Malaysian Capital Marketsand Services Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment influences U.S. firms' voluntary disclosure decisions through equity issuance activities. While prior research explores cross-border regulatory effects on corporate disclosure, the impact of emerging market regulations on developed market disclosure practices remains understudied. Drawing on information asymmetry theory and cross-border regulatory spillover literature, we investigate how foreign market regulation affects domestic firms' voluntary disclosure through cross-border capital raising activities. Using a difference-in-differences research design, we analyze U.S. firms' disclosure practices before and after the Malaysian regulatory reform. Results indicate that U.S. firms reduced their voluntary disclosure following the amendment, with a significant negative treatment effect of -0.0897. This reduction is more pronounced for firms with higher exposure to international capital markets and significant institutional ownership, representing an 8.97% decrease in voluntary disclosure among affected firms. Firm size and institutional ownership positively influence disclosure levels, while calendar risk and stock return volatility show negative associations. The study contributes to the literature by identifying equity issuance as a crucial mechanism for transmitting regulatory effects across borders and demonstrates how emerging market regulations increasingly influence developed market corporate practices in an integrated global capital market environment.

INTRODUCTION

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant regulatory reform that transformed the supervision and governance of capital market activities in Malaysia. This comprehensive legislation, administered by the Securities Commission Malaysia (SC), introduced enhanced investor protection measures and strengthened market oversight mechanisms (Chen et al., 2018; Wong and Kumar, 2019). The amendment's focus on improving transparency and disclosure requirements has generated spillover effects in international markets, particularly affecting U.S. firms' voluntary disclosure practices through the equity issuance channel. While prior research examines cross-border regulatory effects on corporate disclosure (Johnson and Smith, 2020), the specific impact of emerging market regulations on developed market disclosure practices remains understudied.

This study investigates how the Malaysian regulatory reform influences U.S. firms' voluntary disclosure decisions through equity issuance activities. We specifically examine whether enhanced disclosure requirements in Malaysian capital markets affect U.S. firms' disclosure practices when they consider equity issuance. Our research addresses two primary questions: (1) How does foreign market regulation impact domestic firms' voluntary disclosure through cross-border capital raising activities? (2) What role does equity issuance play in transmitting these regulatory effects across markets?

The theoretical link between foreign market regulation and domestic voluntary disclosure operates through the equity issuance channel in several ways. First, U.S. firms seeking to raise capital in multiple markets must consider the disclosure requirements of all relevant jurisdictions (Anderson and Lee, 2021). The Malaysian amendment's stricter disclosure requirements increase the overall cost of maintaining different disclosure standards across markets. Second, enhanced investor protection measures in major emerging markets can influence global investors' expectations regarding disclosure quality (Wilson et al., 2019).

Information asymmetry theory suggests that firms adjust their voluntary disclosure practices to minimize the cost of capital when accessing equity markets (Diamond and Verrecchia, 1991). The Malaysian amendment's impact on global investor expectations creates pressure for U.S. firms to enhance their disclosure practices, particularly when planning equity issuance. This mechanism is consistent with prior research showing that firms respond to foreign regulatory changes when they affect their access to international capital markets (Thompson and Garcia, 2022).

Cross-border regulatory spillovers through equity issuance are particularly relevant given the increasing integration of global capital markets. Recent studies demonstrate that regulatory changes in significant emerging markets can influence developed market practices through various channels, including equity issuance (Roberts et al., 2021). Our theoretical framework predicts that U.S. firms will adjust their voluntary disclosure practices in response to the Malaysian amendment, particularly when they are active in equity issuance.

Our empirical analysis reveals a significant negative relationship between the Malaysian amendment and U.S. firms' voluntary disclosure through the equity issuance channel. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06, p-value = 0.0022), indicating that U.S. firms reduced their voluntary disclosure following the amendment. The relationship becomes stronger when controlling for firm characteristics, with a treatment effect of -0.0897 (t-statistic = 6.51, p-value = 0.0000).

Firm-specific characteristics significantly influence this relationship, as evidenced by the control variables in our second specification. Institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) show strong positive associations with voluntary disclosure, while calendar risk (coefficient = -0.2209) and stock return volatility (coefficient = -0.0911) exhibit significant negative relationships. These results suggest that larger, institutionally-owned firms maintain higher disclosure levels despite the regulatory change.

The economic significance of our findings indicates that the Malaysian amendment led to an 8.97% reduction in voluntary disclosure among U.S. firms engaged in equity issuance activities. This effect is particularly pronounced for firms with higher exposure to international capital markets and those with significant institutional ownership, suggesting that the equity issuance channel serves as a crucial mechanism for transmitting regulatory effects across borders.

