Capital Markets Law Mexico and Voluntary Disclosure

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Abstract: Capital markets regulation serves as a cornerstone for economic development and investor protection, with far-reaching implications that extend beyond national borders. The implementation of Mexico's Capital Markets Law in 2011 represents a comprehensive regulatory reform that fundamentally transformed the country's securities market framework through enhanced supervision, improved investor protection mechanisms, and strengthened corporate governance standards. This study investigates whether Mexico's Capital Markets Law, through its corporate governance requirements, influences voluntary disclosure practices of U.S. firms with Mexican market exposure, addressing a significant gap in the international accounting literature regarding cross-border regulatory spillovers. The theoretical foundation rests on corporate governance convergence hypothesis and stakeholder theory frameworks, predicting that enhanced governance requirements create incentives for voluntary disclosure improvements through board oversight mechanisms, internal control systems, and stakeholder expectations. The empirical analysis employs difference-in-differences methodology to examine voluntary disclosure changes among affected U.S. firms following the law's implementation. Results reveal a significant negative treatment effect of -0.0219 in controlled specifications and -0.0186 with firm fixed effects, indicating that Mexico's Capital Markets Law reduced voluntary disclosure among affected U.S. firms through corporate governance channels. These findings contrast with theoretical expectations and prior research documenting positive associations between governance improvements and transparency. The study

contributes to international accounting literature by demonstrating that foreign regulatory reforms can create negative spillover effects on domestic voluntary disclosure practices, suggesting that compliance costs or strategic considerations associated with enhanced governance requirements may outweigh theoretical benefits of improved transparency capabilities, providing important insights for understanding complex dynamics of international regulatory spillovers in corporate disclosure decisions.

INTRODUCTION

Capital markets regulation serves as a cornerstone for economic development and investor protection, with far-reaching implications that extend beyond national borders. The implementation of Mexico's Capital Markets Law in 2011 represents a comprehensive regulatory reform that fundamentally transformed the country's securities market framework through enhanced supervision, improved investor protection mechanisms, and strengthened corporate governance standards (La Porta et al., 1998; Djankov et al., 2008). This landmark legislation, administered by the Comisión Nacional Bancaria y de Valores (CNBV), established rigorous disclosure requirements, board independence standards, and shareholder protection measures that align with international best practices. The law's emphasis on corporate governance reforms creates unique spillover effects that influence disclosure practices of multinational corporations operating across borders, particularly those with significant exposure to Mexican markets or stakeholders.

The corporate governance channel through which Mexico's Capital Markets Law affects voluntary disclosure in U.S. markets presents a compelling research opportunity that addresses a significant gap in the international accounting literature. While extensive research examines how domestic regulations influence local disclosure practices (Leuz and Verrecchia, 2000; Bushman et al., 2004), limited evidence exists on how foreign regulatory reforms create incentives for enhanced voluntary disclosure in other jurisdictions through corporate governance mechanisms. This cross-border regulatory influence becomes particularly relevant as U.S. multinational corporations increasingly integrate global governance standards to maintain consistency across their international operations and satisfy diverse stakeholder expectations. We investigate whether Mexico's Capital Markets Law, through its corporate governance requirements, influences voluntary disclosure practices of U.S. firms with Mexican market exposure, and examine the specific mechanisms through which these international regulatory spillovers operate.

The theoretical foundation for expecting Mexico's Capital Markets Law to influence U.S. voluntary disclosure rests on the corporate governance convergence hypothesis and stakeholder theory frameworks. When Mexico implemented comprehensive corporate governance reforms requiring enhanced board independence, audit committee effectiveness, and shareholder rights protection, U.S. multinational corporations with Mexican operations faced pressure to harmonize their governance practices across jurisdictions (Coffee, 2002; Doidge et al., 2007). This harmonization process creates incentives for voluntary disclosure improvements in the home market as firms adopt globally consistent transparency standards to reduce operational complexity and maintain stakeholder confidence. The corporate governance channel operates through several mechanisms: first, enhanced board oversight capabilities resulting from governance improvements increase monitoring of management disclosure decisions; second, improved internal control systems strengthen the reliability and timeliness of financial reporting processes; and third, heightened stakeholder expectations for transparency create reputational incentives for comprehensive voluntary disclosure.

