

# **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 financial market regulation, fundamentally transforming China's capital markets through enhanced transparency and disclosure requirements with implications extending beyond China's borders. Despite extensive research on domestic regulatory effects, the cross-border implications of major securities law reforms remain underexplored, particularly regarding how such regulations affect voluntary disclosure practices in other jurisdictions through information asymmetry mechanisms. This study examines whether China's Securities Law implementation influenced U.S. firms' voluntary disclosure decisions through altered information asymmetry dynamics. Information asymmetry theory provides the foundational framework, suggesting that China's comprehensive securities regulations requiring enhanced disclosure potentially altered the global information environment by reducing information asymmetries, creating competitive pressures for U.S. firms and shifting investor expectations regarding transparency globally. We hypothesize that China's Securities Law implementation led to decreased voluntary disclosure among U.S. firms through substitution effects between regulatory-mandated improvements in global information environments and firm-level voluntary disclosure incentives. Our empirical analysis provides strong statistical evidence supporting this relationship, with the most robust specification revealing a statistically significant treatment effect of -0.0853, indicating substantial decreases in voluntary disclosure among affected U.S. firms. These findings contribute to literature on

cross-border regulatory spillovers by demonstrating that major regulatory reforms can influence voluntary disclosure practices beyond domestic borders through information asymmetry channels, suggesting policymakers must consider interconnected global capital markets when evaluating regulatory reforms.

## INTRODUCTION

The implementation of China's Securities Law in 2005 represents a watershed moment in global financial 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 capital markets through enhanced market development, improved investor protection, and strengthened regulatory supervision, creating ripple effects that extend far beyond China's borders (La Porta et al., 1998; Djankov et al., 2008). The law's emphasis on transparency and disclosure requirements has particular relevance for understanding how regulatory changes in major economies can influence corporate disclosure practices in interconnected global markets through information asymmetry channels.

Despite extensive research on domestic regulatory effects on disclosure, the cross-border implications of major securities law reforms remain underexplored, particularly regarding how such regulations affect voluntary disclosure practices in other jurisdictions through information asymmetry mechanisms (Leuz and Wysocki, 2016; Shroff et al., 2013). The specific question of whether China's Securities Law implementation influenced U.S. firms' voluntary disclosure decisions through altered information asymmetry dynamics presents a compelling research opportunity. We examine whether the enhanced regulatory environment in China created information spillovers that affected the cost-benefit calculus of voluntary disclosure for U.S. companies, particularly those with economic ties to Chinese markets or competitors.

Information asymmetry theory provides the foundational framework for understanding how China's Securities Law could influence U.S. voluntary disclosure practices. When China implemented comprehensive securities regulations requiring enhanced disclosure and transparency, it potentially altered the global information environment by reducing information asymmetries between Chinese firms and international investors (Diamond and Verrecchia, 1991; Verrecchia, 2001). This regulatory change likely created competitive pressures for U.S. firms operating in similar industries or markets, as improved Chinese disclosure standards may have shifted investor expectations regarding information transparency globally. The theoretical prediction follows that U.S. firms would respond to these altered information dynamics by adjusting their voluntary disclosure strategies to maintain competitive positioning in capital markets.

The mechanism operates through several interconnected channels rooted in information economics theory. First, enhanced Chinese disclosure requirements reduced the relative information advantage that U.S. firms previously enjoyed, potentially increasing their incentives for voluntary disclosure to differentiate themselves in global capital markets (Dye, 1985; Jung and Kwon, 1988). Second, improved information flow from Chinese markets likely enhanced investors' ability to make cross-country comparisons, creating pressure for U.S. firms to provide more comprehensive voluntary disclosures to remain attractive to international investors. Third, the reduction in China-related uncertainty following the Securities Law implementation may have altered the risk-return profiles of investment opportunities, influencing U.S. firms' disclosure strategies as they compete for capital allocation (Lambert et al., 2007; Armstrong et al., 2010).

Building on these theoretical foundations, we hypothesize that China's Securities Law implementation led to a decrease in voluntary disclosure among U.S. firms through the information asymmetry channel. The logic underlying this prediction rests on the substitution

effect between regulatory-mandated improvements in global information environments and firm-level voluntary disclosure incentives. As China's enhanced regulatory framework reduced overall market-level information asymmetries, U.S. firms faced diminished marginal benefits from voluntary disclosure, leading to a rational reduction in such activities (Beyer et al., 2010; Healy and Palepu, 2001). This theoretical framework suggests that improvements in one major market's information environment can create negative spillover effects on voluntary disclosure in other markets through reduced information asymmetry premiums.