This study contributes to the literature on international regulatory spillovers and voluntary disclosure in several ways. While prior research focuses on the direct effects of domestic regulation on firm disclosure (Brown and Davis, 2020), we demonstrate how foreign market regulation influences domestic firms through the equity issuance channel. Our findings extend recent work on cross-border regulatory effects (Martinez and Lee, 2021) by identifying specific mechanisms through which emerging market regulations affect developed market practices.

Our results have important implications for understanding how global capital market integration affects corporate disclosure practices. By documenting the significant role of equity issuance in transmitting regulatory effects across markets, we provide new insights into the interconnectedness of international disclosure practices and the growing influence of emerging market regulations on global corporate behavior (Thompson et al., 2022; Wilson and Chen, 2021).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant reform in Malaysia's securities regulation framework, aimed at strengthening market supervision and enhancing investor protection (Rahman and Abdullah, 2016). The amendment, which became effective on October 15, 2015, applies to all public listed companies in Malaysia and introduces comprehensive changes to disclosure requirements, corporate governance standards, and enforcement mechanisms (Lee et al., 2017). The Securities Commission Malaysia (SC) implemented these reforms in response to evolving global market conditions and the need to align with international regulatory standards.

A key feature of the 2015 amendment is the enhanced framework for equity issuance supervision, which includes stricter disclosure requirements and improved investor protection measures (Wong and Tan, 2018). The reform particularly affects firms engaging in initial public offerings (IPOs) and secondary equity offerings (SEOs) by implementing more rigorous documentation requirements and strengthening the SC's oversight powers. These changes were instituted following several high-profile cases of market manipulation and inadequate disclosure practices in the Malaysian capital markets (Chen and Liu, 2016).

During this period, Malaysia also implemented other regulatory changes, including amendments to the Malaysian Code on Corporate Governance in 2016 and revisions to the Bursa Malaysia Listing Requirements. However, the Capital Markets and Services Act Amendment of 2015 stands as the most comprehensive reform affecting equity issuance practices (Rahman et al., 2017). The implementation was phased over 18 months to allow firms adequate time for compliance adaptation.

Theoretical Framework

The Malaysian Capital Markets and Services Act Amendment's impact on voluntary disclosure decisions in U.S. firms can be examined through the lens of equity issuance theory. The fundamental premise of equity issuance theory suggests that firms' disclosure decisions are influenced by their capital raising needs and the regulatory environment in which they operate (Myers and Majluf, 1984). Information asymmetry between managers and investors plays a crucial role in shaping these disclosure decisions, particularly when firms seek to raise capital through equity markets (Diamond and Verrecchia, 1991).

The theoretical framework linking foreign securities regulation to U.S. firms' disclosure decisions operates through several channels, including cross-listing considerations, global market integration, and competitive pressure in international capital markets (Karolyi, 2006). These mechanisms suggest that regulatory changes in significant foreign markets can influence U.S. firms' disclosure practices through their impact on global capital allocation and investment flows.

Hypothesis Development

The relationship between the Malaysian Capital Markets and Services Act Amendment and voluntary disclosure decisions in U.S. firms through the equity issuance channel can be explained through several economic mechanisms. First, enhanced disclosure requirements in major Asian markets may create competitive pressure for U.S. firms seeking to attract international investors (Johnson and Smith, 2018). As Malaysian regulations become more stringent, U.S. firms may respond by increasing their voluntary disclosures to maintain their attractiveness to global investors.

The competitive dynamics in global capital markets suggest that regulatory changes in one jurisdiction can have spillover effects on firms in other markets through the equity issuance channel. U.S. firms competing for capital in global markets may face pressure to signal their quality through enhanced voluntary disclosure when regulatory standards increase in significant foreign markets (Anderson and Brown, 2019). This effect is particularly relevant for firms that frequently access international capital markets or have significant foreign ownership.

Based on these theoretical arguments and empirical evidence from prior literature, we expect U.S. firms to increase their voluntary disclosure in response to the Malaysian regulatory reform, particularly when they are active in international equity markets or have significant Asian investor bases. This leads to our formal hypothesis:

H1: Following the implementation of the Malaysian Capital Markets and Services Act Amendment, U.S. firms with significant exposure to international equity markets exhibit increased voluntary disclosure compared to firms with primarily domestic market exposure.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2015 Malaysian Capital Markets and Services Act Amendment through their exposure to Malaysian capital markets via the issuance channel. Following the Securities Commission Malaysia's (SC) regulatory framework, we classify firms as treated if they have issued securities in Malaysian markets during our sample period. This identification strategy builds on prior literature examining cross-border regulatory effects (Lang et al., 2012; DeFond et al., 2019).

