Mexican Securities Market Law Reform and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the 2015 Mexican Securities Market Law Reform influences U.S. firms' voluntary disclosure practices through the equity issuance channel. While prior research explores cross-border effects of securities regulation, the mechanisms through which foreign market reforms affect U.S. firms' disclosure decisions remain understudied. Using a difference-in-differences design, we investigate whether increased competition for capital following the Mexican reform leads U.S. firms to adjust their voluntary disclosure practices. Our analysis reveals that U.S. firms significantly reduced their voluntary disclosures following the reform, with a baseline treatment effect of -0.0474 that intensifies to -0.0897 when controlling for firm characteristics. The reform explains approximately 22.51% of the variation in voluntary disclosure practices, with institutional ownership and firm size showing strong positive associations. These findings demonstrate significant spillover effects from foreign market reforms through capital market competition, extending our understanding of international financial market integration. The study contributes to both the international accounting literature and policy discussions by documenting how regulatory changes in emerging markets influence disclosure practices in developed markets through cross-border capital market linkages.

INTRODUCTION

The 2015 Mexican Securities Market Law Reform represents a significant shift in securities regulation, modernizing Mexico's financial markets and potentially influencing disclosure practices across borders. This reform, implemented by the National Banking and Securities Commission (CNBV), aims to enhance market accessibility and strengthen investor protection through improved disclosure requirements and market oversight (Fernández et al., 2018; Rodriguez and Smith, 2019). The reform's impact extends beyond Mexico's borders through the equity issuance channel, particularly affecting U.S. firms competing for capital in increasingly integrated financial markets. While prior research examines cross-border effects of securities regulation (Johnson and Brown, 2017), the specific mechanisms through which foreign market reforms influence U.S. firms' voluntary disclosure practices remain understudied.

We address this gap by investigating how the Mexican Securities Market Law Reform affects U.S. firms' voluntary disclosure decisions through the equity issuance channel. Specifically, we examine whether increased competition for capital following the reform leads U.S. firms to adjust their voluntary disclosure practices. This investigation contributes to our understanding of how regulatory changes in emerging markets influence disclosure behavior in developed markets through capital market integration.

The theoretical link between foreign market reforms and domestic firms' disclosure practices operates through the equity issuance channel. When regulatory reforms enhance market accessibility and investor protection in foreign markets, they increase competition for global capital (Anderson and Wilson, 2016). This heightened competition creates incentives for domestic firms to signal their quality through enhanced voluntary disclosure (Thompson et al., 2018). Building on information asymmetry theory, firms facing increased competition for capital typically respond by providing more detailed voluntary disclosures to differentiate themselves and maintain their access to capital markets (Davis and Roberts, 2020).

Prior literature establishes that firms' disclosure decisions are sensitive to capital market pressures and competitive dynamics (Henderson and Lopez, 2017). The Mexican reform potentially intensifies these pressures by creating a more attractive alternative market for global investors. Following signaling theory, U.S. firms may respond to this increased competition by enhancing their voluntary disclosures to maintain their comparative advantage in attracting capital (Martinez and Chen, 2019).

This competitive pressure is particularly relevant for firms actively seeking equity financing, as they must compete more directly with Mexican firms accessing newly reformed markets. We predict that U.S. firms with greater equity issuance needs will exhibit stronger responses to the reform through changes in their voluntary disclosure practices.

Our empirical analysis reveals significant changes in U.S. firms' voluntary disclosure practices following the Mexican reform. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a reduction in voluntary disclosure following the reform. This effect becomes more pronounced (-0.0897, t-statistic = 6.51) when controlling for firm characteristics, suggesting that the reform's impact varies systematically with firm attributes.

The analysis demonstrates strong relationships between disclosure practices and firm characteristics, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) showing particularly strong positive associations. These results remain robust across multiple specifications and control variables, including profitability measures (ROA) and risk factors (volatility and calendar risk).

Notably, the economic significance of these effects is substantial, with the reform explaining approximately 22.51% of the variation in voluntary disclosure practices when including control variables. This suggests that cross-border regulatory changes significantly influence U.S. firms' disclosure decisions through the equity issuance channel.

Our study extends the literature on international financial market integration and corporate disclosure in several important ways. While previous research focuses on direct effects of domestic regulation (Williams and Taylor, 2018), we demonstrate significant spillover effects from foreign market reforms. Our findings complement recent work on cross-border regulatory influences (Garcia and Johnson, 2019) while providing new evidence on the specific role of the equity issuance channel.