Corporate governance quality directly influences voluntary disclosure through agency theory mechanisms and signaling considerations (Jensen and Meckling, 1976; Healy and Palepu, 2001). Stronger governance structures, particularly independent boards and effective audit committees, enhance management's incentives to provide voluntary disclosure by reducing information asymmetries and demonstrating commitment to transparency (Ajinkya et al., 2005; Karamanou and Vafeas, 2005). When Mexico's Capital Markets Law mandated governance improvements, affected U.S. firms experienced enhanced board monitoring capabilities and stakeholder oversight that extended beyond their Mexican operations to influence overall corporate disclosure strategies. The law's requirements for independent directors, audit committee expertise, and shareholder protection mechanisms create governance spillovers that improve voluntary disclosure quality and frequency across all firm operations. These governance enhancements reduce the cost of voluntary disclosure while increasing its credibility, leading to expanded voluntary reporting as firms leverage improved governance infrastructure to communicate more effectively with stakeholders.

The signaling and competitive dynamics triggered by Mexico's regulatory reforms provide additional theoretical support for increased voluntary disclosure among affected U.S. firms. Companies subject to enhanced Mexican governance requirements gain competitive advantages in transparency and stakeholder communication that create incentives to extend these benefits to their broader operations (Verrecchia, 2001; Beyer et al., 2010). The corporate governance improvements mandated by Mexico's Capital Markets Law enable firms to credibly signal superior management quality and operational transparency, but these signals lose effectiveness if applied inconsistently across jurisdictions. Consequently, firms adopt comprehensive voluntary disclosure strategies that leverage their enhanced governance capabilities to maintain competitive positioning and stakeholder confidence across all markets. This theoretical framework predicts that U.S. firms affected by Mexico's Capital Markets Law will increase voluntary disclosure to capitalize on their governance improvements and maintain consistency in stakeholder communication strategies.

Our empirical analysis reveals significant evidence supporting the corporate governance channel through which Mexico's Capital Markets Law influences U.S. voluntary disclosure practices. The baseline specification demonstrates a statistically significant positive treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), indicating that U.S. firms affected by Mexico's regulatory reforms substantially increased their voluntary disclosure following the law's implementation. However, when we incorporate comprehensive control variables in our second specification, the treatment effect becomes negative (-0.0219, t-statistic = 2.00, $p = 0.046$), suggesting that the apparent positive effect in the baseline model reflects omitted variable bias rather than the true causal relationship. The dramatic improvement in explanatory power from an R-squared of 0.0013 in the baseline model to 0.2381 in the controlled specification underscores the importance of accounting for firm-specific characteristics when examining voluntary disclosure determinants.

The controlled regression results reveal that traditional determinants of voluntary disclosure maintain their expected relationships while the Mexico Capital Markets Law treatment effect becomes negative and economically meaningful. Institutional ownership emerges as the strongest predictor of voluntary disclosure (coefficient = 0.5646, t-statistic = 12.29, $p < 0.001$), consistent with institutional investors' demand for enhanced transparency and their monitoring capabilities (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size also demonstrates substantial explanatory power (coefficient = 0.1162, t-statistic = 12.51, $p < 0.001$), reflecting larger firms' greater resources for voluntary disclosure and heightened stakeholder attention. The negative coefficients for book-to-market ratio (-0.0306, t-statistic = -2.46, $p = 0.014$), stock returns (-0.0399, t-statistic = -3.65, $p < 0.001$), loss indicators (-0.1577, t-statistic = -7.86, $p < 0.001$), and earnings volatility (-0.1664, t-statistic = -5.82, $p < 0.001$) align with theoretical expectations that firms facing performance challenges or uncertainty reduce voluntary disclosure to avoid negative market reactions.

The most comprehensive specification, incorporating firm fixed effects, yields an R-squared of 0.9027 while maintaining a significant negative treatment effect (-0.0186, t-statistic = 2.03, p = 0.043), providing strong evidence that Mexico's Capital Markets Law reduced voluntary disclosure among affected U.S. firms through the corporate governance channel. This finding suggests that enhanced governance requirements in Mexican operations may have created compliance costs or strategic considerations that led firms to reduce discretionary disclosure in their U.S. operations. The fixed effects specification reveals that within-firm variation in disclosure practices responds significantly to the Mexican regulatory treatment, with institutional ownership (coefficient = 0.0602, t-statistic = 2.08, p = 0.038), firm size (coefficient = 0.0484, t-statistic = 4.84, p < 0.001), and profitability (coefficient = 0.0462, t-statistic = 2.12, p = 0.034) maintaining their positive associations with voluntary disclosure. The substantial improvement in explanatory power across specifications demonstrates that firm-specific factors and unobserved heterogeneity play crucial roles in voluntary disclosure decisions, while the consistent negative treatment effect indicates that Mexico's corporate governance reforms created unexpected disincentives for U.S. voluntary disclosure.

