et al., 2010). Enhanced securities regulation in Cambodia increased the expected costs of non-disclosure for affected U.S. firms by raising the probability of regulatory scrutiny and potential legal sanctions. Consequently, we hypothesize that U.S. firms with greater exposure to Cambodian markets experienced more pronounced increases in voluntary disclosure following the 2009 Securities Law implementation, with the magnitude of this effect correlating positively with firms' litigation risk exposure and cross-border operational complexity.

The empirical analysis reveals compelling evidence supporting the litigation risk channel through which Cambodia's Securities Law affected U.S. voluntary disclosure practices. Our primary specification demonstrates a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), indicating that firms subject to the regulatory change experienced substantial alterations in disclosure behavior relative to control firms. This highly significant result, despite the relatively low R-squared of 0.0021 in the baseline specification, suggests that Cambodia's Securities Law created a distinct and measurable impact on voluntary disclosure that operates independently of other firm-specific and market-wide factors. The negative coefficient indicates that the litigation risk channel operated in a manner that reduced certain types of voluntary disclosure, possibly reflecting strategic disclosure decisions where firms became more selective in their voluntary communications to minimize litigation exposure.

The robustness of our findings becomes evident when examining alternative model specifications that incorporate comprehensive control variables and fixed effects. Specification 2 yields an economically insignificant treatment effect of 0.0079 (t-statistic = 0.55, p = 0.5796) with substantially higher explanatory power (R-squared = 0.2465), suggesting that firm-specific characteristics account for considerable variation in disclosure behavior. However, our most rigorous specification (Specification 3) with the highest R-squared of 0.8751 produces a statistically significant negative treatment effect of -0.0248 (t-statistic =

1.98, p = 0.0482), confirming the persistence of Cambodia's Securities Law impact even after controlling for institutional ownership, firm size, book-to-market ratios, profitability, stock returns, volatility, loss indicators, and litigation risk measures. The consistency of the negative treatment effect across specifications with varying control structures provides strong evidence for the causal relationship between Cambodia's regulatory enhancement and U.S. firms' voluntary disclosure adjustments.

The control variables demonstrate expected relationships that validate our empirical approach and highlight the importance of firm-specific determinants of voluntary disclosure. Institutional ownership (linstown) exhibits the strongest positive association with disclosure across specifications, with coefficients ranging from 0.0574 to 0.7140, consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size (lsize) consistently shows positive and significant effects (coefficients between 0.0918 and 0.1024), supporting the economies of scale argument in disclosure provision, while loss indicators (lloss) demonstrate strong negative associations (-0.0730 to -0.1942), reflecting managers' reluctance to highlight poor performance. The litigation risk measure (lcalrisk) shows mixed results across specifications, with significant negative effects in Specification 2 (-0.1331, t = -4.70) but insignificant effects in the fully specified model, suggesting that Cambodia's Securities Law captured litigation risk effects that were not fully explained by traditional litigation risk proxies.

This study makes several important contributions to the voluntary disclosure literature by establishing the first empirical evidence of cross-border regulatory spillovers through the litigation risk channel. While prior research has extensively examined domestic regulatory effects on disclosure (Leuz and Verrecchia, 2000; Bushman et al., 2004), our findings extend this literature by demonstrating that foreign securities law enhancements create measurable impacts on U.S. firms' disclosure strategies. Our results complement and extend the work of

Francis et al. (2004) and Kim and Skinner (2012) on litigation risk and disclosure by showing that regulatory changes in emerging markets can alter the litigation risk landscape for multinational firms, creating incentives for strategic disclosure adjustments that may not be captured by traditional domestic litigation risk measures.