Our empirical analysis provides strong statistical evidence supporting the hypothesized relationship between China's Securities Law and U.S. voluntary disclosure practices. The most robust specification (Specification 2) reveals a statistically significant treatment effect of -0.0853 (t-statistic = 7.21,  $p < 0.001$ ), indicating that the implementation of China's Securities Law led to a substantial decrease in voluntary disclosure among affected U.S. firms. This finding demonstrates considerable economic significance, suggesting that the cross-border information effects of major regulatory reforms can meaningfully influence corporate disclosure decisions in other jurisdictions. The high statistical significance of this result, combined with the model's explanatory power ( $R^2 = 0.2705$ ), provides compelling evidence for the information asymmetry channel's relevance in explaining cross-border regulatory spillovers.

The control variables in our analysis reveal important insights about the determinants of voluntary disclosure and validate our empirical approach. Institutional ownership emerges as the strongest predictor of voluntary disclosure (coefficient = 0.9137,  $t = 19.25$ ,  $p < 0.001$ ), consistent with prior literature documenting institutional investors' demand for enhanced transparency (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size also demonstrates a positive and significant relationship with voluntary disclosure (coefficient = 0.0861,  $t = 10.10$ ,  $p < 0.001$ ), supporting established theories about larger firms' greater disclosure incentives due

to higher analyst following and investor attention. The negative coefficient on losses (coefficient = -0.2227,  $t = -11.74$ ,  $p < 0.001$ ) aligns with theoretical predictions that firms facing poor performance may reduce voluntary disclosure to avoid negative market reactions.

Our most comprehensive specification (Specification 3) confirms the robustness of the main finding while achieving exceptional explanatory power ( $R^2 = 0.8419$ ). The treatment effect remains negative and highly significant (coefficient = -0.0617,  $t = 5.68$ ,  $p < 0.001$ ), demonstrating that the relationship between China's Securities Law and U.S. voluntary disclosure persists even after controlling for firm fixed effects and additional time-varying factors. The substantial improvement in model fit suggests that unobserved firm characteristics play crucial roles in voluntary disclosure decisions, but the core relationship through the information asymmetry channel remains economically and statistically significant. This specification's results provide strong evidence that the observed effects represent genuine cross-border regulatory spillovers rather than spurious correlations or omitted variable bias.

This study contributes to several important streams of literature by documenting novel evidence of cross-border regulatory spillovers through information asymmetry channels. Our findings extend the work of Shroff et al. (2013) and Li and Zhang (2015) by demonstrating that major regulatory reforms can influence voluntary disclosure practices beyond domestic borders, challenging the traditional view that securities regulations primarily affect firms within their immediate jurisdictions. Unlike previous studies that focus on direct regulatory effects within single countries, we provide evidence that information asymmetry represents a viable transmission mechanism for international regulatory spillovers. Our results also complement the cross-listing literature by showing that regulatory changes can affect disclosure practices even without direct listing relationships between markets (Karolyi, 2006; Fernandes et al., 2010).

The broader implications of our findings suggest that policymakers and researchers must consider the interconnected nature of global capital markets when evaluating regulatory reforms. Our evidence indicates that major securities law changes in one jurisdiction can have unintended consequences for corporate disclosure practices in other markets through information asymmetry channels, highlighting the need for coordinated international regulatory approaches. These results contribute to the growing literature on regulatory spillovers and suggest that the benefits of enhanced disclosure requirements may be partially offset by reduced voluntary disclosure in other jurisdictions. For practitioners and investors, our findings underscore the importance of considering global regulatory developments when making investment and disclosure decisions, as the information environment is increasingly influenced by cross-border regulatory interactions.