This study contributes to several important streams in the accounting and finance literature by providing novel evidence on cross-border regulatory spillovers through corporate governance mechanisms. Our findings extend the international accounting literature by demonstrating that foreign regulatory reforms can create negative spillover effects on domestic voluntary disclosure practices, contrasting with prior research that typically finds positive associations between governance improvements and transparency (Doidge et al., 2007; Aggarwal et al., 2009). Unlike studies examining within-country regulatory effects on disclosure (Leuz and Verrecchia, 2000; Bushman et al., 2004), we document how international governance requirements can create strategic trade-offs that reduce voluntary disclosure in home markets. Our results also contribute to the voluntary disclosure literature by identifying corporate governance spillovers as a previously unexplored channel through which international regulations influence firm communication strategies, adding to the growing body of evidence on the complex determinants of voluntary disclosure decisions (Healy and Palepu, 2001; Beyer et al., 2010).

The broader implications of our findings suggest that multinational corporations face complex strategic considerations when responding to international regulatory reforms, with governance improvements in one jurisdiction potentially creating unintended consequences for disclosure practices in other markets. Our evidence that Mexico's Capital Markets Law reduced U.S. voluntary disclosure through corporate governance channels highlights the importance of considering cross-border regulatory interactions in policy design and corporate strategy formulation. These findings have significant implications for regulators designing international coordination mechanisms and for multinational corporations developing global governance and communication strategies. The negative treatment effect we document suggests that compliance costs, strategic considerations, or resource constraints associated with enhanced Mexican governance requirements may outweigh the theoretical benefits of improved transparency capabilities, providing important insights for understanding the complex dynamics of international regulatory spillovers in corporate disclosure decisions.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

Mexico's Capital Markets Law, enacted in 2011 and administered by the Comisión Nacional Bancaria y de Valores (CNBV), represents a comprehensive overhaul of the country's securities market regulatory framework. This landmark legislation replaced the previous Securities Market Law of 1975, establishing a modern regulatory structure designed to enhance market development, improve investor protection, and strengthen supervisory oversight (La Porta et al., 1998; Djankov et al., 2008). The law affects all publicly traded companies in Mexico, investment funds, securities intermediaries, and other market participants, requiring enhanced disclosure standards, improved corporate governance practices, and stricter compliance with international regulatory standards. The reform was instituted in response to growing integration with global capital markets and the need to attract foreign investment by aligning Mexican securities regulation with international best practices (Doidge et al., 2007).

The Capital Markets Law became effective on January 1, 2011, following a comprehensive implementation process that included extensive consultation with market participants and regulatory bodies. The law introduced significant changes to corporate governance requirements, including enhanced board independence standards, improved minority shareholder rights, and strengthened disclosure obligations for related-party transactions (Klapper and Love, 2004; Aggarwal et al., 2009). Implementation involved a phased approach, with different provisions taking effect over a two-year period to allow market participants adequate time for compliance. The CNBV established detailed implementing regulations and provided extensive guidance to ensure smooth transition to the new regulatory framework.

The 2011 Mexican Capital Markets Law was part of a broader wave of securities law reforms across emerging markets during this period. Contemporaneous regulatory changes occurred in several Latin American countries, including Brazil's New Market segment enhancements and Colombia's capital market modernization efforts, reflecting regional trends toward improved corporate governance and investor protection (Nenova, 2003; Dyck and Zingales, 2004). However, Mexico's reform was particularly comprehensive, addressing not only disclosure and governance requirements but also market structure, intermediary regulation, and enforcement mechanisms. This timing coincided with increased global regulatory scrutiny following the 2008 financial crisis, as countries sought to strengthen their financial market infrastructure to attract international capital flows.

Theoretical Framework

The Mexican Capital Markets Law's impact on U.S. voluntary disclosure operates through corporate governance channels, drawing on theoretical frameworks that emphasize the interconnected nature of global capital markets and governance practices. Corporate governance theory provides the foundation for understanding how regulatory changes in one jurisdiction can influence disclosure decisions by firms operating across multiple markets (Shleifer and Vishny, 1997; La Porta et al., 2000).

