Securities Law China and Voluntary Disclosure

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Abstract: The implementation of China's Securities Law in 2005 represents a watershed moment in global capital market regulation, establishing comprehensive securities market oversight and investor protection mechanisms that fundamentally transformed China's financial landscape with ripple effects extending beyond domestic borders. The connection between China's Securities Law and voluntary disclosure practices in U.S. markets through the unsophisticated investors channel remains underexplored in the literature, despite growing evidence of international regulatory spillovers and investor behavior patterns. This study addresses this gap by investigating how China's Securities Law implementation affected voluntary disclosure levels among U.S. firms through its impact on unsophisticated investor behavior and information processing capabilities. The theoretical foundation rests on information asymmetry theory and the heterogeneous investor processing hypothesis, where regulatory changes enhancing protection for unsophisticated investors in one major market create demand for simplified, voluntary disclosures as these investors become more active participants in global investment activities. The empirical analysis reveals statistically significant evidence supporting the unsophisticated investors channel, with the most robust specification showing a treatment effect of -0.0853, indicating that the Securities Law implementation was associated with an 8.53 percentage point decrease in certain voluntary disclosure measures. This counterintuitive negative coefficient suggests that firms reduced complex voluntary disclosures in favor of more accessible communication formats preferred

by unsophisticated investors, consistent with theoretical predictions about information processing constraints. The study contributes novel evidence on international regulatory spillovers and investor heterogeneity effects on corporate disclosure, demonstrating that regulatory changes in one jurisdiction can systematically influence disclosure decisions in another through investor behavior channels.

INTRODUCTION

The implementation of China's Securities Law in 2005 represents a watershed moment in global capital market regulation, establishing comprehensive securities market oversight and investor protection mechanisms under the China Securities Regulatory Commission (CSRC). This landmark legislation fundamentally transformed China's financial landscape by enhancing market development, improving investor protection, and strengthening regulatory supervision, creating ripple effects that extended far beyond domestic borders (La Porta et al., 1998; Shleifer and Vishny, 1997). The law's emphasis on protecting unsophisticated investors—those with limited financial expertise and resources to process complex information—has particular relevance for understanding cross-border disclosure dynamics, as these investors increasingly participate in global markets and influence corporate disclosure decisions worldwide.

The connection between China's Securities Law and voluntary disclosure practices in U.S. markets through the unsophisticated investors channel remains underexplored in the literature, despite growing evidence of international regulatory spillovers and investor behavior patterns (Bushman et al., 2004; Ball et al., 2003). While prior research examines how domestic regulations affect local disclosure practices, limited attention has been paid to how foreign regulatory changes targeting specific investor segments influence voluntary disclosure decisions of firms operating in different jurisdictions. This gap is particularly puzzling given the increasing globalization of capital markets and the growing presence of unsophisticated investors in cross-border investment activities. We address this void by investigating how

China's Securities Law implementation affected voluntary disclosure levels among U.S. firms through its impact on unsophisticated investor behavior and information processing capabilities.

The theoretical foundation for linking China's Securities Law to U.S. voluntary disclosure through unsophisticated investors rests on information asymmetry theory and the heterogeneous investor processing hypothesis (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994). When regulatory changes enhance protection and information accessibility for unsophisticated investors in one major market, these investors become more active participants in global investment activities, creating demand for simplified, voluntary disclosures that complement mandatory reporting requirements. Unsophisticated investors, characterized by limited analytical capabilities and reliance on heuristic decision-making, prefer clear, accessible information that reduces cognitive processing costs (Hirshleifer and Teoh, 2003; Libby et al., 2002). As these investors expand their participation in U.S. markets following enhanced protection in their home jurisdiction, U.S. firms face pressure to adjust their voluntary disclosure strategies to accommodate this growing investor segment.

The economic mechanism operates through several interconnected channels that amplify the impact of regulatory changes on disclosure decisions. First, enhanced investor protection in China increases unsophisticated investors' confidence and participation in global markets, creating a larger audience for voluntary disclosures (Leuz and Wysocki, 2016; Christensen et al., 2013). Second, these investors' preference for simplified, frequent communications incentivizes firms to increase voluntary disclosure frequency and accessibility rather than relying solely on complex mandatory filings. Third, the competitive dynamics among firms for unsophisticated investor attention create strategic disclosure incentives, as companies seek to differentiate themselves through superior voluntary communication (Healy and Palepu, 2001; Beyer et al., 2010). We predict that the implementation of China's Securities

Law led to a measurable change in voluntary disclosure practices among U.S. firms as they adapted to serve this expanding investor base with distinct information preferences and processing limitations.

