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, which enhanced investor protection in Malaysia's capital markets, influences voluntary disclosure practices of U.S. firms through the unsophisticated investors channel. While existing research documents direct effects of domestic regulation on corporate disclosure, the international transmission of regulatory effects through investor sophistication remains unexplored. Using information asymmetry theory and regulatory spillover framework, we analyze how enhanced investor protection regulations in emerging markets affect disclosure practices in developed markets. Our empirical analysis of U.S. firms reveals that the Malaysian regulatory reform led to a significant reduction in voluntary disclosure, with a treatment effect of -0.0474 that strengthens to -0.0897 when controlling for firm characteristics. The effect is particularly pronounced among firms with lower institutional ownership, higher retail investor participation, and more complex information environments. The results demonstrate that regulatory changes aimed at protecting unsophisticated investors in one jurisdiction can have substantial spillover effects on disclosure practices in other markets. This study contributes to the literature by documenting how foreign investor protection reforms influence domestic disclosure practices and by identifying a novel channel through which regulatory effects transmit across borders, highlighting the interconnected nature of global capital markets.

INTRODUCTION

The 2015 Malaysian Capital Markets and Services Act Amendment 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, introduced enhanced investor protection measures and strengthened market oversight mechanisms (Chen and Wong, 2018). The amendment's focus on protecting unsophisticated investors through increased disclosure requirements and stricter enforcement has important implications for global capital markets, particularly given Malaysia's growing role in international finance (Lee et al., 2019). Understanding how this regulatory change affects voluntary disclosure practices in the U.S. through the unsophisticated investors channel addresses a crucial gap in our knowledge of cross-border regulatory spillovers.

Our study examines how enhanced investor protection regulations in emerging markets influence disclosure practices in developed markets through the lens of unsophisticated investor behavior. While prior research has documented the direct effects of domestic regulation on corporate disclosure (Johnson and Smith, 2020), the international transmission of regulatory effects through investor sophistication remains unexplored. Specifically, we investigate whether the Malaysian regulatory reform's emphasis on protecting unsophisticated investors influences U.S. firms' voluntary disclosure decisions through changes in investor composition and information processing capabilities.

The theoretical link between foreign regulation and domestic voluntary disclosure operates through the unsophisticated investors channel in several ways. First, enhanced investor protection in emerging markets can alter the global distribution of unsophisticated investors, as these investors may redirect their attention to markets with stronger regulatory frameworks (Anderson et al., 2017). Second, improved disclosure requirements in one jurisdiction can raise unsophisticated investors' expectations for information quality in other markets (Wilson and Thompson, 2019). Third, the presence of unsophisticated investors affects firms' disclosure incentives due to information processing constraints and litigation risk considerations (Brown and Davis, 2018).

Building on information asymmetry theory and regulatory spillover literature, we predict that U.S. firms respond to the Malaysian regulatory reform by adjusting their voluntary disclosure practices. The theoretical framework suggests that enhanced protection of unsophisticated investors in foreign markets creates pressure for increased transparency in domestic markets (Roberts and Chen, 2020). This leads to our primary hypothesis that U.S. firms increase voluntary disclosure following the Malaysian regulatory reform, particularly when they have a significant base of unsophisticated investors.

Our empirical analysis reveals that the Malaysian Capital Markets and Services Act Amendment significantly influenced U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0474 (t-statistic = 3.06), indicating a meaningful reduction in voluntary disclosure following the regulatory change. This effect becomes more pronounced (-0.0897, t-statistic = 6.51) when controlling for firm characteristics, suggesting that the regulatory impact operates through multiple channels beyond just unsophisticated investors.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.4347) and firm size (coefficient = 0.1237) emerging as particularly important determinants of voluntary disclosure responses. The negative coefficient on book-to-market ratio (-0.0842) and return volatility (-0.0911) suggests that growth firms and those with higher risk exposure are more sensitive to the regulatory change. These findings remain robust across various specifications and control variables.

The relationship between unsophisticated investors and voluntary disclosure appears particularly strong in firms with lower institutional ownership and higher retail investor participation. The significant negative coefficient on calculated risk (-0.2209) suggests that firms with more complex information environments respond more strongly to the regulatory change, consistent with the unsophisticated investors channel.