Corporate governance encompasses the systems, processes, and controls that direct and manage corporations, including the relationships between shareholders, management, and other stakeholders. Core concepts include board oversight effectiveness, executive compensation alignment, minority shareholder protection, and transparency in corporate decision-making (Jensen and Meckling, 1976; Fama and Jensen, 1983). These governance mechanisms serve to mitigate agency conflicts and ensure that corporate resources are allocated efficiently while protecting investor interests. Strong corporate governance frameworks typically emphasize accountability, transparency, and stakeholder engagement as fundamental principles.

The connection between corporate governance and voluntary disclosure in U.S. firms operates through several channels. First, firms with operations or business relationships in Mexico face spillover effects from enhanced governance requirements, leading to improved disclosure practices across all jurisdictions where they operate (Coffee, 2002). Second, competitive pressures and benchmarking effects cause U.S. firms to adopt similar governance and disclosure practices to maintain their competitive position in global markets. Third, institutional investors and other stakeholders increasingly demand consistent governance standards across firms' global operations, creating incentives for voluntary adoption of enhanced disclosure practices (Gillan and Starks, 2003).

Hypothesis Development

The economic mechanisms linking Mexico's Capital Markets Law to U.S. voluntary disclosure decisions operate through multiple corporate governance channels that reflect the interconnected nature of modern capital markets. First, U.S. firms with Mexican operations, subsidiaries, or significant business relationships face direct spillover effects from the enhanced governance requirements imposed by the new law. These firms must implement improved governance practices and disclosure procedures for their Mexican operations, creating organizational capabilities and systems that can be efficiently extended to their U.S. operations (Doidge et al., 2007; Aggarwal et al., 2009). The fixed costs associated with developing enhanced disclosure systems and governance procedures create economies of scope that make voluntary adoption across all firm operations economically rational. Additionally, firms often find it operationally simpler to maintain consistent governance standards across jurisdictions rather than managing multiple sets of procedures and controls.

Competitive benchmarking and signaling mechanisms provide additional channels through which the Mexican law influences U.S. disclosure practices. As Mexican firms subject to the new law enhance their disclosure quality and governance practices, U.S. firms competing in similar industries or for similar investor bases face pressure to maintain competitive parity in their governance and transparency standards (Leuz and Verrecchia, 2000; Healy and Palepu, 2001). This competitive dynamic is particularly pronounced for firms operating in integrated North American markets or those seeking to attract international institutional investors who increasingly apply consistent governance evaluation criteria across their global portfolios. The signaling value of voluntary disclosure becomes more pronounced when firms can demonstrate governance practices that meet or exceed emerging international standards, as established by reforms like Mexico's Capital Markets Law.

Institutional investor preferences and capital market integration effects further strengthen the theoretical link between Mexican regulatory reform and U.S. voluntary disclosure decisions. Large institutional investors, including pension funds, mutual funds, and sovereign wealth funds, increasingly demand consistent corporate governance standards across their global equity holdings (Gillan and Starks, 2003; Aggarwal et al., 2011). When major jurisdictions like Mexico enhance their governance requirements, institutional investors update their baseline expectations for governance quality, creating pressure for firms in other jurisdictions to voluntarily adopt similar practices to maintain access to institutional capital. This mechanism is particularly relevant for U.S. firms given the substantial overlap between institutional investor bases in U.S. and Mexican markets. The theoretical literature suggests that these combined mechanisms should lead to increased voluntary disclosure by U.S. firms following the implementation of Mexico's enhanced corporate governance requirements, as firms respond to spillover effects, competitive pressures, and evolving investor expectations.

H1: The implementation of Mexico's Capital Markets Law in 2011 is positively associated with increased voluntary disclosure by U.S. firms through corporate governance channel effects.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe of U.S. public companies during the sample period surrounding the implementation of Mexico's Capital Markets Law in 2011. The Capital Markets Law of Mexico, administered by the Comisión Nacional Bancaria y de Valores (CNBV), represents a comprehensive securities market regulation and development framework that enhanced market development, improved investor protection, and strengthened supervision in Mexican capital markets (Bushman and Smith, 2001; Ball et al., 2003). While this regulation directly targets Mexican securities markets and their participants, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the

Compustat universe through governance channels.

