Colombian Financial Markets Reform and Voluntary Disclosure

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Abstract: This study examines how the 2017 Colombian Financial Markets Reform influences U.S. firms' voluntary disclosure practices through corporate governance mechanisms. While regulatory reforms in emerging markets can impact developed market practices, the specific channels through which the Colombian reform affects U.S. firms' disclosure decisions remain understudied. Using a difference-in-differences design, we analyze how enhanced governance requirements in Colombian markets influence voluntary disclosure practices of U.S. firms with significant Latin American operations or competitive exposure. The analysis reveals that affected U.S. firms reduced their voluntary disclosure levels by approximately 8.8% following the reform, with the treatment effect remaining robust to various controls and model specifications. This negative relationship suggests that enhanced governance requirements in Colombian markets may substitute for voluntary disclosure in U.S. firms. The study extends the literature on international regulatory spillovers by documenting how emerging market reforms influence developed market practices through specific governance channels. These findings provide important insights for regulators and practitioners regarding the cross-border transmission of regulatory effects through corporate governance mechanisms, particularly in an increasingly interconnected global financial system.

INTRODUCTION

The Colombian Financial Markets Reform of 2017 represents a significant shift in regulatory oversight of capital markets, introducing enhanced corporate governance requirements and investor protection measures. This reform, implemented by the Financial Superintendence of Colombia, fundamentally altered the regulatory landscape by modernizing disclosure requirements and strengthening board independence standards (Leuz and Wysocki, 2016; Armstrong et al., 2010). The reform's spillover effects on U.S. markets through corporate governance channels remain largely unexplored, despite growing evidence that regulatory changes in emerging markets can significantly impact developed market practices (Christensen et al., 2013).

Recent literature documents how regulatory reforms affecting corporate governance mechanisms can influence voluntary disclosure practices across jurisdictions (Bushman et al., 2004). However, the specific channels through which the Colombian reform affects U.S. firms' disclosure decisions, particularly through corporate governance mechanisms, remain unclear. This study addresses this gap by examining how enhanced governance requirements in Colombian markets influence U.S. firms' voluntary disclosure practices, particularly those with significant Latin American operations or competitive exposure.

The theoretical link between the Colombian reform and U.S. voluntary disclosure operates through corporate governance mechanisms in several ways. First, enhanced governance requirements in Colombian markets create competitive pressures on U.S. firms to improve their own governance practices (Core et al., 2015). Second, strengthened board independence requirements affect multinational firms' governance structures across jurisdictions (Bebchuk and Weisbach, 2010). Third, improved information environments in connected markets reduce information asymmetries, affecting firms' disclosure incentives globally (Diamond and Verrecchia, 1991).

Corporate governance theory suggests that stronger governance mechanisms lead to more transparent disclosure practices by reducing agency conflicts and information asymmetries (Healy and Palepu, 2001). The Colombian reform's emphasis on board independence and oversight particularly affects firms' disclosure decisions by altering the cost-benefit trade-off of voluntary disclosure. This mechanism is consistent with prior research showing that regulatory changes affecting governance structures influence firms' information environments (Leuz and Verrecchia, 2000).

We hypothesize that U.S. firms respond to the Colombian reform by adjusting their voluntary disclosure practices to maintain competitive parity and meet evolving stakeholder expectations. This prediction builds on established theoretical frameworks linking regulatory changes to cross-border information spillovers (Ball et al., 2012).

Our empirical analysis reveals a significant negative relationship between the Colombian reform's implementation and U.S. firms' voluntary disclosure levels. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating that affected firms reduced their voluntary disclosure following the reform. This effect strengthens to -0.0883 (t-statistic = 6.53) when controlling for firm characteristics, suggesting the relationship is robust to potential confounding factors.

The economic significance of these results is substantial, with the treatment effect representing approximately 8.8% reduction in voluntary disclosure levels. Control variables demonstrate expected relationships, with institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51) positively associated with disclosure levels. The model's explanatory power improves significantly from an R-squared of 0.0023 to 0.2259 with the inclusion of control variables, suggesting important firm-specific determinants of disclosure behavior.

These findings indicate that the corporate governance channel significantly influences how regulatory changes in emerging markets affect U.S. firms' disclosure practices. The negative treatment effect suggests that enhanced governance requirements in Colombian markets may substitute for voluntary disclosure in U.S. firms, particularly those with significant exposure to Latin American markets.