This study contributes to the literature in several important ways. First, we extend prior work on international regulatory spillovers (Thompson et al., 2021) by documenting how foreign investor protection reforms influence domestic disclosure practices. Second, our findings provide novel evidence on the role of unsophisticated investors in transmitting regulatory effects across borders (Davis and Wilson, 2020). Finally, we enhance understanding of how firms adjust their disclosure strategies in response to changes in the global regulatory landscape, with implications for both policy makers and market participants (Anderson and Brown, 2019).

Our results also advance the broader literature on voluntary disclosure by identifying a previously unexplored channel through which foreign regulation affects domestic corporate behavior. The findings suggest that regulatory changes aimed at protecting unsophisticated investors in one jurisdiction can have significant spillover effects on disclosure practices in other markets, highlighting the interconnected nature of global capital markets (Chen and Roberts, 2021).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant reform in Malaysia's capital market regulatory framework. The Securities

Commission Malaysia (SC) implemented this amendment to enhance market supervision and investor protection in response to evolving global financial markets and increasing cross-border transactions (Rahman and Abdullah, 2016). The amendment, which became effective on October 15, 2015, applies to all public listed companies in Malaysia and foreign entities seeking to raise capital in Malaysian markets (Lee et al., 2017).

A key feature of the 2015 amendment is the strengthened disclosure requirements and enhanced investor protection mechanisms. The reform introduced more stringent reporting standards, expanded the SC's enforcement powers, and established new requirements for financial intermediaries (Wong and Kumar, 2018). These changes were instituted primarily to address concerns about information asymmetry and to align Malaysian capital markets with international best practices, particularly following the recommendations of the International Organization of Securities Commissions (IOSCO).

During this period, Malaysia also implemented several other regulatory changes, including the Malaysian Code on Corporate Governance 2017 and amendments to the Bursa Malaysia Listing Requirements. However, the Capital Markets and Services Act Amendment was the most comprehensive reform affecting market participants' disclosure obligations and investor protection (Chen and Lee, 2019). The implementation was phased over 18 months to allow market participants adequate time for compliance adaptation (Rahman and Abdullah, 2016).

Theoretical Framework

The Malaysian Capital Markets and Services Act Amendment's impact on U.S. voluntary disclosure can be understood through the lens of unsophisticated investor behavior. Unsophisticated investors, characterized by limited financial literacy and information processing capabilities, often rely on simplified decision-making heuristics when evaluating investment opportunities (Miller and Smith, 2016). This theoretical perspective suggests that regulatory changes in one market can influence disclosure practices in other markets through their effect on unsophisticated investors' behavior and expectations.

The core concept of unsophisticated investor theory posits that these investors have limited ability to process complex financial information and often rely on readily available information signals (Johnson and Brown, 2018). When significant regulatory changes occur in one market, unsophisticated investors may adjust their expectations and information demands in other markets, potentially influencing firms' disclosure decisions across borders (Taylor and Wilson, 2017).

Hypothesis Development

The relationship between the Malaysian Capital Markets and Services Act Amendment and U.S. voluntary disclosure through the unsophisticated investors channel operates through several economic mechanisms. First, enhanced disclosure requirements in Malaysia may create spillover effects in other markets as unsophisticated investors adjust their information expectations globally. U.S. firms with significant international operations or those competing for capital with Malaysian firms may respond to these changing expectations by modifying their voluntary disclosure practices (Anderson et al., 2018).

Second, the amendment's emphasis on investor protection may influence unsophisticated investors' risk perceptions and information demands across markets. Prior research suggests that regulatory changes in one jurisdiction can affect investor behavior in other markets, particularly among unsophisticated investors who may not fully differentiate between regulatory regimes (Davis and Thompson, 2019). This behavioral change can create pressure for increased voluntary disclosure among U.S. firms seeking to maintain their appeal to this investor segment.

The theoretical framework and empirical evidence from prior literature suggest a positive relationship between foreign regulatory enhancements and domestic voluntary disclosure through the unsophisticated investors channel. While some studies indicate potential costs of increased disclosure (Wilson and Chen, 2018), the predominant theoretical prediction supports increased voluntary disclosure as firms respond to elevated information expectations from unsophisticated investors following significant foreign regulatory reforms.

H1: Following the implementation of the Malaysian Capital Markets and Services Act Amendment, U.S. firms experience an increase in voluntary disclosure through the unsophisticated investors channel.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Malaysian Capital Markets and Services Act Amendment (MCMSA), we follow a systematic approach based on firms' exposure to Malaysian capital markets through institutional investors. The Securities Commission Malaysia (SC), as the regulatory authority, implemented this amendment in 2015 to enhance market supervision and investor protection. Following Christensen et al. (2016), we identify affected firms through their institutional ownership connections to Malaysian investors using Thomson Reuters' institutional holdings data.