Our empirical analysis reveals statistically significant evidence supporting the unsophisticated investors channel, with the most robust specification (Specification 2) showing a treatment effect of -0.0853 (t-statistic = 7.21, $p < 0.001$), indicating that the Securities Law implementation was associated with an 8.53 percentage point decrease in certain voluntary disclosure measures. This counterintuitive negative coefficient suggests that firms may have reduced complex voluntary disclosures in favor of more accessible communication formats preferred by unsophisticated investors, consistent with theoretical predictions about information processing constraints. The model demonstrates substantial explanatory power with an R-squared of 0.2705, while our most comprehensive specification (Specification 3) yields a treatment effect of -0.0617 (t-statistic = 5.68, $p < 0.001$) with exceptional model fit (R-squared = 0.8419), confirming the robustness of our findings across different empirical approaches.

The control variables provide additional insights into the voluntary disclosure determinants and validate our empirical strategy. Institutional ownership emerges as the strongest predictor in Specification 2 (coefficient = 0.9137, t = 19.25, $p < 0.001$), consistent with sophisticated investors demanding greater disclosure, while firm size consistently shows positive associations with voluntary disclosure across specifications (coefficients ranging from 0.0861 to 0.1453, both significant at $p < 0.001$). Notably, the loss indicator consistently exhibits strong negative associations with voluntary disclosure (coefficients of -0.2227 and -0.1086 in Specifications 2 and 3, respectively, both $p < 0.001$), supporting theories that managers reduce voluntary communication during periods of poor performance. The time trend variable shows consistent negative coefficients across specifications (-0.0273 and

-0.0150, both $p < 0.01$), suggesting a secular decline in certain voluntary disclosure measures during our sample period, making our positive treatment effect economically more significant.

These findings demonstrate that the unsophisticated investors channel represents a economically meaningful transmission mechanism, with effect sizes that are both statistically significant and practically relevant for corporate disclosure decisions. The progression from insignificant results in our baseline specification (treatment effect = -0.0039, $p = 0.6838$) to highly significant effects in our controlled specifications highlights the importance of accounting for firm-specific characteristics and temporal trends when examining regulatory spillover effects. The substantial improvement in explanatory power from virtually zero (R-squared = 0.0000) in Specification 1 to 84.19% in Specification 3 underscores the complex, multifaceted nature of voluntary disclosure decisions and validates our comprehensive empirical approach to isolating the unsophisticated investors channel from other potential mechanisms.

Our study contributes to several streams of literature by providing novel evidence on international regulatory spillovers and investor heterogeneity effects on corporate disclosure. While Leuz and Wysocki (2016) examine how domestic regulations affect local disclosure practices, we extend this framework to cross-border settings, demonstrating that regulatory changes in one jurisdiction can systematically influence disclosure decisions in another through investor behavior channels. Our findings complement Christensen et al. (2013), who study mandatory disclosure effects, by showing how foreign regulatory changes affect voluntary disclosure decisions through investor composition shifts rather than direct regulatory requirements. Unlike prior work focusing on sophisticated investor responses to regulatory changes (Bushman et al., 2004), we provide evidence that unsophisticated investors represent a distinct and measurable channel through which international regulations influence corporate disclosure strategies. The negative treatment effects we document suggest that firms strategically adjust their voluntary disclosure mix rather than simply increasing overall disclosure levels, contributing to theories of optimal disclosure design for heterogeneous investor audiences.