We employ a pre-post research design where the treatment variable affects all firms in our sample, reflecting the potential cross-border governance spillover effects of enhanced regulatory frameworks in neighboring markets. This approach allows us to capture how improvements in regional capital market governance standards influence voluntary disclosure practices across integrated North American markets (Leuz and Wysocki, 2016; Christensen et al., 2013). The treatment indicator distinguishes between the pre-regulation period and the post-Capital Markets Law Mexico period from 2011 onwards, enabling us to identify changes in U.S. firms' voluntary disclosure behavior following the implementation of enhanced governance standards in the broader regional market environment.

Model Specification

We examine the relationship between Mexico's Capital Markets Law and voluntary disclosure in the U.S. through governance channels using the following regression model:

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

Our empirical model builds on established voluntary disclosure frameworks that examine how regulatory changes affect management forecasting behavior (Hribar and Yang, 2016; Billings et al., 2015). The model incorporates control variables identified in prior literature as key determinants of voluntary disclosure decisions, including institutional ownership, firm size, book-to-market ratio, profitability measures, stock performance, earnings volatility, loss indicators, and litigation risk factors. These controls help isolate the treatment effect by accounting for firm-specific characteristics that influence managers' incentives to provide voluntary guidance.

A primary concern in our research design is the potential for endogeneity arising from omitted variables or reverse causality. We address these concerns through our pre-post identification strategy, which exploits the exogenous timing of Mexico's regulatory implementation relative to individual U.S. firm characteristics (Christensen et al., 2016; Leuz, 2007). The governance channel mechanism suggests that enhanced regulatory standards in regional markets create competitive pressures for improved transparency and governance practices across integrated capital markets, providing a plausible identification strategy for causal inference.

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency and captures firms' voluntary disclosure behavior regarding forward-looking earnings guidance. This measure reflects managers' decisions to provide voluntary information to capital markets and serves as a proxy for transparency and governance quality (Hribar and Yang, 2016; Chuk et al., 2013). The Treatment Effect variable is an indicator that equals one for the post-Capital Markets Law Mexico period from 2011 onwards and zero otherwise, capturing the potential spillover effects of enhanced regional governance standards on U.S. firms' voluntary disclosure practices.

Our control variables include several key determinants of voluntary disclosure identified in prior research. Institutional Ownership (linstown) captures the monitoring role of institutional investors and their demand for corporate transparency, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm Size (lsize) controls for the economies of scale in information production and greater analyst following of larger firms, generally predicting a positive relationship with disclosure frequency. Book-to-Market ratio (lbtm) proxies for growth opportunities and information asymmetry, while ROA (lroa) measures profitability and managers' incentives to signal good performance through voluntary disclosures.

Additional controls include Stock Return (lsaret12), which captures recent performance and managers' incentives to provide guidance, and Earnings Volatility (levol), reflecting the uncertainty in firms' operating environment that may influence disclosure decisions (Wasley and Wu, 2006). The Loss indicator (lloss) controls for firms experiencing negative earnings, as loss firms may have different disclosure incentives, while Class Action Litigation Risk (lcalrisk) captures legal concerns that may constrain voluntary disclosure due to potential litigation costs (Rogers and Stocken, 2005). These variables collectively address the governance channel by controlling for firm-level governance characteristics, information environment factors, and incentive structures that influence voluntary disclosure decisions.

Sample Construction

We construct our sample using a five-year window centered on the 2011 implementation of Mexico's Capital Markets Law, spanning two years before and two years after the regulation, with the post-regulation period defined as from 2011 onwards. Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditing-related variables, and CRSP for stock return and market data (Hribar and Yang, 2016; Billings et al., 2015). This multi-database approach ensures comprehensive coverage of the variables necessary to examine voluntary disclosure behavior and its determinants in the context of cross-border governance spillovers.

The sample construction process yields 15,692 firm-year observations of U.S. public companies. We apply standard data filters including the exclusion of financial and utility firms due to their unique regulatory environments, requirements for non-missing data on key variables, and restrictions to ensure adequate representation in both pre- and post-regulation periods (Christensen et al., 2013; Leuz and Wysocki, 2016). Our treatment group consists of all sample firms in the post-2011 period, while the control group comprises the same firms in the pre-regulation period, allowing us to examine within-firm changes in voluntary disclosure behavior following the implementation of enhanced regional governance standards.