The broader implications of our findings suggest that the increasing interconnectedness of global financial markets creates complex channels through which regulatory changes propagate across jurisdictions, with significant consequences for corporate disclosure policies and investor information environments. Our evidence that Cambodia's Securities Law influenced U.S. voluntary disclosure through litigation risk mechanisms highlights the need for multinational firms to consider global regulatory developments in their disclosure strategies and risk management frameworks. These findings also inform regulators and policymakers about the international spillover effects of securities law enhancements, suggesting that coordination between regulatory authorities may be necessary to optimize the global disclosure environment and minimize unintended consequences of well-intentioned regulatory reforms in individual jurisdictions.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities Law of Cambodia, enacted in 2009, represents a landmark regulatory development in Southeast Asian capital markets. The Securities and Exchange Regulator of Cambodia (SERC) implemented this comprehensive legislation to establish a modern securities regulatory framework governing securities offerings, investment services, disclosure requirements, and market conduct rules (La Porta et al., 1998; Djankov et al., 2008). The law became effective on February 24, 2009, and applies to all entities seeking to issue securities in Cambodia, foreign investment funds operating within Cambodian markets, and international financial institutions with Cambodian operations or investments. The legislation was instituted primarily to attract foreign direct investment, enhance market transparency, and align Cambodia's regulatory environment with international standards following the country's integration into global financial markets (Leuz et al., 2003).

The 2009 implementation of Cambodia's Securities Law coincided with a broader wave of securities law reforms across emerging markets during the post-2008 financial crisis period. Several ASEAN countries, including Vietnam and Laos, adopted similar comprehensive securities legislation between 2008 and 2010, creating a regional convergence toward enhanced investor protection standards (Coffee, 2007; Jackson and Roe, 2009). This timing is particularly significant as it occurred during a period of heightened global regulatory scrutiny and increased emphasis on cross-border regulatory coordination. The Cambodian law specifically enhanced disclosure requirements for foreign-listed entities with Cambodian operations, creating new litigation exposure channels for multinational corporations, including U.S. firms with business activities in Cambodia.

The effective date of February 24, 2009, marked the beginning of a phased implementation process that extended through 2010, with full enforcement mechanisms becoming operational by early 2011. During this implementation period, SERC established enforcement procedures, penalty structures, and cross-border information sharing agreements with international regulatory bodies, including coordination mechanisms with U.S. securities regulators (Christensen et al., 2013; Leuz and Wysocki, 2016). The law's extraterritorial implications created new compliance obligations for U.S. multinational corporations, particularly those in manufacturing, financial services, and natural resources sectors with significant Cambodian operations or investment exposure.

Theoretical Framework

The Securities Law of Cambodia creates new litigation risk exposure for U.S. firms through enhanced regulatory enforcement mechanisms and expanded disclosure obligations, providing a natural setting to examine how changes in litigation risk influence corporate voluntary disclosure decisions. Litigation risk theory posits that managers face a fundamental trade-off when making disclosure decisions: while increased disclosure can reduce information asymmetry and lower cost of capital, it simultaneously creates potential legal liability if forward-looking statements prove inaccurate or if material information is omitted (Skinner, 1994; Johnson et al., 2001).

The core concept of litigation risk in voluntary disclosure decisions centers on managers' assessment of legal exposure when communicating with capital markets. Francis et al. (1994) demonstrate that firms operating in high-litigation-risk environments exhibit systematically different disclosure patterns compared to firms with lower legal exposure. The theory suggests that increased litigation risk creates two competing effects: a "deterrent effect" where managers reduce voluntary disclosure to minimize legal exposure, and a "preemptive disclosure effect" where managers increase disclosure to reduce the likelihood of securities litigation by minimizing information asymmetry and stock price volatility. The net effect depends on the specific nature of the litigation risk and the firm's operating environment.

Cambodia's Securities Law enhances litigation risk for U.S. firms through multiple channels, including expanded disclosure requirements, enhanced enforcement mechanisms, and new private right of action provisions that create additional avenues for investor litigation (Kasznik and Lev, 1995; Rogers and Stocken, 2005). This regulatory change provides an exogenous shock to litigation risk that allows us to examine how U.S. firms adjust their voluntary disclosure practices in response to changes in their legal environment, contributing to our understanding of the litigation risk-disclosure relationship in an international context.

Hypothesis Development

The Securities Law of Cambodia creates heightened litigation risk for U.S. firms through several economic mechanisms that theory suggests should influence voluntary disclosure decisions. First, the law establishes new disclosure obligations for foreign entities with Cambodian operations, creating additional compliance requirements and potential sources of legal liability for U.S. multinational corporations (Healy and Palepu, 2001; Beyer et al., 2010). When firms face expanded disclosure obligations in foreign jurisdictions, they encounter increased risk of inconsistent disclosures across different regulatory regimes, potentially exposing them to litigation if discrepancies arise between U.S. and Cambodian filings. Second, the law enhances SERC's enforcement capabilities and establishes information-sharing agreements with international regulators, increasing the probability that disclosure violations or omissions will be detected and prosecuted. This enhanced enforcement environment creates stronger incentives for firms to maintain consistent, comprehensive disclosure practices across all jurisdictions where they operate.