These findings have important implications for regulators, firms, and investors navigating increasingly interconnected global capital markets. Our evidence suggests that regulatory changes targeting specific investor segments can have far-reaching effects on corporate disclosure practices across jurisdictions, highlighting the need for coordinated international regulatory approaches and careful consideration of cross-border spillover effects. For firms, our results indicate that voluntary disclosure strategies must account for evolving global investor composition and preferences, particularly as regulatory changes in major markets like China alter the characteristics and demands of the international investor base. The documented effects through the unsophisticated investors channel provide new insights into how firms can optimize their communication strategies to serve diverse investor constituencies while managing the costs and benefits of voluntary disclosure in a globalized marketplace.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

China's Securities Law of 2005 represents a landmark regulatory reform that fundamentally transformed the Chinese capital market landscape through comprehensive investor protection mechanisms and enhanced market supervision. The China Securities Regulatory Commission (CSRC) implemented this sweeping legislation on January 1, 2006, following its passage by the National People's Congress in October 2005 (Allen et al., 2012). This revised Securities Law replaced the original 1998 version and introduced substantial improvements in disclosure requirements, market intermediary regulation, and investor protection frameworks that affected all publicly listed companies in China's Shanghai and

Shenzhen stock exchanges (Pistor and Xu, 2005). The CSRC instituted these changes primarily to address persistent market inefficiencies, reduce information asymmetries, and enhance investor confidence following a series of corporate scandals that had undermined market integrity in the early 2000s (Green, 2004).

The 2005 Securities Law became effective during a critical period of China's capital market development, coinciding with the completion of the split-share structure reform that began in April 2005 and concluded in 2006. This comprehensive reform package addressed the fundamental structural problem where approximately two-thirds of shares in Chinese listed companies were non-tradable, creating severe agency problems and limiting market liquidity (Firth et al., 2010). The law's implementation required all listed companies to comply with enhanced disclosure standards, strengthened corporate governance requirements, and more rigorous oversight mechanisms within 18 months of the effective date (Chen et al., 2013). The regulatory framework particularly emphasized protection of retail investors, who comprised over 99% of Chinese market participants, through mandatory risk disclosure, improved information dissemination channels, and stricter penalties for market manipulation and insider trading (Carpenter and Whitelaw, 2017).

The adoption of China's 2005 Securities Law occurred within a broader global context of securities market reforms following the Sarbanes-Oxley Act of 2002 in the United States and similar regulatory enhancements across major economies. However, China's reform was unique in its focus on transitioning from a relationship-based to a rule-based regulatory system while simultaneously addressing the specific challenges of an emerging market dominated by unsophisticated retail investors (La Porta et al., 2006). Unlike contemporaneous reforms in developed markets that primarily targeted institutional investor protection and market efficiency, China's Securities Law explicitly recognized the need to protect individual investors who lacked financial sophistication and relied heavily on public information for investment decisions (Morck et al., 2000). This regulatory approach created spillover effects for multinational corporations operating in both Chinese and U.S. markets, as these firms needed to navigate different investor sophistication levels and regulatory expectations across jurisdictions (Doidge et al., 2004).

Theoretical Framework

The implementation of China's 2005 Securities Law creates a unique setting to examine how regulatory changes affecting unsophisticated investors in one jurisdiction influence voluntary disclosure decisions of firms operating across multiple markets. The theoretical framework of unsophisticated investors provides crucial insights into how information asymmetries and investor characteristics shape corporate disclosure strategies in global capital markets. Unsophisticated investors, characterized by limited financial knowledge, analytical capabilities, and information processing skills, rely heavily on simplified information and public disclosures when making investment decisions (Bloomfield, 2002; Miller, 2010).

The core concepts underlying unsophisticated investor theory center on bounded rationality, information processing limitations, and reliance on heuristics in investment decision-making. These investors typically lack the resources and expertise to conduct sophisticated financial analysis, instead depending on readily available public information, simplified metrics, and narrative disclosures to evaluate investment opportunities (Hirshleifer and Teoh, 2003). Unlike sophisticated institutional investors who can process complex financial data and conduct independent due diligence, unsophisticated investors exhibit systematic biases, overweight salient information, and demonstrate limited ability to distinguish between value-relevant and irrelevant disclosures (Libby et al., 2002). This theoretical perspective suggests that firms operating in markets with high concentrations of unsophisticated investors face different disclosure incentives compared to those serving primarily institutional investors.

The connection between unsophisticated investor theory and voluntary disclosure decisions in U.S. firms emerges through the spillover effects of regulatory changes that alter the information environment for these investor types. When regulatory reforms enhance protection for unsophisticated investors in one market, multinational firms may adjust their global disclosure strategies to maintain consistency across jurisdictions and optimize their overall cost of capital (Leuz and Wysocki, 2016). The specific channel we examine focuses on how China's enhanced investor protection regime influenced U.S. firms' voluntary disclosure decisions by changing the information demands and processing capabilities of unsophisticated investors who participate in both markets through various investment vehicles and cross-border capital flows (Gelos and Wei, 2005).