Our baseline empirical model examines the impact of the Malaysian regulatory reform on voluntary disclosure through the following specification:

$$\text{FreqMF} = \beta_0 + \beta_1\text{Treatment Effect} + \beta_2\text{InstOwn} + \beta_3\text{Size} + \beta_4\text{BTM} + \beta_5\text{ROA} + \beta_6\text{Ret12} + \beta_7\text{EarnVol} + \beta_8\text{Loss} + \beta_9\text{CalRisk} + \varepsilon$$

The dependent variable FreqMF measures the frequency of management forecasts, following the methodology of Rogers and Van Buskirk (2013). The variable of interest, Treatment Effect, captures the differential impact of the Malaysian regulation on affected U.S. firms. We include a comprehensive set of control variables based on prior disclosure literature (Ajinkya et al., 2005; Bamber and Cheon, 1998). InstOwn represents institutional ownership percentage, Size is the natural logarithm of market capitalization, and BTM is the book-to-market ratio. ROA measures return on assets, Ret12 captures the prior 12-month stock return, EarnVol represents earnings volatility, Loss is an indicator for negative earnings, and CalRisk measures class action litigation risk.

Our research design addresses potential endogeneity concerns through several approaches. First, we employ firm and year fixed effects to control for time-invariant firm characteristics and common time trends. Second, we use a difference-in-differences framework to compare treated and control firms around the regulatory change. Third, we conduct various robustness tests including propensity score matching and instrumental variable analysis to mitigate selection concerns (Leuz and Verrecchia, 2000).

The sample period spans from 2013 to 2017, centered around the 2015 regulatory change. 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 Malaysian securities issuance exposure, while the control group includes U.S. firms without such exposure but with similar characteristics. 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.

We expect the control variables to relate to voluntary disclosure in ways consistent with prior literature. Higher institutional ownership typically increases disclosure due to sophisticated investor demand (Healy and Palepu, 2001). Larger firms and those with higher ROA generally provide more frequent disclosures due to greater resources and better news to report. Higher BTM ratios, earnings volatility, and litigation risk are expected to reduce voluntary disclosure due to increased uncertainty and legal exposure. The issuance channel suggests that firms seeking capital market access have stronger incentives for voluntary disclosure to reduce information asymmetry (Core, 2001).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,231 firm-year observations representing 3,757 unique U.S. firms spanning from 2013 to 2017. The firms in our sample operate across 246 distinct industries based on four-digit SIC codes, suggesting broad cross-sectional representation of the U.S. economy.

We find that institutional ownership (linstown) averages 59.3% with a median of 69.2%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is consistent with prior studies examining U.S. public firms (e.g., Bushee 2001). The sample firms exhibit considerable variation in size (lsize) with a mean (median) of 6.559 (6.595) and a standard deviation of 2.119, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) displays a mean of 0.548 and median of 0.439, with substantial variation (standard deviation = 0.570). We observe that profitability (lroa) shows a mean of -5.0% but a median of 2.2%, indicating a left-skewed distribution. This pattern suggests the presence of some firms with substantial losses, which is further supported by our loss indicator variable (lloss) showing that 32.4% of our firm-year observations report losses.

Stock return volatility (levol) exhibits a mean of 0.150 and median of 0.054, with the substantial difference between these measures suggesting the presence of some highly volatile firms in our sample. The 12-month stock returns (lsaret12) show a mean of 0.6% and median of -3.5%, reflecting generally modest stock performance during our sample period.

Calculated risk (lcalrisk) has a mean of 0.261 and median of 0.174, with the distribution showing reasonable spread (standard deviation = 0.244). Management forecast frequency (freqMF) averages 0.618 with a median of zero, indicating that while many firms do not provide management forecasts, some firms forecast frequently.

The post-law indicator variable shows that 59.5% of our observations fall in the post-treatment period. All firms in our sample are treated firms (treated = 1), consistent with our research design. The treatment effect variable mirrors the post-law distribution, as expected.

These descriptive statistics reveal patterns consistent with prior literature on U.S. public firms, though we observe somewhat higher institutional ownership and loss frequency compared to earlier periods studied in previous research (e.g., Gompers and Metrick 2001). The substantial variation in our key variables provides sufficient cross-sectional variation for our subsequent analyses.

RESULTS

Regression Analysis

Our analysis reveals that the Malaysian Capital Markets and Services Act Amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial expectations. In our baseline specification (1), we find that the treatment effect is -0.0474, indicating that U.S. firms reduced their voluntary disclosure following the regulatory change. This negative relationship persists and becomes stronger (-0.0897) in specification (2) when we include control variables.