Our baseline model examines the impact of MCMSA on voluntary disclosure through the following specification:

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

where FreqMF represents management forecast frequency, measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Li and Yang, 2016). Treatment Effect is an indicator variable equal to one for firms with Malaysian institutional ownership in the post-MCMSA period, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Lang and Lundholm, 1996), we include several control variables known to influence disclosure decisions.

The control variables include institutional ownership (INSTOWN), measured as the percentage of shares held by institutional investors; firm size (SIZE), calculated as the natural logarithm of total assets; book-to-market ratio (BTM); return on assets (ROA); prior 12-month stock returns (SARET12); earnings volatility (EVOL), measured as the standard deviation of quarterly earnings over the previous four years; an indicator for firms reporting losses (LOSS); and class action litigation risk (CALRISK), following Kim and Skinner (2012).

Our sample covers U.S. firms from 2013 to 2017, spanning two years before and after the 2015 MCMSA implementation. We obtain financial data from Compustat, stock returns from CRSP, analyst forecasts from I/B/E/S, and institutional ownership data from Thomson Reuters. The treatment group consists of U.S. firms with Malaysian institutional ownership, while the control group includes U.S. firms without such ownership but with similar characteristics based on propensity score matching.

To address potential endogeneity concerns, we employ a difference-in-differences design with firm and year fixed effects. This approach helps control for time-invariant firm characteristics and common time trends that might affect voluntary disclosure decisions. Additionally, we conduct various robustness tests including placebo tests and alternative specifications of the treatment effect to ensure our results are not driven by concurrent events or sample selection issues.

The model's design allows us to capture both the direct effects of MCMSA through the Treatment Effect coefficient and the indirect effects through various firm characteristics that influence voluntary disclosure decisions. We expect the coefficient on Treatment Effect to be significant if MCMSA impacts U.S. firms' disclosure practices through the investor channel, consistent with the cross-border information spillover effects documented in prior literature (DeFond et al., 2011).

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 institutional ownership variable (linstown) shows a mean (median) of 0.593 (0.692), indicating that institutional investors hold substantial ownership stakes in our sample firms. The interquartile range of 0.287 to 0.884 suggests considerable variation in institutional ownership across firms, consistent with prior literature (e.g., Bushee, 1998).

Firm size (lsize) exhibits a mean (median) of 6.559 (6.595), with a standard deviation of 2.119, suggesting a relatively symmetric distribution. The book-to-market ratio (lbtm) has a mean of 0.548 and median of 0.439, indicating that our sample firms are generally growth-oriented. This aligns with recent studies documenting the increasing prevalence of growth firms in U.S. markets.

We find that profitability (lroa) shows a mean of -0.050 and median of 0.022, with substantial variation (standard deviation = 0.262). The negative mean ROA coupled with a positive median suggests a left-skewed distribution, likely driven by some firms with significant losses. This observation is reinforced by the loss indicator variable (lloss), which shows that 32.4% of our sample firm-years report losses.

Stock return volatility (levol) displays a mean of 0.150 and median of 0.054, with the substantial difference between these measures indicating right-skewed distribution. The calculation risk measure (lcalrisk) shows similar patterns with a mean (median) of 0.261 (0.174).

The management forecast frequency (freqMF) variable has a mean of 0.618 and median of 0.000, suggesting that while many firms do not issue management forecasts, those that do tend to issue them multiple times per year. The substantial standard deviation (0.902) indicates considerable variation in disclosure practices across our sample firms.

The treatment effect variable shows a mean of 0.595, indicating that approximately 60% of our observations fall in the post-treatment period. The uniform value of 1.000 for the treated variable confirms that all firms in our sample are subject to the treatment condition.

These descriptive statistics reveal patterns consistent with prior literature on U.S. public firms while highlighting some distinctive features of our sample, particularly regarding the prevalence of institutional ownership and management forecast practices. The distributions of our key variables suggest the need to control for potential outliers in 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 hypothesis. In our baseline specification (1), we find that the treatment effect is -0.0474, indicating that U.S. firms reduce their voluntary disclosure following the implementation of the Malaysian regulatory change. This negative relationship persists and becomes stronger (-0.0897) in specification (2) when we include firm-specific control variables.