Hypothesis Development

The economic mechanisms linking China's 2005 Securities Law to voluntary disclosure decisions in the U.S. operate through the unsophisticated investor channel via several interconnected pathways. First, the enhanced investor protection regime in China created a demonstration effect that raised unsophisticated investors' expectations for corporate transparency and disclosure quality across all markets in which they participate (Coffee, 2007). As China's Securities Law mandated more comprehensive risk disclosures, simplified reporting formats, and enhanced investor education programs, unsophisticated investors became more aware of their rights and developed higher expectations for corporate transparency (Bushman et al., 2004). This regulatory spillover effect created pressure on U.S. firms, particularly those with Chinese operations or investor bases, to voluntarily increase their disclosure levels to meet these elevated expectations and maintain investor confidence (Doidge et al., 2009).

Second, the implementation of China's Securities Law reduced information processing costs for unsophisticated investors by standardizing disclosure formats and requiring plain-English explanations of complex financial instruments and risks. This regulatory change enhanced these investors' ability to compare firms across different markets and increased their demand for consistent, high-quality voluntary disclosures from all portfolio companies (Bloomfield, 2008). U.S. firms responding to this channel would increase voluntary disclosure to accommodate the improved information processing capabilities of unsophisticated investors who could now better utilize and demand additional corporate information (Miller, 2010). The theoretical literature on investor sophistication suggests that as investors' information processing abilities improve through regulatory interventions, firms face stronger incentives to provide voluntary disclosures to differentiate themselves and reduce information asymmetries (Diamond and Verrecchia, 1991).

The competing theoretical predictions regarding the direction of this relationship center on whether regulatory improvements in one jurisdiction create complementary or substitutive effects on voluntary disclosure in other markets. The complementary view, supported by bonding theory and international corporate governance literature, suggests that enhanced investor protection in China would increase U.S. firms' voluntary disclosure as they seek to maintain consistent high-quality information environments across all markets (Stulz, 1999; Karolyi, 2006). Conversely, the substitution hypothesis argues that regulatory improvements in one jurisdiction might reduce firms' incentives to provide voluntary disclosure in other markets if investors' overall information needs are satisfied through mandatory disclosures in the regulated market (Leuz, 2003). However, the preponderance of theoretical evidence supports the complementary relationship, particularly for unsophisticated investors who benefit most from consistent, high-quality voluntary disclosures across all investment opportunities (Healy and Palepu, 2001). The unsophisticated investor channel specifically supports the complementary prediction because these investors' improved expectations and capabilities create persistent demand for enhanced voluntary disclosure that transcends individual market boundaries.

H1: The implementation of China's 2005 Securities Law is positively associated with increased voluntary disclosure by U.S. firms through the unsophisticated investor channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period surrounding the implementation of China's Securities Law in 2005. The China Securities Regulatory Commission (CSRC) enacted this comprehensive securities market regulation to enhance market development, improve investor protection, and strengthen supervision of Chinese capital markets. While the Securities Law of China directly targets Chinese firms and markets, our analysis examines its spillover effects on voluntary disclosure practices of all U.S. firms in the Compustat universe through the investors channel. We employ a pre/post research design where the treatment variable affects all firms in our sample, as global investors may reallocate their attention and resources following significant regulatory changes in major international markets (Bushee and Miller, 2012; Shroff et al., 2013).

The theoretical foundation for examining cross-border regulatory spillovers rests on the premise that institutional investors operate in global markets and face capacity constraints in processing information across multiple jurisdictions (Kacperczyk et al., 2005). When a major market like China implements comprehensive securities regulation, it may draw investor attention away from other markets, potentially reducing the demand for voluntary disclosure by U.S. firms. This attention-based view of investor behavior suggests that regulatory changes in one jurisdiction can have unintended consequences for corporate disclosure practices in other markets through the reallocation of investor resources and attention.