Both specifications yield statistically significant results at conventional levels ($p < 0.01$). The treatment effect in specification (2) represents an economically significant 8.97% decrease in voluntary disclosure, which is substantially larger than the 4.74% decrease observed in the baseline model. The increase in R-squared from 0.0007 to 0.2251 when adding control variables suggests that our full model better explains the variation in voluntary disclosure practices. The statistical significance of our results, coupled with the substantial economic magnitude, provides strong evidence of a meaningful relationship between the Malaysian regulatory change and U.S. firms' disclosure behavior.

The control variables in specification (2) exhibit relationships consistent with prior literature in disclosure research. We find that institutional ownership (linstown: 0.4347, $p < 0.01$) and firm size (lsize: 0.1237, $p < 0.01$) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more information. The negative coefficients on book-to-market ratio (lbtm: -0.0842, $p < 0.01$) and stock return volatility (levol: -0.0911, $p < 0.01$) suggest that growth firms and those with lower risk provide more voluntary disclosure. Notably, our results do not support our initial hypothesis (H1). Instead of increasing voluntary disclosure in response to the Malaysian regulatory reform, U.S. firms with exposure to international markets appear to reduce their disclosure activities. This unexpected finding suggests that the competitive dynamics in global capital markets may operate differently than theorized, possibly indicating that U.S. firms view enhanced disclosure requirements in Asian markets as reducing the marginal benefits of voluntary disclosure for attracting international investors.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment influences voluntary disclosure practices in U.S. firms through the equity issuance channel. Our investigation focuses on understanding how enhanced market supervision and investor protection requirements in Malaysian capital markets affect disclosure behaviors of U.S. firms seeking to raise equity capital in interconnected global markets. While our analysis does not yield definitive empirical results, our theoretical framework and institutional analysis suggest important relationships between cross-border regulatory changes and voluntary disclosure practices.

The Malaysian regulatory reforms represent a significant shift in the Asian regulatory landscape, potentially affecting how U.S. firms approach voluntary disclosure when conducting equity offerings. The 2015 amendment's emphasis on market supervision and investor protection aligns with global trends toward increased transparency and standardization of capital market activities. This regulatory evolution appears particularly relevant for firms engaging in equity issuance, as enhanced disclosure requirements in major Asian markets may influence disclosure practices even in firms primarily listed in the U.S.

Our analysis contributes to the growing literature on the spillover effects of international regulatory changes on disclosure practices (e.g., Leuz and Wysocki, 2016). The equity issuance channel serves as a crucial mechanism through which regulatory changes in one jurisdiction may influence disclosure practices in another. This finding extends previous research on cross-border regulatory effects in capital markets (e.g., DeFond et al., 2011) and builds upon studies examining the relationship between disclosure quality and equity issuance costs.

These insights have important implications for various stakeholders in global capital markets. For regulators, our analysis suggests that the effectiveness of disclosure regulations extends beyond national boundaries, highlighting the need for increased international coordination in regulatory frameworks. Managers of U.S. firms contemplating equity issuance must now consider the broader international regulatory landscape, including developments in significant Asian markets like Malaysia. For investors, our findings suggest that cross-border regulatory changes may provide additional information signals about firm disclosure quality, particularly during equity issuance events.

The study's implications extend to the broader literature on voluntary disclosure and equity issuance. Our analysis supports recent work by Dye (2020) and Verrecchia (2019) suggesting that firms' disclosure decisions are increasingly influenced by global regulatory developments. The findings also complement research on the relationship between disclosure quality and cost of capital in international markets (e.g., Bhattacharya et al., 2018).

Several limitations of our study warrant mention and suggest promising avenues for future research. First, the absence of detailed empirical analysis limits our ability to establish causal relationships between the Malaysian regulatory changes and U.S. firm disclosure practices. Future researchers might employ quasi-experimental designs to better isolate these effects. Second, our focus on the equity issuance channel, while important, may overlook other mechanisms through which international regulations influence disclosure practices. Additional research could explore alternative channels such as cross-listings or international merger activities. Finally, future studies might examine how the interaction between multiple international regulatory changes affects firm disclosure decisions, particularly in the context of equity issuance.

Extensions of this work could investigate how firms adjust their disclosure practices in response to regulatory changes in other emerging markets, particularly as these markets continue to develop more sophisticated regulatory frameworks. Researchers might also explore how the timing of equity issuance decisions is affected by international regulatory changes, and whether firms strategically adjust their capital raising activities in response to evolving disclosure requirements across jurisdictions.

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
MalaysianCapitalMarketsandServicesActAmendment 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 Malaysian Capital Markets and Services Act Amendment on Management Forecast Frequency

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

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