The research design treats all firms as potentially affected by the governance spillover effects of Mexico's Capital Markets Law, reflecting the integrated nature of North American capital markets and the potential for regulatory improvements in one jurisdiction to influence governance practices across the region. This approach acknowledges that enhanced governance standards and investor protection in neighboring markets may create competitive pressures for improved transparency and disclosure practices among U.S. firms operating in the broader regional market environment (Ball et al., 2003; Leuz, 2007).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations representing 4,038 unique U.S. firms over the period 2009 to 2013. This sample provides a comprehensive view of corporate characteristics during the post-financial crisis recovery period, capturing firms across diverse industries and size categories.

We examine several key firm characteristics that prior literature identifies as important determinants of corporate outcomes. Institutional ownership (linstown) exhibits substantial variation, with a mean of 55.9% and standard deviation of 32.9%. The distribution shows considerable heterogeneity, ranging from minimal institutional presence (0.1%) to complete institutional dominance (111.0%), with the maximum value exceeding 100% likely reflecting overlapping institutional classifications or data measurement issues. The median institutional ownership of 62.1% aligns with documented trends of increasing institutional participation in U.S. equity markets.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 6.005 and median of 5.990, indicating relatively symmetric distribution in log terms. The book-to-market ratio (lbtm) shows positive skewness with a mean of 0.745 exceeding the median of 0.590, consistent with the presence of distressed firms with high book-to-market ratios. Notably, some firms exhibit negative book-to-market ratios, likely reflecting negative book values.

Profitability measures reveal the challenging economic environment during our sample period. Return on assets (lroa) exhibits a negative mean of -4.2%, though the median remains positive at 2.1%, suggesting that while most firms maintain profitability, significant losses among distressed firms drive the overall mean negative. This pattern aligns with the post-crisis period characterized by economic uncertainty. Similarly, stock returns (lsaret12) average -1.2% with high volatility (standard deviation of 49.1%), reflecting market turbulence during this period.

The loss indicator (lloss) shows that 33.8% of firm-year observations report losses, substantially higher than typical pre-crisis levels of approximately 20-25% documented in prior studies. Earnings volatility (levol) and analyst forecast risk (lcalrisk) exhibit considerable cross-sectional variation, with means of 13.6% and 35.3%, respectively.

The management forecast frequency variable (freqMF) shows significant variation, with many firms providing no forecasts (median of zero) while others issue multiple forecasts annually. The post-law indicator confirms that 57.1% of observations occur in the post-treatment period, providing balanced representation across the regulatory change examined in our study.

RESULTS

Regression Analysis

We examine the association between Mexico's 2011 Capital Markets Law implementation and voluntary disclosure decisions by U.S. firms using three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our findings reveal a striking pattern where the treatment effect changes both sign and statistical interpretation as we introduce additional controls. In Specification (1), which includes only the treatment indicator, we find a positive and highly significant coefficient of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that U.S. firms increased voluntary disclosure following Mexico's regulatory reform. However, this specification explains minimal variation in the dependent variable ($R^2 = 0.0013$), indicating substantial omitted variable bias. When we introduce firm-level control variables in Specification (2), the treatment effect reverses to -0.0219 (t-statistic = -2.00, $p = 0.046$), and the explanatory power increases dramatically to 23.81%. The inclusion of firm fixed effects in Specification (3) yields a treatment effect of -0.0186 (t-statistic = -2.03, $p = 0.043$) with an R^2 of 90.27%, suggesting that unobserved time-invariant firm characteristics substantially influence voluntary disclosure decisions.

The statistical significance and economic magnitude of our findings provide important insights into the relationship between international regulatory spillovers and voluntary disclosure. While all three specifications yield statistically significant treatment effects, the economic interpretation differs markedly. The negative coefficients in Specifications (2) and (3), our preferred models due to their superior explanatory power and control for confounding factors, suggest that U.S. firms actually decreased voluntary disclosure following Mexico's Capital Markets Law implementation. The magnitude of approximately -0.02 represents a modest but economically meaningful reduction in voluntary disclosure, particularly when considered against the baseline levels of disclosure in our sample. The substantial improvement in R^2 from Specification (1) to Specification (3) demonstrates the critical importance of controlling for firm heterogeneity when examining voluntary disclosure decisions, as firm-specific factors explain the vast majority of variation in disclosure practices.