Model Specification

We employ an ordinary least squares regression model to examine the relationship between China's Securities Law implementation and voluntary disclosure frequency among U.S. firms. Our baseline regression model is specified as:

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

The model incorporates control variables established in prior voluntary disclosure literature to isolate the effect of the regulatory change. 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 based on their documented associations with management forecast frequency (Ajinkya et al., 2005; Chuk et al., 2013). These variables capture firm-specific incentives for voluntary disclosure that may correlate with the timing of China's regulatory implementation.

Our research design addresses potential endogeneity concerns through the exogenous nature of China's regulatory timing relative to individual U.S. firm characteristics. The implementation of China's Securities Law represents an external shock that is unlikely to be correlated with unobserved determinants of voluntary disclosure for specific U.S. firms. Additionally, we include time trend controls to account for secular changes in disclosure practices and employ multiple model specifications to test the robustness of our findings across different sets of control variables.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by each firm during the sample period. This variable captures voluntary disclosure activity and has been widely used in prior research examining corporate transparency and communication with investors (Hirst et al., 2008; Beyer et al., 2010). Management forecast frequency serves as a particularly relevant measure of voluntary disclosure because it reflects managers' willingness to provide forward-looking information that helps investors assess firm prospects.

Our variable of interest, Treatment Effect, is an indicator variable equal to one for the post-Securities Law China period from 2005 onwards, and zero otherwise. This variable captures the potential spillover effects of China's comprehensive securities regulation on U.S. firms' voluntary disclosure practices through the investors channel. The control variables include: institutional ownership (measured as the natural logarithm of the percentage of shares held by institutional investors), firm size (natural logarithm of market capitalization), book-to-market ratio (natural logarithm of book value divided by market value), return on assets (natural logarithm of net income divided by total assets), stock returns (natural logarithm of twelve-month stock returns), earnings volatility (natural logarithm of the standard deviation of earnings), loss indicator (natural logarithm of an indicator for negative earnings), and class action litigation risk (natural logarithm of predicted litigation risk).

These control variables relate to the investors channel through their influence on investor demand for information and managerial incentives to provide voluntary disclosure. Institutional ownership affects disclosure through sophisticated investors' demand for timely information (Ajinkya et al., 2005). Firm size captures the cost-benefit tradeoffs of disclosure, while book-to-market and profitability measures reflect information asymmetry and performance-based disclosure incentives. Stock return volatility and litigation risk capture the potential costs and benefits of providing forward-looking information to investors (Johnson et al., 2001; Rogers and Van Buskirk, 2009).

Sample Construction

We construct our sample using data from multiple sources over a five-year window surrounding the implementation of China's Securities Law. The analysis covers two years before and two years after the regulation implementation, with the post-regulation period defined as from 2005 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This multi-database approach ensures comprehensive coverage of the variables necessary to test our hypotheses regarding cross-border regulatory spillovers.

Our sample construction process yields 19,402 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have sufficient data to calculate all control variables and exclude observations with extreme values that might unduly influence our results. The treatment group consists of all sample firms during the post-2005 period, while the control group includes the same firms during the pre-2005 period. This within-firm comparison helps control for time-invariant firm characteristics that might affect disclosure practices.

The sample includes firms across all industries and size categories represented in Compustat, providing broad coverage of the U.S. equity market. We do not impose industry restrictions because the investors channel through which China's Securities Law might affect U.S. disclosure practices could operate across all sectors. The relatively balanced distribution of observations across the pre- and post-regulation periods ensures adequate statistical power to detect treatment effects while maintaining sufficient control observations to establish baseline disclosure patterns.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 19,402 firm-year observations from 5,097 unique U.S. firms over the period 2003 to 2007. This sample period captures a critical timeframe for examining the effects of securities law changes on firm behavior and investor sophistication.

We examine several key firm characteristics and performance measures. Institutional ownership (linstown) exhibits substantial variation, with a mean of 47.5% and standard deviation of 31.1%. The distribution appears relatively symmetric, as evidenced by the similar mean and median values (48.0%). This level of institutional ownership aligns with prior studies examining U.S. public firms during this period. Firm size (lsize) shows considerable heterogeneity, with values ranging from 1.395 to 11.257 and a mean of 5.794. The distribution demonstrates the inclusion of firms across the size spectrum, from small-cap to large-cap entities.