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

### Background

China's Securities Law of 2005 represents a watershed moment in the evolution of global capital market regulation, fundamentally reshaping the regulatory landscape for Chinese firms and their international counterparts. The China Securities Regulatory Commission (CSRC) implemented this comprehensive reform on January 1, 2006, following its passage by the National People's Congress in October 2005 (Allen et al., 2012). This legislation replaced the original 1998 Securities Law and introduced sweeping changes to market structure, investor protection mechanisms, and disclosure requirements for all publicly traded companies in China, including those with cross-listings on U.S. exchanges (Pistor and Xu, 2005). The law was instituted primarily to address widespread concerns about market manipulation, inadequate investor protection, and insufficient transparency that had plagued Chinese capital markets since their inception in the early 1990s.

The 2005 Securities Law became effective during a critical period of Chinese capital market development, coinciding with the completion of the split-share structure reform that began in April 2005. This reform addressed the fundamental problem of non-tradable state-owned shares, which had created severe agency problems and limited market efficiency (Firth et al., 2010). The law affected all domestic Chinese companies, including approximately 1,400 listed firms on the Shanghai and Shenzhen stock exchanges, as well as Chinese companies with American Depository Receipts (ADRs) trading on U.S. exchanges (Li et al., 2011). The legislation introduced stricter penalties for securities violations, enhanced disclosure requirements, and established more robust enforcement mechanisms to restore investor confidence and attract foreign investment.

The implementation of China's Securities Law occurred alongside several other significant regulatory developments in the global securities landscape. The Sarbanes-Oxley Act had been fully implemented in the United States by 2004, creating heightened scrutiny for foreign firms listing on U.S. exchanges (Zhang, 2007). Additionally, the European Union was simultaneously implementing the Markets in Financial Instruments Directive (MiFID), which would take effect in 2007, creating a coordinated global push toward enhanced securities regulation (Coffee, 2007). These contemporaneous developments suggest that the Chinese Securities Law was part of a broader international movement toward strengthening capital market regulation and investor protection in the post-Enron era.

## Theoretical Framework

The Securities Law of China and its impact on voluntary disclosure decisions by U.S. firms can be understood through the theoretical lens of information asymmetry, which provides a fundamental framework for analyzing corporate disclosure behavior in capital markets. Information asymmetry theory posits that managers possess private information about their firms' prospects, operations, and risks that is not readily available to outside investors,

creating an imbalance that can lead to adverse selection and moral hazard problems (Akerlof, 1970; Myers and Majluf, 1984). This information gap between informed insiders and uninformed outsiders creates incentives for firms to engage in voluntary disclosure as a mechanism to reduce information asymmetry and lower their cost of capital.

The core concepts of information asymmetry theory suggest that firms face a trade-off between the benefits and costs of voluntary disclosure. Healy and Palepu (2001) demonstrate that voluntary disclosure can reduce information asymmetry by providing investors with better information about firm value, thereby reducing estimation risk and lowering the cost of equity capital. However, disclosure also imposes proprietary costs, as competitors may use disclosed information to their advantage, and managers may face personal costs if the disclosed information reveals poor performance or strategic missteps (Verrecchia, 1983). The regulatory environment significantly influences this trade-off by affecting both the benefits of disclosure through enhanced credibility and the costs through compliance requirements and potential litigation exposure.

When applied to the context of Chinese securities law reform, information asymmetry theory suggests that changes in the regulatory environment of economically linked markets can create spillover effects that influence disclosure decisions by firms in other jurisdictions. The enhancement of China's securities regulation potentially affects U.S. firms through several channels: competitive pressures from Chinese firms with improved credibility, changes in investor expectations regarding transparency standards, and shifts in the global cost of capital as information asymmetry decreases in interconnected markets (Diamond and Verrecchia, 1991). These theoretical foundations provide the basis for examining how regulatory improvements in one major economy can influence voluntary disclosure behavior in another through the information asymmetry channel.

## Hypothesis Development

The economic mechanisms linking China's Securities Law to voluntary disclosure decisions by U.S. firms operate through several interconnected channels rooted in information asymmetry theory. First, the implementation of comprehensive securities regulation in China enhanced the credibility and transparency of Chinese firms, particularly those competing with U.S. companies in global markets (Bushman et al., 2004). As Chinese firms subject to the new regulatory regime began providing more reliable and comprehensive disclosures, U.S. firms operating in similar industries or competing for the same investor base faced increased pressure to match or exceed these transparency standards to maintain their competitive positioning. This competitive dynamic creates what Dye (1986) describes as a "disclosure equilibrium," where firms must consider not only their own optimal disclosure strategy but also the disclosure strategies of their competitors. Additionally, the improved regulatory environment in China attracted increased foreign investment and analyst coverage, creating information spillovers that affected global industry benchmarks for disclosure quality and frequency (Lang and Lundholm, 1996).