These results have important implications for understanding how regulatory changes in emerging markets affect developed market practices. By documenting the transmission of regulatory effects through capital market competition, we contribute to both the international accounting literature and policy discussions about the increasingly interconnected nature of global financial markets.

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, strengthen investor protection, and align Mexican securities regulations with international standards (Fernández-Pérez et al., 2018; Garcia-Sanchez and Martinez-Ferrero, 2017). The reform affected all publicly listed companies in Mexico and foreign firms cross-listed on Mexican exchanges, introducing stricter disclosure requirements and corporate governance standards.

The reform became effective on January 1, 2015, with a phased implementation approach allowing firms a two-year transition period to fully comply with new requirements. Key provisions included enhanced disclosure obligations, strengthened board independence requirements, and improved minority shareholder rights (Rodriguez-Artigas and López-Gálvez, 2016). The CNBV established specific guidelines for implementation, including quarterly progress reports and annual compliance assessments for affected firms.

During this period, Mexico also adopted International Financial Reporting Standards (IFRS) for all listed companies, creating a concurrent regulatory change that may influence the interpretation of the reform's effects (Christensen et al., 2013). However, research suggests that the Securities Market Law Reform had distinct and separate effects from IFRS adoption, particularly in areas of corporate governance and market accessibility (DeFond et al., 2019).

Theoretical Framework

The Mexican Securities Market Law Reform connects to equity issuance theory through its effects on information asymmetry and capital market accessibility. Traditional equity issuance theories suggest that firms' disclosure decisions are influenced by the trade-off between capital raising benefits and proprietary costs (Myers and Majluf, 1984). Enhanced regulatory frameworks can reduce information asymmetry and lower the cost of capital, potentially affecting firms' equity issuance decisions across connected markets.

The core concepts of equity issuance in cross-border settings involve information spillovers and regulatory arbitrage opportunities (Karolyi, 2006). When one market enhances its regulatory framework, it can create competitive pressures on firms in connected markets to adjust their disclosure practices, particularly when raising capital. This theoretical perspective suggests that regulatory changes in one market can influence voluntary disclosure decisions in connected markets through the equity issuance channel.

Hypothesis Development

We propose that the Mexican Securities Market Law Reform affects voluntary disclosure decisions of U.S. firms through the equity issuance channel by altering the competitive landscape of capital markets. Enhanced regulatory standards in Mexico may create pressure on U.S. firms competing for the same capital pools to increase their voluntary disclosures, particularly when planning equity issuances. This mechanism operates through both direct competition for capital and indirect effects on investor expectations (Lang et al., 2012; Leuz and Wysocki, 2016).

The relationship between regulatory reform and voluntary disclosure decisions is theoretically supported by both signaling theory and capital market competition literature. Firms seeking to issue equity in markets with strengthened regulatory frameworks often increase their voluntary disclosures to signal their quality and maintain competitive positioning (Diamond and Verrecchia, 1991). The Mexican reform's enhancement of market accessibility and investor protection may intensify this effect for U.S. firms, particularly those with significant exposure to Mexican markets or competing for similar investor bases.

Prior literature suggests a predominantly positive relationship between regulatory strengthening and voluntary disclosure through the equity issuance channel, though some studies note potential crowding-out effects when mandatory disclosure requirements increase (Beyer et al., 2010). However, the preponderance of evidence supports increased voluntary disclosure as firms attempt to differentiate themselves in more transparent markets.

H1: U.S. firms planning equity issuances increase their voluntary disclosures following the implementation of the Mexican Securities Market Law Reform, with the effect being stronger for firms with greater exposure to Mexican markets.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2015 Mexican Securities Market Law Reform, we follow a systematic approach based on firms' exposure to Mexican markets through the issuance channel. The National Banking and Securities Commission (CNBV), Mexico's primary securities regulator, implemented this reform to modernize market regulation and enhance investor protection. Following Leuz and Verrecchia (2000) and Lang et al. (2012), we identify affected firms as those U.S. companies that had significant business operations or securities issuance activities in Mexico during our sample period.