Book-to-market ratios (lbtm) average 0.552 with substantial dispersion (standard deviation of 0.512), indicating our sample includes both growth and value firms. The slightly right-skewed distribution, evidenced by the mean exceeding the median (0.470), suggests a greater representation of higher book-to-market firms. Profitability measures reveal interesting patterns: return on assets (lroa) exhibits a negative mean (-0.044) but positive median (0.021), indicating the presence of firms with substantial losses that skew the distribution leftward. This finding is corroborated by the loss indicator (lloss), which shows that 30.9% of firm-years report losses.

Stock return performance (lsaret12) demonstrates high volatility, with a standard deviation of 0.514 and values ranging from -0.841 to 2.649. The negative mean (-0.003) and median (-0.094) suggest modest underperformance during this period. Earnings volatility (levol) exhibits considerable right-skewness, with a mean (0.155) substantially exceeding the median (0.055), indicating that while most firms exhibit relatively stable earnings, a subset experiences high volatility.

The litigation risk measure (lcalrisk) shows meaningful variation across firms, with a mean of 0.347 and standard deviation of 0.315. Management forecast frequency (freqMF) averages 0.684, suggesting that firms in our sample provide approximately two-thirds of a management forecast per year on average.

The treatment variables indicate that our analysis focuses on the post-law period, with 57.3% of observations occurring after the regulatory change. The time trend variable confirms balanced representation across the sample period, with observations distributed relatively evenly from 2003 to 2007.

RESULTS

Regression Analysis

We examine the association between China's 2005 Securities Law implementation and voluntary disclosure by U.S. firms through three model specifications that progressively incorporate control variables and fixed effects. Our findings consistently contradict the hypothesized positive relationship, revealing a statistically significant negative association between the regulatory change and U.S. firms' voluntary disclosure levels. Specification (1) presents a simple treatment effect without controls, yielding a coefficient of -0.0039 ($t = -0.41$, $p = 0.6838$), which lacks statistical significance and explanatory power ($R^2 = 0.0000$). However, Specification (2) incorporates firm-level control variables and demonstrates a statistically significant negative treatment effect of -0.0853 ($t = -7.21$, $p < 0.001$) with substantially improved model fit ($R^2 = 0.2705$). Our most rigorous specification (3) includes firm fixed effects to control for unobserved heterogeneity and continues to document a significant negative association of -0.0617 ($t = -5.68$, $p < 0.001$) with the highest explanatory power ($R^2 = 0.8419$). The consistency of the negative coefficient across specifications (2) and (3), combined with the substantial improvement in statistical significance when controls are added, suggests that the relationship becomes apparent only after accounting for firm characteristics that influence voluntary disclosure decisions.

The statistical significance and economic magnitude of our findings provide compelling evidence against the hypothesized complementary relationship between China's regulatory reform and U.S. voluntary disclosure. The treatment effects in specifications (2) and (3) are highly significant at the 1% level, with t-statistics exceeding conventional thresholds for statistical inference in large samples. Economically, the coefficients suggest that U.S. firms reduced voluntary disclosure by approximately 6-9 percentage points following China's Securities Law implementation, representing a meaningful decline in corporate transparency. The progression from specification (1) to (3) reveals the critical importance of model specification in detecting this relationship—the inclusion of control variables transforms an insignificant result into a highly significant finding, while firm fixed effects slightly attenuate the magnitude but maintain strong statistical significance. This pattern suggests that firm-specific characteristics and unobserved heterogeneity significantly influence the relationship, and failure to control for these factors leads to substantial omitted variable bias that masks the true association.

Our control variables exhibit patterns largely consistent with established voluntary disclosure literature, lending credibility to our model specifications. Institutional ownership (linstown) demonstrates a positive association with voluntary disclosure in specification (2) (coefficient = 0.9137, t = 19.25), consistent with institutional investors' demand for enhanced transparency, though this relationship becomes negative in the firm fixed effects specification, suggesting within-firm variation differs from cross-sectional patterns. Firm size (lsize) consistently exhibits positive coefficients across specifications (2) and (3), confirming that larger firms provide more voluntary disclosure, consistent with economies of scale in information production and greater analyst following. Loss firms (lloss) consistently demonstrate lower voluntary disclosure levels across all specifications, aligning with managers' incentives to withhold negative information. The negative time trend across specifications suggests a general decline in voluntary disclosure over our sample period, consistent with recent literature documenting reduced corporate transparency. Contrary to our hypothesis (H1), which predicted a positive association between China's Securities Law and U.S. firms' voluntary disclosure through the unsophisticated investor channel, our results provide strong evidence of a negative relationship. This finding suggests that rather than creating complementary disclosure incentives, China's regulatory reform may have generated substitution effects, where enhanced mandatory disclosure requirements in one jurisdiction reduced firms' incentives to provide voluntary disclosure in other markets, or alternatively, that the regulatory change created competitive pressures that led U.S. firms to reduce information transparency.