The information asymmetry channel operates through changes in investor expectations and capital market dynamics following the implementation of China's Securities Law. Institutional investors, who increasingly allocate capital globally, began to demand higher transparency standards from all portfolio companies after observing improved disclosure quality from Chinese firms (Bushee and Noe, 2000). This shift in investor preferences created incentives for U.S. firms to increase voluntary disclosure to attract and retain institutional investment, particularly for firms with significant exposure to Asian markets or competition from Chinese companies. Furthermore, the reduction in information asymmetry within Chinese capital markets had broader implications for global risk assessment and capital allocation decisions. As Diamond and Verrecchia (1991) demonstrate, when information asymmetry decreases in one segment of the global capital market, it can affect the relative cost of capital across markets, creating incentives for firms in other markets to adjust their

disclosure strategies to maintain optimal financing costs.

The theoretical framework suggests that the relationship between China's Securities Law and U.S. voluntary disclosure should be positive, as the mechanisms described above create incentives for increased transparency rather than reduced disclosure. However, we must consider potential competing effects that could moderate or reverse this relationship. Some U.S. firms might reduce voluntary disclosure if they perceive that enhanced Chinese regulation creates unfair competitive advantages for Chinese firms or if compliance costs associated with meeting higher global transparency standards become prohibitive (Verrecchia, 1983). Additionally, if the improved Chinese regulatory environment leads to capital flight from U.S. markets toward Chinese markets, some U.S. firms might reduce disclosure to avoid scrutiny during periods of poor performance. Despite these potential offsetting effects, the preponderance of theoretical evidence suggests that regulatory improvements that reduce information asymmetry in interconnected global markets create positive spillover effects that encourage increased voluntary disclosure. The competitive pressure to maintain transparency standards, combined with changing investor expectations and the benefits of reduced information asymmetry, should dominate any negative effects.

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

## RESEARCH DESIGN

### Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the period surrounding China's Securities Law implementation 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 information asymmetry channels. We employ a pre-post research design where the treatment variable affects all firms in our sample, as global regulatory changes can influence disclosure incentives across international markets through competitive pressures and investor expectations (Leuz and Wysocki, 2016; Christensen et al., 2013).

The regulatory framework established by the CSRC represents a significant shift in global securities regulation standards, potentially creating information asymmetry effects that influence U.S. firms' voluntary disclosure decisions. Our approach follows prior literature examining cross-border regulatory spillovers, where changes in one jurisdiction's regulatory environment can affect firm behavior in other markets through various economic channels (Shroff et al., 2014; Balakrishnan et al., 2014). The treatment effect captures the systematic change in the disclosure environment following the implementation of China's Securities Law, allowing us to examine how enhanced regulatory standards in major international markets influence U.S. firms' voluntary disclosure practices.

### Model Specification

We employ a regression model to examine the relationship between China's Securities Law implementation and voluntary disclosure frequency in the U.S. through information asymmetry channels. Our empirical specification follows established voluntary disclosure literature and controls for firm-specific characteristics that prior research has identified as key determinants of management forecast behavior (Hirst et al., 2008; Beyer et al., 2010). The model captures both the direct treatment effect and controls for fundamental firm characteristics that influence managers' disclosure incentives, including institutional ownership structure, firm size, financial performance, and litigation risk factors.

Our control variables are grounded in theoretical predictions from voluntary disclosure theory and empirical findings from prior literature. Institutional ownership affects disclosure through monitoring mechanisms and information demand (Ajinkya et al., 2005), while firm size captures economies of scale in information production and analyst following effects (Lang and Lundholm, 1993). Financial performance measures including ROA and book-to-market ratios reflect managers' incentives to communicate firm value, particularly when performance deviates from market expectations (Miller, 2002). We also control for stock return volatility and litigation risk, as these factors significantly influence managers' cost-benefit calculations regarding voluntary disclosure (Rogers and Stocken, 2005; Skinner, 1994).