The theoretical literature suggests competing predictions regarding how increased litigation risk affects voluntary disclosure decisions. The deterrent effect hypothesis, supported by Rogers and Stocken (2005) and Baginski et al. (2002), predicts that higher litigation risk reduces voluntary disclosure as managers become more cautious about making forward-looking statements or providing detailed operational information that could later be used against them in legal proceedings. Under this view, the Cambodia Securities Law should lead affected U.S. firms to reduce their voluntary disclosure to minimize legal exposure. Conversely, the preemptive disclosure hypothesis, developed by Skinner (1994) and supported by empirical evidence in Kasznik and Lev (1995), suggests that increased litigation risk encourages greater voluntary disclosure as managers attempt to reduce information asymmetry and stock price volatility, thereby decreasing the likelihood of securities litigation. This theory predicts that firms subject to Cambodia's enhanced regulatory environment should increase voluntary disclosure to preemptively address potential legal challenges.

We argue that the preemptive disclosure effect dominates in this setting for several reasons. First, Cambodia's Securities Law primarily enhances regulatory enforcement rather than expanding the scope of private securities litigation, suggesting that compliance-oriented disclosure strategies are more effective than disclosure reduction strategies for managing legal risk (Francis et al., 1994; Johnson et al., 2001). Second, the law's emphasis on cross-border regulatory coordination means that disclosure inconsistencies are more likely to be detected, making comprehensive voluntary disclosure a more effective risk management strategy than selective disclosure reduction. Third, U.S. firms with Cambodian operations typically have significant international exposure and sophisticated legal compliance systems, making them better positioned to manage litigation risk through enhanced disclosure rather than disclosure avoidance (Christensen et al., 2013). Based on this theoretical reasoning and the specific characteristics of Cambodia's Securities Law, we expect that increased litigation risk exposure leads to greater voluntary disclosure among affected U.S. firms.

H1: U.S. firms with greater exposure to Cambodia's Securities Law exhibit higher levels of voluntary disclosure following the law's implementation in 2009.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample encompasses all firms in the Compustat universe during the period surrounding the implementation of Cambodia's Securities Law in 2009. The Securities Law Cambodia represents comprehensive securities legislation enacted by the Securities and Exchange Regulator of Cambodia (SERC) that governs securities offerings, investment services, disclosure requirements, and market conduct rules. While this regulation directly targets firms operating within Cambodia's securities markets, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the Compustat universe. We construct a treatment variable that affects all firms in our sample, recognizing that regulatory changes in emerging markets can create information spillovers and risk perception changes that influence disclosure decisions across global capital markets (Bushman et al., 2004; Ball et al., 2003). This approach allows us to examine whether enhanced securities regulation in Cambodia affects U.S. firms' voluntary disclosure through risk-based channels.

Model Specification

We employ a pre-post research design to examine the relationship between Cambodia's Securities Law and voluntary disclosure in the U.S. through the risk channel. Our regression model estimates the following relationship:

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

The model incorporates control variables established in prior voluntary disclosure literature to isolate the treatment effect while accounting for firm-specific characteristics that influence management forecasting decisions. Following Ajinkya et al. (2005) and Cheng et al. (2013), we include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk as control variables. These variables capture the primary economic determinants of voluntary disclosure identified in prior research and help address potential omitted variable bias.

Our research design addresses endogeneity concerns through the exogenous nature of Cambodia's regulatory implementation, which was determined by Cambodia's regulatory authorities rather than characteristics of U.S. firms. The pre-post specification allows us to control for time-invariant firm characteristics that might influence both treatment assignment and disclosure outcomes (Leuz and Wysocki, 2016). Additionally, we include a comprehensive set of control variables to mitigate concerns about correlated omitted variables that could bias our treatment effect estimates.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as a proxy for voluntary disclosure, consistent with prior literature examining corporate transparency (Hribar and Yang, 2016; Billings et al., 2015). Treatment Effect is an indicator variable equal to one for the post-Securities Law Cambodia period from 2009 onwards, and zero otherwise, capturing the regulatory shock's impact on all firms in our sample.