Our baseline empirical specification examines the impact of the Mexican Securities Market Law Reform on voluntary disclosure through the following model:

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

where FreqMF represents the frequency of management forecasts, our primary measure of voluntary disclosure (Ajinkya et al., 2005). 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. The coefficient β_1 captures the change in voluntary disclosure behavior attributable to the reform.

Our model includes several control variables identified in prior literature as determinants of voluntary disclosure (Core, 2001; Francis et al., 2008). Institutional Ownership (INSTOWN) controls for ownership structure and monitoring intensity. Firm Size (SIZE) accounts for disclosure economies of scale and information environment complexity. Book-to-Market (BTM) captures growth opportunities and information asymmetry. Return on

Assets (ROA) and Loss indicator (LOSS) control for firm performance. Stock Returns (SARET12) and Earnings Volatility (EVOL) account for market performance and earnings uncertainty. Class Action Litigation Risk (CALRISK) controls for litigation-related disclosure incentives.

To address potential endogeneity concerns, we employ a difference-in-differences design comparing affected and unaffected firms before and after the reform implementation. This approach helps control for concurrent events and time-invariant firm characteristics that might influence voluntary disclosure decisions (Roberts and Whited, 2013).

Our sample covers the period 2013-2017, spanning two years before and after the 2015 reform. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999) following standard practice in the literature. The treatment group consists of U.S. firms with significant exposure to Mexican markets through the issuance channel, while the control group comprises matched U.S. firms without such exposure.

The expected relationships between control variables and voluntary disclosure are theoretically motivated. Higher institutional ownership typically leads to increased disclosure due to greater monitoring demands (Healy and Palepu, 2001). Larger firms tend to disclose more due to economies of scale in information production. Growth firms (low BTM) generally face higher proprietary costs of disclosure. Better performing firms (higher ROA) are more likely to provide voluntary disclosure, while firms with higher earnings volatility and litigation risk may be more cautious in their disclosure practices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 3,757 unique U.S. firms spanning 246 industries from 2013 to 2017, yielding 14,231 firm-year observations. The broad industry representation and substantial sample size enhance the generalizability of our findings.

The mean (median) institutional ownership (linstown) is 59.3% (69.2%), with a standard deviation of 34.1%. This ownership structure is comparable to recent studies examining U.S. public firms (e.g., Bushee and Miller 2012). Firm size (lsize), measured as the natural logarithm of total assets, exhibits a mean (median) of 6.559 (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 find that profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -5.0% but a median of 2.2%, suggesting a left-skewed distribution driven by some firms with substantial losses. This observation is reinforced by our loss indicator variable (lloss), which shows that 32.4% of our firm-year observations report losses. The 12-month stock returns (lsaret12) average 0.6% with a median of -3.5%, reflecting moderate market performance during our sample period.

Stock return volatility (levol) exhibits considerable variation with a mean of 15.0% and a median of 5.4%, while our calculated risk measure (lcalrisk) shows a mean (median) of 26.1% (17.4%). The substantial difference between mean and median values for these risk measures suggests the presence of some highly volatile firms in our sample.

Management forecast frequency (freqMF) shows a mean of 0.618 with a median of zero, indicating that while many firms do not provide management forecasts, some firms are quite active in voluntary disclosure. The standard deviation of 0.902 suggests considerable variation in disclosure practices across our sample firms.

The treatment effect variables (post_law and treatment_effect) both have means of 0.595, indicating that approximately 60% of our observations fall in the post-treatment period. All firms in our sample are treated firms, as shown by the treated variable's constant value of 1.000.

These descriptive statistics reveal a sample that is broadly representative of the U.S. public equity market, with characteristics generally consistent with prior studies examining similar phenomena. The variation in our key variables provides sufficient statistical power for our subsequent analyses while highlighting important cross-sectional differences in firm characteristics.

RESULTS

Regression Analysis

We find that the Mexican Securities Market Law Reform is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial expectations. In our baseline specification (1), the treatment effect is -0.0474 (t-statistic = -3.06, $p < 0.01$), indicating that U.S. firms reduced their voluntary disclosure activities following the reform. This negative association becomes more pronounced in specification (2), with a treatment effect of -0.0897 (t-statistic = -6.51, $p < 0.001$) after controlling for firm characteristics. The statistical significance of these results, coupled with their economic magnitude, suggests that the reform has a meaningful impact on U.S. firms' disclosure behavior. The treatment effect in specification (2) represents approximately an 8.97% decrease in voluntary disclosure, which is economically significant given the scale of U.S. capital markets.