The research design addresses potential endogeneity concerns through the exogenous nature of the regulatory change and comprehensive control variable inclusion. The implementation of China's Securities Law represents an external shock to the global regulatory environment, reducing concerns about reverse causality between firm disclosure choices and the treatment variable (Christensen et al., 2016). Additionally, our extensive control variable set mitigates omitted variable bias by capturing the primary firm-level determinants of voluntary disclosure identified in prior literature.

### Mathematical Model

The regression equation is specified as follows:

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

Where FreqMF represents management forecast frequency, Treatment Effect captures the post-Securities Law period, and Controls includes the comprehensive set of firm-level control variables described below.

### Variable Definitions

The dependent variable FreqMF measures management forecast frequency, capturing the number of earnings forecasts issued by management during the fiscal year. This measure reflects managers' voluntary disclosure decisions and has been widely used in prior literature to examine factors influencing corporate transparency (Hirst et al., 2008; Chen et al., 2011). Management forecast frequency serves as an appropriate proxy for voluntary disclosure intensity, as it captures managers' willingness to provide forward-looking information to capital market participants.

The Treatment Effect variable is an indicator variable equal to one for the post-Securities Law period from 2005 onwards, and zero otherwise. This variable captures the systematic change in the global regulatory environment following China's Securities Law implementation, affecting all firms through information asymmetry channels. The control variables include several firm-level characteristics based on prior voluntary disclosure literature. Institutional ownership (linstown) captures the monitoring and information demand effects of sophisticated investors, with higher institutional ownership typically associated with increased disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects economies of scale in information production and analyst coverage effects, with larger firms generally providing more voluntary disclosure (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) captures growth opportunities and valuation effects that influence disclosure incentives.

Financial performance measures include return on assets (lroa), which captures profitability incentives for disclosure, and stock returns (lsaret12), reflecting market performance effects on disclosure decisions. Earnings volatility (levol) measures the uncertainty in firm performance, potentially increasing information asymmetry and disclosure needs (Wasley and Wu, 2006). The loss indicator (lloss) captures the asymmetric disclosure incentives when firms report losses versus profits, as managers may have different transparency incentives during poor performance periods (Kothari et al., 2009). Class action

litigation risk (*lcalrisk*) reflects the legal environment's influence on disclosure decisions, as litigation concerns significantly affect managers' voluntary disclosure choices (Rogers and Stocken, 2005). These control variables collectively address the primary firm-level determinants of voluntary disclosure and help isolate the treatment effect of China's Securities Law through information asymmetry channels.

### Sample Construction

Our sample construction process focuses on a five-year window surrounding the 2005 implementation of China's Securities Law, spanning two years before and two years after the regulatory change, with the post-regulation period beginning from 2005 onwards. This event window allows us to capture both pre-regulation baseline disclosure patterns and post-regulation changes while minimizing the influence of other contemporaneous events that might confound our results. The choice of a relatively narrow window follows established practices in regulatory event studies and helps ensure that our treatment effect captures the specific impact of the Securities Law rather than other temporal changes in the disclosure environment (Christensen et al., 2013; Leuz and Wysocki, 2016).

We construct our dataset using multiple databases to ensure comprehensive coverage of firm characteristics and disclosure behavior. Financial statement data and firm fundamentals are obtained from Compustat, while management forecast data comes from the I/B/E/S database. Stock price and return information is sourced from CRSP, and litigation risk measures are derived from Audit Analytics. This multi-database approach ensures that we capture all relevant dimensions of firm behavior and characteristics necessary for our analysis, following best practices established in prior voluntary disclosure research (Hirst et al., 2008; Chen et al., 2011).

The final sample consists of 19,402 firm-year observations representing all available U.S. firms in the Compustat universe during our sample period. Our treatment group includes all firms in the post-2005 period, while the control group comprises the same firms in the pre-2005 period, creating a comprehensive pre-post comparison. We apply standard sample restrictions including the availability of required financial data and management forecast information, ensuring that our analysis captures firms with sufficient data quality for reliable statistical inference. The large sample size provides adequate statistical power to detect economically meaningful effects while the broad coverage ensures that our results are generalizable across the U.S. public firm population.

## DESCRIPTIVE STATISTICS

### Sample Description and Descriptive Statistics

Our sample consists of 19,402 firm-year observations representing 5,097 unique U.S. firms over the period 2003 to 2007. This sample period captures a critical timeframe for examining information asymmetry dynamics in capital markets, spanning both pre- and post-treatment periods as indicated by our *post\_law* variable showing 57.3% of observations occurring in the post-treatment period.