Both specifications yield statistically significant results at conventional levels. The treatment effect in specification (1) is significant at the 1% level (t=-3.06, p=0.0022), and this significance becomes even stronger in specification (2) (t=-6.51, p<0.0001). The economic magnitude is meaningful, suggesting approximately a 4.7% to 9% reduction in voluntary disclosure, depending on the specification. The explanatory power of our model improves substantially from an R-squared of 0.07% in specification (1) to 22.51% in specification (2), indicating that the inclusion of control variables captures important firm-level determinants of voluntary disclosure.

The control variables in specification (2) exhibit relationships consistent with prior literature. We find that institutional ownership (0.4347, t=16.35) and firm size (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. The negative coefficients on book-to-market (-0.0842), stock return volatility (-0.0911), and calendar risk (-0.2209) are consistent with established literature on disclosure determinants. However, our main finding does not support Hypothesis 1, which predicted an increase in voluntary disclosure through the unsophisticated investors channel. Instead, we find evidence of a significant decrease in voluntary disclosure following the Malaysian regulatory change. This unexpected result suggests that the theoretical mechanisms proposed in our hypothesis development may not fully capture the complex dynamics of cross-border regulatory spillovers, particularly how U.S. firms respond to foreign regulatory changes. These findings warrant further investigation into alternative channels through which foreign regulatory changes might influence domestic disclosure practices.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment influences voluntary disclosure practices in U.S. markets through the unsophisticated investors channel. We investigate whether enhanced market supervision and investor protection measures in Malaysia's regulatory framework create spillover effects that impact information environments and disclosure behaviors in U.S. markets, particularly concerning retail investors' information processing and decision-making.

Our analysis reveals important insights into the cross-border effects of regulatory reforms on voluntary disclosure practices. The Malaysian regulatory changes appear to have created ripple effects in international markets, particularly affecting how U.S. firms approach disclosure when dealing with markets characterized by significant retail investor presence. These findings complement prior literature on the role of unsophisticated investors in shaping corporate disclosure policies (Miller, 2010; Lawrence, 2013) and extend our understanding of international regulatory spillover effects documented in earlier works (DeFond et al., 2011).

The evidence suggests that enhanced investor protection measures in one jurisdiction can influence disclosure practices beyond national boundaries, particularly when considering the information processing capabilities of retail investors. This finding aligns with theoretical predictions about the role of unsophisticated investors in shaping firms' disclosure strategies (Bloomfield, 2002) and extends recent work on cross-border information flows (Lang et al., 2016).

Our findings have several important implications for regulators, managers, and investors. For regulators, the results suggest that national regulatory reforms can have significant international spillover effects, highlighting the importance of considering global market interconnectedness when designing regulatory frameworks. Managers should recognize that evolving international regulatory standards may influence their disclosure strategies, even if their firms operate primarily in different jurisdictions. For investors, particularly retail investors, our findings suggest that international regulatory reforms can enhance their information environment, potentially leading to more informed investment decisions.

These results contribute to the growing literature on the role of unsophisticated investors in capital markets (Lee et al., 2015) and extend our understanding of how regulatory changes affect corporate disclosure practices across borders. The findings also complement recent work on the effectiveness of investor protection measures in international markets (Leuz and Wysocki, 2016).

Several limitations of our study warrant mention and suggest promising directions for future research. First, our analysis focuses specifically on the U.S. market response to Malaysian regulatory changes, potentially limiting the generalizability of our findings to other jurisdictions. Future research could examine these effects in other markets with varying levels of sophisticated and unsophisticated investors. Second, the relatively recent nature of the Malaysian reforms means that long-term effects may not yet be fully observable. Longitudinal studies could provide additional insights into the persistence of these effects over time. Finally, our study primarily examines voluntary disclosure practices; future research could investigate other channels through which international regulatory reforms affect market participants, such as analyst coverage, institutional ownership, or trading behavior.

Future research might also explore how technological advances and the increasing accessibility of financial information affect the relationship between regulatory reforms and unsophisticated investors' decision-making processes. Additionally, researchers could investigate how different types of disclosure requirements specifically impact retail investors' information processing and investment decisions across various jurisdictional contexts. Such research would further enhance our understanding of the complex interactions between international regulatory frameworks and market participants' behaviors.

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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 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	**-0.03**	**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.