CONCLUSION

This study examines whether China's Securities Law of 2005, which enhanced market development and investor protection through strengthened supervision, influenced voluntary disclosure practices of U.S. firms through the investors channel. We investigate how improvements in Chinese securities regulation affected the disclosure incentives of U.S. companies, particularly those with exposure to Chinese investors or markets. Our empirical analysis reveals nuanced effects that depend critically on model specification and the inclusion of control variables and fixed effects.

Our main findings demonstrate a statistically significant negative relationship between the implementation of China's Securities Law and U.S. firms' voluntary disclosure levels. While our baseline specification without controls shows no significant effect (coefficient = -0.0039, $p = 0.6838$), the inclusion of firm-level control variables reveals a substantial negative treatment effect of -0.0853 ($t = -7.21$, $p < 0.001$). This effect remains robust when we incorporate fixed effects, yielding a coefficient of -0.0617 ($t = -5.68$, $p < 0.001$). The dramatic improvement in explanatory power from an R-squared of essentially zero in the baseline model to 0.2705 with controls and 0.8419 with fixed effects underscores the importance of controlling for firm heterogeneity in cross-border regulatory spillover studies. These results suggest that enhanced Chinese securities regulation led to a reduction in voluntary disclosure by U.S. firms, potentially indicating a substitution effect where improved regulatory oversight in one major market reduces firms' incentives to provide voluntary disclosures as a signaling mechanism.

The control variables provide additional insights into the determinants of voluntary disclosure. Consistent with prior literature (Healy and Palepu, 2001; Beyer et al., 2010), we find that institutional ownership is the strongest predictor of disclosure levels, with larger firms and more profitable companies also exhibiting higher disclosure propensity. The negative coefficient on losses aligns with managers' incentives to reduce transparency during poor performance periods (Kothari et al., 2009). Interestingly, the signs and significance of several control variables change between specifications 2 and 3, highlighting the importance of unobserved firm heterogeneity captured by fixed effects.

Our findings carry important implications for multiple stakeholders in the global financial system. For regulators, our results suggest that securities law reforms in major economies can have unintended spillover effects on disclosure practices in other jurisdictions. The negative relationship we document indicates that as Chinese investor protection strengthened, U.S. firms may have perceived reduced benefits from voluntary disclosure, possibly because Chinese investors gained alternative sources of protection or information. This finding supports calls for greater international coordination in securities regulation (Coffee, 2007) and suggests that regulators should consider cross-border effects when designing disclosure policies. For corporate managers, our results highlight the interconnected nature of global capital markets and suggest that disclosure strategies should account for regulatory changes in key foreign markets. The economically significant coefficients we document indicate that firms with substantial exposure to Chinese investors or markets should reassess their voluntary disclosure policies following major regulatory changes in China.

For investors, our findings underscore the complex relationship between regulatory improvements and information availability. While enhanced investor protection in China may benefit Chinese market participants directly, our results suggest it may indirectly reduce information flow from U.S. firms, potentially creating information asymmetries. This finding contributes to the growing literature on the international spillover effects of securities regulation (Christensen et al., 2013; Shroff et al., 2013) and extends research on the determinants of voluntary disclosure in a global context (Beyer et al., 2010; Leuz and Wysocki, 2016).

Despite these contributions, our study faces several limitations that suggest avenues for future research. First, while we establish a statistical relationship between China's Securities Law implementation and U.S. voluntary disclosure, we cannot definitively establish the causal mechanism through which this effect operates. Future research could employ more granular measures of firm-level exposure to Chinese markets or investors to better identify the transmission channels. Second, our analysis focuses on a single regulatory event in one country. Examining multiple regulatory changes across different jurisdictions would enhance the generalizability of our findings and provide insights into whether our results reflect China-specific factors or broader patterns of international regulatory spillovers.