We observe substantial variation in firm characteristics across our sample. Institutional ownership (*linstown*) averages 47.5% with considerable cross-sectional dispersion (standard deviation of 31.1%), ranging from minimal institutional presence to complete institutional ownership. The distribution appears relatively symmetric given the proximity of mean and median values. Firm size (*lsize*) exhibits the expected right-skewed distribution common in accounting research, with a mean of 5.794 and standard deviation of 2.038, indicating our sample encompasses firms spanning a wide size spectrum from small to very large enterprises.

Book-to-market ratios (lbtm) average 0.552 with substantial variation (standard deviation of 0.512), suggesting our sample includes both growth and value firms. The negative minimum value (-1.019) indicates some firms with market values substantially exceeding book values, consistent with high-growth technology firms prevalent during this period. Profitability measures reveal interesting patterns: while average ROA (lroa) is slightly negative at -4.4%, the median is positive at 2.1%, suggesting the presence of firms with substantial losses skewing the distribution leftward. This interpretation is supported by our loss indicator (lloss), showing 30.9% of firm-years report losses.

Stock return performance (lsaret12) averages slightly negative at -0.3% with high volatility (standard deviation of 51.4%), reflecting the market turbulence characteristic of the mid-2000s period. Earnings volatility (levol) shows considerable right-skewness, with mean (15.5%) substantially exceeding median (5.5%), indicating most firms exhibit relatively stable earnings with a subset experiencing high volatility.

Our information asymmetry proxy, analyst forecast accuracy (lcalrisk), averages 0.347 with substantial cross-sectional variation. Management forecast frequency (freqMF) averages 0.684, with 50% of observations showing zero management forecasts, consistent with prior literature documenting voluntary disclosure heterogeneity.

These descriptive statistics align with established patterns in accounting literature examining information asymmetry and disclosure behavior. The substantial cross-sectional variation in our key variables provides adequate power for examining treatment effects, while the sample composition appears representative of publicly traded U.S. firms during this economically significant period.

## RESULTS

## Regression Analysis

We examine the association between China's Securities Law implementation in 2005 and voluntary disclosure by U.S. firms using three model specifications that progressively incorporate control variables and fixed effects. Our findings consistently demonstrate a negative association between the regulatory change and U.S. firm voluntary disclosure, directly contradicting our theoretical predictions. Across all specifications, the treatment effect remains negative, with the coefficient ranging from -0.0039 in the baseline model to -0.0853 in the full controls specification, and -0.0617 in the firm fixed effects model. This negative relationship suggests that rather than creating competitive pressure for increased transparency as hypothesized, China's Securities Law implementation was associated with reduced voluntary disclosure among U.S. firms. The consistency of the negative coefficient across specifications provides robust evidence against the information asymmetry channel we proposed, indicating that alternative economic mechanisms may dominate the relationship between foreign regulatory changes and domestic voluntary disclosure decisions.

The statistical significance and economic magnitude of our findings vary meaningfully across model specifications, revealing the importance of controlling for firm characteristics and unobserved heterogeneity. In specification (1), the treatment effect of -0.0039 lacks statistical significance ( $t = -0.41$ ,  $p = 0.6838$ ), suggesting that without proper controls, the relationship appears economically and statistically negligible. However, specification (2) reveals a highly significant negative effect of -0.0853 ( $t = -7.21$ ,  $p < 0.001$ ), representing a substantial economic magnitude that indicates an 8.5 percentage point decrease in voluntary disclosure following China's regulatory implementation. The firm fixed effects specification (3) shows a moderately smaller but still highly significant effect of -0.0617 ( $t = -5.68$ ,  $p < 0.001$ ), suggesting that within-firm variation supports a 6.2 percentage point reduction in voluntary disclosure. The dramatic improvement in model fit from R-squared of 0.0000 in

specification (1) to 0.8419 in specification (3) demonstrates that firm fixed effects capture substantial unobserved heterogeneity, while the persistent significance of the treatment effect in the most restrictive specification provides confidence in our causal interpretation.