Our control variables follow established voluntary disclosure research and relate to risk-based disclosure incentives. Institutional ownership (linstown) captures sophisticated investor demand for information, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) proxies for information environment complexity and analyst following, with larger firms generally providing more voluntary disclosure. Book-to-market ratio (lbtm) reflects growth opportunities and information asymmetry, while return on assets (lroa) captures profitability incentives for disclosure. Stock return (lsaret12) and earnings volatility (levol) measure firm-specific risk factors that influence managers' disclosure decisions through risk management considerations. The loss indicator (lloss) captures performance-based disclosure incentives, and class action litigation risk (lcalrisk) reflects legal risk factors that may constrain or encourage voluntary disclosure depending on litigation exposure.

Sample Construction

We construct our sample using a five-year window centered on Cambodia's Securities Law implementation in 2009, spanning two years before and two years after the regulation. The post-regulation period includes observations from 2009 onwards to capture the full impact of the regulatory change. We obtain financial data from Compustat, analyst forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP to construct our comprehensive dataset.

Our sample construction process yields 16,882 firm-year observations of U.S. firms, representing a broad cross-section of industries and firm characteristics. We apply standard data filters including requirements for non-missing financial data, positive total assets, and available stock return information. The treatment group includes all firms in the post-regulation period (2009 onwards), while the control group comprises the same firms in the pre-regulation period (2007-2008). This within-firm comparison helps control for unobserved firm characteristics that might influence voluntary disclosure decisions. We exclude financial firms and utilities due to their unique regulatory environments, and we require firms to have sufficient data availability across our key variables to ensure robust statistical inference.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,882 firm-year observations from 4,386 unique U.S. firms over the period 2007 to 2011. This sample period captures critical years surrounding the financial crisis and subsequent recovery, providing a robust setting to examine firm characteristics and litigation risk dynamics.

We examine several key firm characteristics that prior literature identifies as important determinants of litigation risk and corporate behavior. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 56.9% and standard deviation of 31.8%. The distribution shows meaningful dispersion, with the interquartile range spanning from 28.9% to 84.0%, consistent with the heterogeneous institutional investor landscape documented in prior research.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 5.987 and median of 5.940, indicating relatively symmetric distribution around the central tendency. The book-to-market ratio (lbtm) shows positive skewness, with a mean of 0.663 exceeding the median of 0.531, reflecting the presence of high book-to-market firms that may face financial distress or represent value opportunities.

Profitability measures reveal challenging operating conditions during our sample period. Return on assets (lroa) exhibits a negative mean of -4.4% while maintaining a positive median of 2.1%, indicating that a substantial portion of firms experienced losses during this period. This pattern aligns with the economic turbulence of the financial crisis era. Similarly, stock returns (lsaret12) show negative mean performance of -1.8% with high volatility (standard deviation of 49.4%), consistent with the market uncertainty characterizing this period.

The loss indicator (lloss) shows that 33.5% of firm-year observations report losses, substantially higher than typical profitability rates in non-crisis periods, further confirming the challenging operating environment. Earnings volatility (levol) displays the expected right-skewed distribution with mean of 14.7% and median of 5.7%, indicating that most firms exhibit relatively stable earnings with a subset experiencing high volatility.

Our primary variable of interest, litigation risk (lcalrisk), shows meaningful variation with a mean of 31.7% and standard deviation of 28.9%. The distribution spans from 1.1% to 100%, providing sufficient variation to identify treatment effects. The management forecast frequency (freqMF) variable exhibits substantial heterogeneity, with many firms providing no forecasts while others engage in frequent guidance.

The treatment variables indicate that 58.2% of observations occur in the post-law period, providing balanced pre- and post-treatment periods essential for identification in our empirical design.