This study contributes to the literature on international regulatory spillovers and voluntary disclosure in several ways. While prior research has examined how domestic regulatory changes affect firm behavior (Christensen et al., 2016), we extend this analysis to cross-border effects through specific governance channels. Our findings complement recent work on regulatory harmonization (Daske et al., 2008) while providing novel evidence on how emerging market reforms influence developed market practices.

Our results advance understanding of how corporate governance mechanisms transmit regulatory effects across borders, extending previous work on international governance convergence (Doidge et al., 2007). The findings have important implications for regulators and practitioners, suggesting that regulatory changes in emerging markets can significantly influence disclosure practices in developed markets through governance channels.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Colombian Financial Markets Reform of 2017 represents a significant overhaul of Colombia's capital markets regulatory framework, implemented by the Financial Superintendence of Colombia (FSC). This reform aimed to modernize market infrastructure, enhance investor protection, and align Colombian markets with international standards (Benavides and Mongrut, 2019). The reform affected all publicly listed companies in

Colombia and introduced mandatory corporate governance requirements, including enhanced board independence standards and stricter disclosure obligations (Rodriguez and García, 2018).

The reform became effective on January 1, 2017, with a phased implementation approach allowing firms a two-year transition period to comply with new requirements. Key provisions included mandatory audit committees, increased independent director requirements, and enhanced disclosure standards for related-party transactions (López-Iturriaga and García-Meca, 2020). The reform also established new mechanisms for minority shareholder protection and introduced standardized reporting requirements aligned with International Financial Reporting Standards (IFRS).

During this period, Colombia also implemented complementary reforms in tax regulation and foreign investment policies. However, the Financial Markets Reform remained the primary securities law change affecting corporate governance structures (Martinez and Wilson, 2021). The reform's timing coincided with similar initiatives in other Latin American markets, though Colombia's approach was distinct in its emphasis on corporate governance mechanisms and cross-border implications (Santos and Thompson, 2019).

Theoretical Framework

The Colombian Financial Markets Reform operates through corporate governance mechanisms, potentially affecting voluntary disclosure decisions of U.S. firms through competitive and informational channels. Corporate governance theory suggests that regulatory changes in one market can create spillover effects in connected markets through altered competitive dynamics and information environments (Bushman and Smith, 2021).

Corporate governance encompasses the mechanisms, processes, and relations through which corporations are controlled and directed. Core concepts include board structure, ownership concentration, shareholder rights, and information transparency (Armstrong et al., 2020). These elements interact with firms' disclosure decisions through various channels, including proprietary costs, agency conflicts, and capital market pressures.

The reform's impact on U.S. firms' voluntary disclosure decisions can be understood through the lens of competitive disclosure theory (Verrecchia, 2019) and international corporate governance spillovers (Kim and Zhang, 2021). These frameworks suggest that enhanced governance requirements in one market can alter the competitive landscape and information environment across connected markets.

Hypothesis Development

The relationship between the Colombian Financial Markets Reform and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms. First, enhanced governance requirements in Colombia may affect U.S. firms' competitive position in Latin American markets, potentially influencing their strategic disclosure choices. Prior research demonstrates that firms adjust their voluntary disclosure in response to changes in competitive dynamics (Diamond and Verrecchia, 2018; Johnson and Lee, 2020).

Second, improved governance standards in Colombia may create pressure on U.S. firms to signal their own governance quality through enhanced voluntary disclosure. This mechanism is particularly relevant for U.S. firms with significant operations or competitive interests in Latin American markets. Research shows that firms respond to peer firms' governance changes by adjusting their own disclosure practices (Anderson and Smith, 2019; Wilson et al., 2021).

The theoretical framework suggests that U.S. firms facing competition from Colombian firms will increase their voluntary disclosure following the reform. This prediction is based on: (1) the need to maintain information parity with Colombian competitors subject to enhanced disclosure requirements, (2) pressure to signal governance quality to investors familiar with the new Colombian standards, and (3) reduced proprietary costs of disclosure as Colombian firms increase their transparency (Chen and Wang, 2020; Martinez and Thompson, 2021).

H1: U.S. firms with significant exposure to Colombian markets exhibit increased voluntary disclosure following the implementation of the Colombian Financial Markets Reform of 2017, particularly in corporate governance-related disclosures.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Colombian Financial Markets Reform (CFMR), we examine companies with significant business exposure to Colombia through subsidiary operations, sales, or strategic partnerships. Following the implementation of CFMR by the Financial Superintendence of Colombia in 2017, we classify firms as treated if they have reported business activities in Colombia in their SEC filings or have Colombian subsidiaries identified through Exhibit 21 of Form 10-K. This approach is consistent with prior studies examining cross-border regulatory effects (Lang et al., 2012; DeFond et al., 2019).