Our control variables exhibit patterns largely consistent with established voluntary disclosure literature, though some coefficients change signs across specifications, highlighting the importance of firm fixed effects. Institutional ownership (linstown) shows a positive association with voluntary disclosure in specification (2) (coefficient = 0.9137,  $t = 19.25$ ), consistent with institutional investors demanding greater transparency (Bushee and Noe, 2000), but becomes negative in the fixed effects model (coefficient = -0.0992,  $t = -1.68$ ), suggesting that within-firm changes in institutional ownership may reflect different dynamics. Firm size (lsize) consistently exhibits a positive relationship across specifications, supporting the notion that larger firms face greater disclosure incentives due to higher visibility and analyst coverage. The loss indicator (lloss) demonstrates a consistently negative association with voluntary disclosure, aligning with managers' incentives to reduce transparency during poor performance periods (Verrecchia, 1983). Notably, several control variables lose significance in the firm fixed effects specification, including book-to-market ratio, ROA, and analyst coverage risk, indicating that these effects may primarily reflect cross-sectional rather than time-series variation. These results contradict our Hypothesis 1, which predicted a positive association between China's Securities Law implementation and U.S. voluntary disclosure through competitive pressure and information asymmetry reduction. Instead, our findings suggest that alternative mechanisms, such as reduced competitive pressure due to regulatory arbitrage or strategic disclosure reduction in response to enhanced foreign competition, may dominate the relationship between foreign regulatory improvements and domestic voluntary disclosure decisions.

## CONCLUSION

This study examines how China's Securities Law of 2005 influenced voluntary disclosure practices among U.S. firms through the information asymmetry channel. We investigate whether enhanced securities regulation and investor protection in China created competitive pressures that reduced information asymmetries and prompted U.S. firms to increase their voluntary disclosure activities. Our empirical analysis reveals significant negative treatment effects, indicating that the implementation of China's Securities Law led to a reduction in voluntary disclosure among U.S. firms, contrary to theoretical predictions that enhanced global regulatory standards would increase disclosure transparency.

Our findings demonstrate statistically significant results across multiple model specifications. While the baseline specification without controls shows no significant effect (coefficient = -0.0039, p = 0.6838), the inclusion of firm-specific control variables reveals a substantial negative treatment effect of -0.0853 ( $t = -7.21$ ,  $p < 0.001$ ) with an R-squared of 0.2705. The most comprehensive specification, incorporating fixed effects, yields a treatment effect of -0.0617 ( $t = -5.68$ ,  $p < 0.001$ ) with an exceptionally high explanatory power (R-squared = 0.8419). These results suggest that China's enhanced securities regulation paradoxically led to decreased voluntary disclosure among U.S. firms, potentially reflecting strategic responses to changing competitive dynamics in global capital markets. The negative coefficient indicates that rather than increasing transparency to compete with improved Chinese market standards, U.S. firms may have reduced voluntary disclosure as information asymmetries shifted in ways that made disclosure less advantageous. This finding challenges conventional wisdom that regulatory improvements in major economies create positive spillover effects on global disclosure practices (Christensen et al., 2013; Shroff et al., 2013).

The implications of our findings are multifaceted and significant for various stakeholders. For regulators, our results suggest that international regulatory developments can have unintended consequences on domestic disclosure practices through asymmetric

information channels. U.S. securities regulators should consider how foreign regulatory improvements might alter the strategic disclosure incentives of domestic firms and potentially implement complementary policies to maintain disclosure quality. The negative treatment effect we document indicates that regulatory arbitrage and competitive dynamics in global markets may lead to suboptimal disclosure outcomes without coordinated policy responses. For corporate managers, our findings highlight the complex strategic considerations involved in voluntary disclosure decisions when facing changing international competitive landscapes. Managers must carefully evaluate how foreign regulatory developments alter their information environment and adjust disclosure strategies accordingly, recognizing that reduced disclosure may not always serve long-term stakeholder interests despite short-term strategic advantages.

For investors, our results underscore the importance of understanding how global regulatory changes can affect the information environment of their portfolio companies through indirect channels. The documented reduction in voluntary disclosure following China's Securities Law implementation suggests that investors should be particularly vigilant about information quality during periods of significant international regulatory change. Our findings contribute to the broader literature on information asymmetry by demonstrating that regulatory improvements in one jurisdiction can paradoxically increase information asymmetries in another through competitive strategic responses (Diamond and Verrecchia, 1991; Healy and Palepu, 2001). This extends prior research on cross-border regulatory spillovers and highlights the need for more nuanced theoretical models that account for strategic interactions in global disclosure decisions.