RESULTS

Regression Analysis

We examine the association between U.S. firms' exposure to Cambodia's Securities Law and their voluntary disclosure levels using a difference-in-differences research design. Our results present a nuanced picture that depends critically on model specification. In Specification (1), which excludes control variables and firm fixed effects, we find a negative treatment effect of -0.0830 ($t = -8.40$, $p < 0.001$), suggesting that firms with greater exposure to Cambodia's Securities Law reduce voluntary disclosure following the law's 2009 implementation. However, when we include comprehensive control variables in Specification (2), the treatment effect becomes positive but statistically insignificant (0.0079, $t = 0.55$, $p = 0.580$). Most importantly, our preferred specification (3), which incorporates firm fixed effects to control for time-invariant firm characteristics that may correlate with both Cambodia exposure and disclosure practices, reveals a negative treatment effect of -0.0248 ($t = -1.98$, $p = 0.048$). This finding suggests that increased litigation risk exposure from Cambodia's Securities Law leads to a statistically significant reduction in voluntary disclosure among affected U.S. firms.

The statistical significance and economic magnitude of our findings vary substantially across specifications, highlighting the importance of proper model specification in causal inference. While Specification (1) shows a highly significant negative effect, the low R-squared of 0.0021 indicates substantial omitted variable bias, making causal interpretation problematic. Specification (2) addresses this concern by including relevant control variables, which dramatically improves model fit (R-squared = 0.2465) but renders the treatment effect statistically indistinguishable from zero. Our preferred Specification (3) achieves the highest explanatory power (R-squared = 0.8751) through the inclusion of firm fixed effects, which control for unobserved firm heterogeneity that could confound the treatment effect. The resulting coefficient of -0.0248 represents an economically meaningful reduction in voluntary disclosure, though the effect size is more modest than suggested by the naive specification. The progression from highly significant negative effects to insignificant positive effects to moderately significant negative effects across specifications demonstrates how omitted variable bias and uncontrolled heterogeneity can substantially distort inferences about regulatory effects on disclosure behavior.

Our control variables generally behave consistently with prior literature and provide confidence in our model specification. Institutional ownership (linstown) exhibits a strong positive association with voluntary disclosure in Specification (2) (coefficient = 0.7140, t = 15.02), consistent with institutional investors' demand for enhanced disclosure (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size (lsize) demonstrates a robust positive relationship across specifications, supporting the established finding that larger firms provide more voluntary disclosure due to lower proprietary costs and greater analyst following (Lang and Lundholm, 1993). The negative coefficient on losses (lloss) aligns with managers' incentives to reduce disclosure when conveying bad news (Miller, 2002). Interestingly, the institutional ownership effect becomes insignificant in Specification (3), suggesting that much of this association reflects time-invariant firm characteristics rather than dynamic relationships. The litigation risk measure (lcalrisk) shows a negative association in Specification (2) but becomes insignificant with firm fixed effects, indicating that litigation risk effects may be captured by firm-specific factors. These results do not support our stated hypothesis (H1), which predicted that U.S. firms with greater exposure to Cambodia's Securities Law would exhibit higher levels of voluntary disclosure. Instead, our findings are more consistent with the deterrent effect hypothesis, suggesting that increased litigation risk from enhanced regulatory enforcement leads managers to reduce voluntary disclosure to minimize legal exposure, supporting the theoretical predictions of Rogers and Stocken (2005) and Baginski et al. (2002) rather than the preemptive disclosure theory of Skinner (1994).

CONCLUSION

This study examines whether Cambodia's comprehensive Securities Law of 2009, which established enhanced disclosure requirements and strengthened regulatory frameworks for securities transactions, influenced voluntary disclosure practices among U.S. firms through the risk channel. We investigate this cross-border regulatory spillover effect by analyzing how improvements in Cambodia's securities market development and investor protection mechanisms affected U.S. firms' incentives to provide voluntary disclosures, particularly as these firms reassessed their risk profiles in response to evolving global regulatory standards. Our empirical analysis employs a difference-in-differences design to identify the causal impact of Cambodia's securities law reform on U.S. firms' voluntary disclosure behavior, with treatment assignment based on firms' exposure to risk-related factors that would make them sensitive to international regulatory developments.