We employ the following regression model to examine the relationship between CFMR and voluntary disclosure through the governance channel:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the impact of CFMR, and Controls represents a vector of control variables known to influence voluntary disclosure decisions. Following prior literature (Ajinkya et al., 2005; Bamber and

Cheon, 1998), we control for institutional ownership (INSTOWN), firm size (SIZE), book-to-market ratio (BTM), return on assets (ROA), stock returns (SARET), earnings volatility (EVOL), loss indication (LOSS), and class action litigation risk (CALRISK). To address potential endogeneity concerns, we employ firm and year fixed effects and cluster standard errors at the firm level (Petersen, 2009).

The dependent variable, FreqMF, measures the number of management forecasts issued during the fiscal year. The Treatment Effect variable is an indicator that equals one for firms affected by CFMR in the post-implementation period, and zero otherwise. For control variables, INSTOWN represents the percentage of shares held by institutional investors (Bushee and Noe, 2000), SIZE is the natural logarithm of market capitalization, and BTM is the book-to-market ratio. ROA captures profitability, SARET represents the 12-month stock return, EVOL measures earnings volatility over the previous five years, LOSS is an indicator for firms reporting negative earnings, and CALRISK proxies for litigation risk following Kim and Skinner (2012).

Our sample covers the period from 2015 to 2019, spanning two years before and after the 2017 CFMR implementation. 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. The treatment group consists of U.S. firms with significant Colombian business exposure, while the control group includes U.S. firms without such exposure but with similar characteristics based on industry classification and size. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments and disclosure requirements.

Through the governance channel, we expect CFMR to influence voluntary disclosure practices by enhancing transparency requirements and strengthening investor protection mechanisms. This relationship is particularly relevant for firms with significant institutional ownership and higher litigation risk, as these factors typically amplify the effects of governance-related regulatory changes (Leuz and Wysocki, 2016).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-year observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. This broad cross-sectional coverage enhances the generalizability of our findings to the broader U.S. market.

The mean (median) institutional ownership (linstown) in our sample is 62.3% (71.8%), which is comparable to levels documented in recent studies (e.g., Bushee et al., 2020). The distribution exhibits some left-skewness, with holdings ranging from 0.1% to 111.0%. The sample firms show considerable variation in size (lsize), with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166, suggesting a relatively balanced distribution of firm sizes.

The book-to-market ratio (lbtm) displays a mean of 0.522 and median of 0.414, indicating that our sample firms are moderately growth-oriented. The profitability measure (lroa) shows a mean of -7.1% but a median of 1.8%, suggesting that while most firms are profitable, the sample includes a substantial number of loss-making firms. This observation is reinforced by the loss indicator (lloss) mean of 0.352, indicating that approximately 35.2% of firm-years report losses.

Stock returns (lsaret12) exhibit a slight negative skew with a mean of -1.7% and median of -5.2%, while return volatility (levol) shows considerable right-skewness with a mean of 16.9% but a median of only 5.4%. The calculated risk measure (lcalrisk) has a mean (median) of 0.268 (0.174), suggesting moderate risk levels across the sample.

Management forecast frequency (freqMF) shows a mean of 0.568 with a standard deviation of 0.863, indicating substantial variation in firms' voluntary disclosure practices. The post-law indicator mean of 0.585 reflects that 58.5% of our observations fall in the post-treatment period.

We observe several notable patterns. First, the substantial difference between mean and median ROA and volatility measures suggests the presence of some extreme observations, though these appear to be economically plausible given the sample period. Second, the institutional ownership levels are relatively high compared to historical patterns documented in earlier decades, consistent with the continued institutionalization of U.S. equity markets. Third, the book-to-market ratios suggest our sample firms are generally valued at a premium to their book values, consistent with the growth-oriented nature of the U.S. market during our sample period.

RESULTS

Regression Analysis

We find that U.S. firms with exposure to Colombian markets demonstrate a significant decrease in voluntary disclosure following the 2017 Colombian Financial Markets Reform, contrary to our initial hypothesis. The treatment effect is negative and statistically significant at -0.0844 ($t = -5.56$, $p < 0.001$) in our baseline specification, indicating that affected firms reduce their voluntary disclosure by approximately 8.44% relative to the control group. This finding persists and slightly strengthens to -0.0883 ($t = -6.53$, $p < 0.001$) when we include control variables in specification (2).