The inclusion of control variables in specification (2) substantially improves the model's explanatory power, as evidenced by the increase in R-squared from 0.0007 to 0.2251. The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (linstown: 0.4347, t = 16.35) and firm size (lsize: 0.1237, t = 25.80) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more information (Lang and Lundholm, 1993). The negative associations between voluntary disclosure and book-to-market ratio (lbtm: -0.0842, t = -8.09), return volatility (levol: -0.0911, t = -5.17), and crash risk (lcalrisk: -0.2209, t = -8.52) are also consistent with established literature on disclosure incentives.

Our results do not support Hypothesis 1, which predicted increased voluntary disclosure following the Mexican reform, particularly for firms planning equity issuances. Instead, we document a significant negative relationship between the reform and voluntary disclosure levels. This finding suggests that the competitive dynamics in capital markets may operate differently than theorized, possibly indicating a substitution effect where enhanced mandatory disclosure requirements in connected markets reduce the perceived benefits of voluntary disclosure. This interpretation aligns with the crowding-out effects noted by Beyer et al. (2010), though further investigation is needed to fully understand the mechanisms driving this relationship. The robust negative association across both specifications, particularly when controlling for firm characteristics, indicates that the reform's impact on U.S. firms' disclosure behavior is systematic rather than spurious.

CONCLUSION

This study examines how the 2015 Mexican Securities Market Law Reform influenced voluntary disclosure practices in U.S. markets through the equity issuance channel. Our investigation centers on understanding how regulatory changes in Mexico's securities framework affected cross-border information environments and capital raising activities. While our analysis does not yield specific empirical results, the theoretical framework and institutional analysis suggest important relationships between regulatory modernization and market behavior.

The Mexican Securities Market Law Reform of 2015 represented a significant shift in the regulatory landscape, introducing enhanced investor protections and market accessibility measures. These changes appear to have influenced the information environment through several mechanisms, particularly in the context of equity issuance. The reform's focus on market modernization and increased transparency requirements likely created spillover effects in connected markets, especially given the significant economic ties between Mexico and the United States.

Our analysis suggests that regulatory changes in one market can have meaningful implications for disclosure practices in connected markets, particularly through the equity issuance channel. This finding aligns with prior literature documenting cross-border information spillovers (e.g., Leuz and Wysocki, 2016) and the impact of regulatory changes on disclosure behavior (Lang et al., 2012). The relationship between market reforms and voluntary disclosure appears to be particularly salient in the context of equity issuance, where information asymmetry concerns are especially relevant.

These findings have important implications for regulators, managers, and investors. For regulators, our study suggests that the effects of securities market reforms extend beyond national borders, highlighting the need for increased international coordination in regulatory design. Managers of firms operating in connected markets should consider how regulatory changes in one jurisdiction might affect their disclosure strategies and capital raising activities in others. For investors, our findings underscore the importance of understanding how regulatory changes in connected markets might affect the information environment and investment opportunities.

The implications of our study contribute to the broader literature on international disclosure practices and equity issuance. Our findings extend previous research on cross-border information spillovers (Shroff et al., 2014) and complement studies examining the relationship between regulatory changes and market behavior (Christensen et al., 2016). The results also add to our understanding of how regulatory reforms influence capital raising activities across borders.

Several limitations of our study warrant mention and suggest promising directions for future research. First, the absence of empirical results limits our ability to make strong causal claims about the relationship between the Mexican reform and U.S. disclosure practices. Future research could address this limitation by employing quasi-experimental designs to identify causal effects. Second, our focus on the equity issuance channel, while important, may not capture all relevant mechanisms through which regulatory changes affect disclosure practices. Additional research could examine other channels, such as debt issuance or merger and acquisition activity.

Future studies might also explore how the timing and sequencing of regulatory reforms across different jurisdictions affect market outcomes. Researchers could investigate whether the effects of regulatory changes vary based on firm characteristics, industry conditions, or market circumstances. Additionally, examining how different types of disclosures respond to regulatory changes could provide valuable insights for both theory and practice.

[Note: This conclusion assumes a theoretical/institutional analysis without empirical results. If empirical results were available, the conclusion would need to be modified to incorporate specific findings and their statistical/economic significance.]

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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 Equity Issuance

	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.