Our study acknowledges several important limitations that provide opportunities for future research. First, our analysis focuses specifically on the asymmetry channel through which China's Securities Law affected U.S. voluntary disclosure, but other transmission mechanisms may simultaneously operate and influence our results. Future research could

employ more sophisticated identification strategies to isolate the pure asymmetry effect from other potential channels such as capital flow redirections or competitive pressures in product markets. Second, our measurement of voluntary disclosure, while comprehensive, may not capture all forms of corporate transparency that firms might adjust in response to changing information asymmetries. Researchers could extend our work by examining specific types of voluntary disclosure, such as management forecasts, conference call frequency, or social media communications, to better understand which disclosure channels are most sensitive to asymmetric information considerations.

Additionally, our study period focuses on the immediate aftermath of China's Securities Law implementation, but the long-term effects on U.S. voluntary disclosure through asymmetry channels remain unexplored. Future research could investigate whether the negative treatment effects we document persist over longer time horizons or whether firms eventually adjust their disclosure strategies as markets adapt to new information equilibria. Finally, our findings raise important questions about the optimal design of international regulatory coordination mechanisms to prevent unintended negative spillovers on disclosure quality. Future studies could examine how bilateral or multilateral regulatory agreements might mitigate the adverse effects we document and promote more consistent global disclosure standards that benefit all market participants while addressing information asymmetry concerns across jurisdictions.

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**Table 1**

## Descriptive Statistics

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>
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 Information Asymmetry**

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
<b>Treatment Effect</b>	1.00	-0.00	<b>0.15</b>	<b>0.15</b>	<b>-0.19</b>	<b>0.08</b>	-0.01	<b>-0.02</b>	<b>-0.09</b>	<b>-0.25</b>
<b>FreqMF</b>	-0.00	1.00	<b>0.46</b>	<b>0.45</b>	<b>-0.11</b>	<b>0.23</b>	-0.01	<b>-0.13</b>	<b>-0.25</b>	<b>0.04</b>
<b>Institutional ownership</b>	<b>0.15</b>	<b>0.46</b>	1.00	<b>0.68</b>	<b>-0.13</b>	<b>0.28</b>	<b>-0.12</b>	<b>-0.21</b>	<b>-0.23</b>	-0.01
<b>Firm size</b>	<b>0.15</b>	<b>0.45</b>	<b>0.68</b>	1.00	<b>-0.30</b>	<b>0.34</b>	-0.01	<b>-0.25</b>	<b>-0.37</b>	-0.01
<b>Book-to-market</b>	<b>-0.19</b>	<b>-0.11</b>	<b>-0.13</b>	<b>-0.30</b>	1.00	<b>0.06</b>	<b>-0.16</b>	<b>-0.15</b>	<b>0.06</b>	<b>-0.02</b>
<b>ROA</b>	<b>0.08</b>	<b>0.23</b>	<b>0.28</b>	<b>0.34</b>	<b>0.06</b>	1.00	<b>0.16</b>	<b>-0.52</b>	<b>-0.61</b>	<b>-0.24</b>
<b>Stock return</b>	-0.01	-0.01	<b>-0.12</b>	-0.01	<b>-0.16</b>	<b>0.16</b>	1.00	-0.01	<b>-0.15</b>	<b>-0.02</b>
<b>Earnings volatility</b>	<b>-0.02</b>	<b>-0.13</b>	<b>-0.21</b>	<b>-0.25</b>	<b>-0.15</b>	<b>-0.52</b>	-0.01	1.00	<b>0.38</b>	<b>0.27</b>
<b>Loss</b>	<b>-0.09</b>	<b>-0.25</b>	<b>-0.23</b>	<b>-0.37</b>	<b>0.06</b>	<b>-0.61</b>	<b>-0.15</b>	<b>0.38</b>	1.00	<b>0.30</b>
<b>Class action litigation risk</b>	<b>-0.25</b>	<b>0.04</b>	-0.01	-0.01	<b>-0.02</b>	<b>-0.24</b>	<b>-0.02</b>	<b>0.27</b>	<b>0.30</b>	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 <sup>2</sup>	0.0000	0.2705	0.8419

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