Future research could also explore the heterogeneous effects of regulatory spillovers across different types of firms, industries, or disclosure categories. For instance, firms with greater Chinese market exposure or those in industries with significant Chinese investment might exhibit different responses to Chinese regulatory changes. Additionally, investigating whether the effects we document persist over longer time horizons or represent temporary adjustments would provide valuable insights into the dynamic nature of international regulatory spillovers. Finally, examining how other major regulatory reforms, such as changes in European or other Asian markets, affect U.S. disclosure practices would help establish whether our findings represent a broader phenomenon or are specific to U.S.-China financial market interactions.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	19,402	0.6836	0.9134	0.0000	0.0000	1.6094
Treatment Effect	19,402	0.5734	0.4946	0.0000	1.0000	1.0000
Institutional ownership	19,402	0.4754	0.3107	0.1828	0.4805	0.7477
Firm size	19,402	5.7936	2.0384	4.3283	5.7292	7.1503
Book-to-market	19,402	0.5519	0.5121	0.2743	0.4701	0.7187
ROA	19,402	-0.0440	0.2543	-0.0264	0.0206	0.0646
Stock return	19,402	-0.0033	0.5142	-0.2887	-0.0943	0.1453
Earnings volatility	19,402	0.1550	0.2983	0.0223	0.0548	0.1512
Loss	19,402	0.3088	0.4620	0.0000	0.0000	1.0000
Class action litigation risk	19,402	0.3474	0.3155	0.0884	0.2243	0.5604
Time Trend	19,402	1.9147	1.4179	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 China Unsophisticated Investors

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	-0.00	**0.15**	**0.15**	**-0.19**	**0.08**	-0.01	**-0.02**	**-0.09**	**-0.25**
FreqMF	-0.00	1.00	**0.46**	**0.45**	**-0.11**	**0.23**	-0.01	**-0.13**	**-0.25**	**0.04**
Institutional ownership	**0.15**	**0.46**	1.00	**0.68**	**-0.13**	**0.28**	**-0.12**	**-0.21**	**-0.23**	-0.01
Firm size	**0.15**	**0.45**	**0.68**	1.00	**-0.30**	**0.34**	-0.01	**-0.25**	**-0.37**	-0.01
Book-to-market	**-0.19**	**-0.11**	**-0.13**	**-0.30**	1.00	**0.06**	**-0.16**	**-0.15**	**0.06**	**-0.02**
ROA	**0.08**	**0.23**	**0.28**	**0.34**	**0.06**	1.00	**0.16**	**-0.52**	**-0.61**	**-0.24**
Stock return	-0.01	-0.01	**-0.12**	-0.01	**-0.16**	**0.16**	1.00	-0.01	**-0.15**	**-0.02**
Earnings volatility	**-0.02**	**-0.13**	**-0.21**	**-0.25**	**-0.15**	**-0.52**	-0.01	1.00	**0.38**	**0.27**
Loss	**-0.09**	**-0.25**	**-0.23**	**-0.37**	**0.06**	**-0.61**	**-0.15**	**0.38**	1.00	**0.30**
Class action litigation risk	**-0.25**	**0.04**	-0.01	-0.01	**-0.02**	**-0.24**	**-0.02**	**0.27**	**0.30**	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 China on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0039 (0.41)	-0.0853*** (7.21)	-0.0617*** (5.68)
Institutional ownership		0.9137*** (19.25)	-0.0992* (1.68)
Firm size		0.0861*** (10.10)	0.1453*** (10.84)
Book-to-market		-0.0371** (2.46)	0.0178 (1.16)
ROA		0.2026*** (6.56)	0.0434 (1.53)
Stock return		-0.0003 (0.02)	-0.0258*** (3.09)
Earnings volatility		0.1200*** (3.74)	-0.1032** (2.40)
Loss		-0.2227*** (11.74)	-0.1086*** (7.10)
Class action litigation risk		0.1669*** (6.43)	-0.0197 (1.12)
Time Trend		-0.0273*** (5.14)	-0.0150*** (2.92)
Firm fixed effects	No	No	Yes
N	19,402	19,402	19,402
R^2	0.0000	0.2705	0.8419

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