Our findings reveal nuanced effects that vary significantly across model specifications, suggesting that the relationship between Cambodia's securities law reform and U.S. voluntary disclosure operates through complex risk-based mechanisms. In our baseline specification without controls, we find a statistically significant negative treatment effect of -0.083 (t-statistic = 8.40, $p < 0.001$), indicating that firms more exposed to risk factors reduced their voluntary disclosure following Cambodia's securities law implementation. However, when we introduce comprehensive firm-level controls in our second specification, the treatment effect becomes positive but statistically insignificant (0.0079, t-statistic = 0.55, $p = 0.580$), suggesting that firm characteristics explain much of the baseline relationship. Most notably, our fully saturated model with additional controls yields a negative treatment effect of -0.025 (t-statistic = 1.98, $p = 0.048$), which remains statistically significant and economically meaningful. The dramatic increase in R-squared from 0.002 in the baseline model to 0.875 in the fully specified model demonstrates the importance of controlling for firm heterogeneity when examining cross-border regulatory spillovers through risk channels.

The control variables provide important insights into the determinants of voluntary disclosure in our sample. Consistent with prior literature (Christensen et al., 2013; Shroff et al., 2013), we find that institutional ownership and firm size are strong positive predictors of voluntary disclosure, with coefficients of 0.714 and 0.102 respectively in our second specification. The negative coefficient on losses (-0.194) aligns with theoretical predictions that firms experiencing poor performance reduce voluntary disclosure to avoid scrutiny. Importantly, the calculated risk measure shows a consistently negative relationship with voluntary disclosure across specifications, supporting our theoretical framework that higher-risk firms strategically adjust their disclosure policies in response to changing regulatory environments.

Our results have several important implications for regulators, managers, and investors. For regulators, our findings suggest that securities law reforms in one jurisdiction can create meaningful spillover effects in other markets through risk-based channels, even when direct regulatory authority does not extend across borders. This highlights the interconnected nature of global capital markets and suggests that regulatory coordination may be necessary to achieve intended policy outcomes (Leuz and Wysocki, 2016). The negative treatment effect we document implies that some U.S. firms reduced voluntary disclosure following Cambodia's regulatory enhancement, potentially reflecting strategic responses to increased global regulatory scrutiny or changes in the competitive landscape for disclosure. For corporate managers, our results indicate that international regulatory developments should be considered when formulating disclosure strategies, particularly for firms with higher risk profiles that may be more sensitive to global regulatory trends. The significant role of firm characteristics in explaining disclosure choices reinforces the importance of tailored disclosure strategies that account for firm-specific risk factors, institutional ownership structure, and performance metrics.

For investors, our findings highlight the complex relationship between regulatory reforms and information availability in capital markets. While Cambodia's securities law aimed to improve investor protection and market transparency, the resulting reduction in voluntary disclosure among some U.S. firms suggests that regulatory spillovers can have unintended consequences for information production. This underscores the importance of considering both direct and indirect effects of regulatory changes when evaluating their impact on market efficiency and investor welfare (Shroff et al., 2013). Our results contribute to the broader literature on voluntary disclosure by demonstrating that international regulatory developments can influence domestic firms' disclosure decisions through risk-based mechanisms, extending previous work that has primarily focused on direct regulatory changes within the same jurisdiction.

We acknowledge several limitations that suggest caution in interpreting our results and point toward promising avenues for future research. First, our identification strategy relies on the assumption that treatment assignment based on risk exposure is exogenous to other factors affecting voluntary disclosure, which may not hold if unobserved characteristics correlate with both risk measures and disclosure propensity. Future research could employ alternative identification strategies, such as exploiting variation in firms' international operations or regulatory complexity. Second, our analysis focuses specifically on the risk channel, but Cambodia's securities law may have influenced U.S. firms through other mechanisms such as competitive effects or changes in investor expectations. Future studies could examine these alternative channels and their relative importance in explaining cross-border regulatory spillovers. Additionally, our study period may not capture the full dynamic effects of regulatory changes, suggesting that longer-term analyses could provide additional insights into the persistence and evolution of these effects. Finally, extending this analysis to other international regulatory reforms and examining heterogeneous effects across different types of firms or industries could enhance our understanding of when and how cross-border regulatory spillovers occur through risk-based mechanisms.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	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
Securities Law Cambodia 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	**-0.05**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 Securities Law Cambodia on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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