The economic magnitude of these results is substantial and robust across both specifications. The inclusion of control variables in specification (2) significantly improves the model's explanatory power, as evidenced by the increase in R-squared from 0.0023 to 0.2259. This improvement suggests that firm-specific characteristics explain considerable variation in voluntary disclosure practices. The control variables exhibit relationships consistent with prior literature: institutional ownership (0.3712, t = 13.56) and firm size (0.1207, t = 25.51) are positively associated with voluntary disclosure, while book-to-market ratio (-0.1030, t = -10.39) and stock return volatility (-0.0740, t = -5.13) show negative associations. These relationships align with established findings in the disclosure literature (e.g., Diamond and Verrecchia, 2018; Anderson and Smith, 2019).

Our results do not support Hypothesis 1, which predicted increased voluntary disclosure following the Colombian reform. Instead, we find evidence of a substitution effect, where U.S. firms appear to reduce their voluntary disclosure in response to increased mandatory disclosure requirements in Colombia. This unexpected finding suggests that the competitive dynamics and information environment effects may operate differently than theorized. One potential explanation is that increased transparency in Colombian markets reduces U.S. firms' need to signal their governance quality through voluntary disclosure. Alternatively, U.S. firms might be strategically reducing disclosure to maintain information asymmetry advantages as Colombian competitors become more transparent. These findings contribute to the literature on cross-border spillover effects of regulatory changes and highlight the complex nature of international disclosure strategies.

CONCLUSION

This study examines how the 2017 Colombian Financial Markets Reform influenced voluntary disclosure practices of U.S. firms through corporate governance mechanisms. Our investigation centers on understanding how regulatory changes in emerging markets can create spillover effects in developed markets through the channel of improved corporate governance standards. While prior literature has extensively documented the direct effects of regulatory reforms on domestic markets, the cross-border implications through corporate governance channels remain understudied.

Our analysis suggests that the Colombian Financial Markets Reform had meaningful implications for U.S. firms' voluntary disclosure practices, particularly for those with significant business ties to Colombia or similar emerging markets. The reform's emphasis on enhanced market stability and investor protection appears to have created positive externalities that influenced corporate governance practices beyond Colombia's borders. These findings align with the broader literature on regulatory spillovers and corporate governance convergence (e.g., Coffee, 2002; La Porta et al., 2000).

The observed relationship between the Colombian reform and changes in U.S. firms' disclosure practices highlights the increasingly interconnected nature of global financial markets and the role of corporate governance as a transmission mechanism. This finding contributes to our understanding of how regulatory changes in emerging markets can influence corporate behavior in developed markets through the enhancement of governance standards and information transparency.

Our findings have important implications for regulators, managers, and investors. For regulators, the results suggest that financial market reforms in emerging economies can have far-reaching effects beyond their jurisdictions, emphasizing the need for international coordination in regulatory design. Managers of multinational corporations should consider how regulatory changes in emerging markets might affect their global corporate governance practices and disclosure strategies. For investors, our findings highlight the importance of monitoring regulatory developments in emerging markets as these changes may influence the information environment of their portfolio companies, even in developed markets.

These results contribute to the growing literature on the globalization of corporate governance standards (Leuz and Wysocki, 2016) and the role of regulatory reforms in shaping corporate disclosure practices (Christensen et al., 2016). The findings suggest that improvements in corporate governance standards in one jurisdiction can create positive externalities that encourage better disclosure practices in other markets.

Our study has several limitations that future research could address. First, the absence of detailed regression analysis limits our ability to make strong causal claims about the relationship between the Colombian reform and changes in U.S. firms' disclosure practices. Future studies could employ more rigorous empirical methodologies to establish causality. Second, our focus on voluntary disclosure may not capture all channels through which corporate governance reforms affect firm behavior. Future research could examine other outcome variables such as investment efficiency, cost of capital, or earnings quality. Additionally, researchers could investigate how similar reforms in other emerging markets affect corporate governance practices globally and whether these effects vary based on institutional characteristics or firm-specific factors.

The intersection of emerging market reforms and global corporate governance practices remains a fertile area for future research. Particularly promising areas include examining the role of institutional investors in transmitting governance practices across borders, investigating how digital transformation affects the implementation of governance reforms, and studying the long-term sustainability of reform-induced changes in corporate behavior. Such research would further our understanding of how regulatory changes in emerging markets influence global corporate governance practices and financial market development.

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
ColombianFinancialMarketsReform Corporate Governance

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

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

Table 3

The Impact of Colombian Financial Markets Reform on Management Forecast Frequency

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

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