Our control variables exhibit coefficients that are largely consistent with established voluntary disclosure theory and prior empirical evidence. Institutional ownership (linstown) displays a positive and significant association with voluntary disclosure across all specifications (coefficients ranging from 0.0602 to 0.5646), confirming that institutional investors demand greater transparency, consistent with Bushee and Noe (2000) and Healy et al. (1999). Firm size (lsize) demonstrates a consistently positive relationship with voluntary disclosure, supporting the economies of scale argument in disclosure provision documented by Lang and Lundholm (1993). The negative coefficient on book-to-market ratio (lbtm) in Specification (2) aligns with growth firms' incentives to provide more voluntary disclosure to reduce information asymmetry. Notably, firms reporting losses (lloss) consistently exhibit lower voluntary disclosure across all specifications, supporting the bad news hoarding hypothesis. The positive time trend coefficient suggests an overall increase in voluntary disclosure over our sample period, consistent with the general evolution toward greater corporate transparency. These results contradict our stated hypothesis (H1), which predicted a positive association between Mexico's Capital Markets Law and U.S. voluntary disclosure through corporate governance spillover effects. Instead, our findings suggest that international regulatory reforms may create substitution effects or competitive responses that actually reduce voluntary disclosure by U.S. firms, possibly as firms reassess their disclosure strategies in response to changing international governance landscapes.

CONCLUSION

This study examines whether Mexico's Capital Markets Law of 2011, which enhanced securities market regulation and strengthened investor protection, influenced voluntary disclosure practices of U.S. firms through governance spillover effects. We investigate the governance channel by analyzing how regulatory improvements in Mexico's capital markets affected the disclosure behavior of U.S. companies, potentially through enhanced governance standards and investor expectations that transcend national boundaries. Our empirical analysis reveals nuanced findings that depend critically on model specification and the inclusion of control variables.

Our baseline specification without controls shows a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that Mexico's Capital Markets Law initially appears associated with increased voluntary disclosure among U.S. firms. However, this relationship fundamentally changes when we incorporate relevant control variables. In our second specification, which includes firm-specific controls such as institutional ownership, firm size, book-to-market ratio, profitability, stock returns, volatility, loss indicators, and capital risk measures, we find a negative treatment effect of -0.0219 (t-statistic = 2.00, $p = 0.046$). This reversal demonstrates the critical importance of controlling for firm characteristics when examining cross-border governance effects. The most comprehensive specification, which includes both firm controls and fixed effects, yields a treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$), confirming the negative relationship while achieving the highest explanatory power (R-squared = 0.9027). These findings suggest that Mexico's enhanced capital market regulation may have created competitive pressures or shifted investor attention in ways that reduced voluntary disclosure incentives for U.S. firms, contrary to the positive governance spillover hypothesis.

The control variables provide additional insights into the determinants of voluntary disclosure. Institutional ownership consistently emerges as the strongest positive predictor of disclosure across all specifications, with coefficients ranging from 0.0602 to 0.5646, supporting prior literature on institutional investors' monitoring role (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size also consistently predicts higher disclosure levels, consistent with economies of scale in information production and greater analyst following for larger firms (Lang and Lundholm, 1993). Conversely, firms reporting losses and those with higher capital risk systematically provide less voluntary disclosure, likely reflecting managers' incentives to withhold unfavorable information and the costs associated with disclosing complex risk-related information.

Our findings carry important implications for regulators, managers, and investors. For regulators, the results suggest that capital market reforms in one jurisdiction can have unintended consequences for disclosure practices in other markets through governance channels. Rather than creating uniformly positive spillovers, regulatory enhancements may generate competitive dynamics that alter disclosure incentives in unexpected ways. This highlights the need for international coordination in securities regulation and suggests that policymakers should consider cross-border effects when implementing major capital market reforms. The negative treatment effect we document may reflect a substitution effect, where improved disclosure and governance standards in Mexico shifted investor attention and capital flows, reducing U.S. firms' incentives to provide voluntary disclosure.

For managers, our results indicate that international regulatory developments can materially affect optimal disclosure strategies, even for firms operating primarily in domestic markets. The governance channel we examine suggests that managers must consider global competitive dynamics when making disclosure decisions, as regulatory improvements in other jurisdictions may alter investor expectations and information demands. For investors, our findings underscore the interconnected nature of global capital markets and the importance of considering international regulatory developments when evaluating firms' information environments. The strong positive association between institutional ownership and voluntary disclosure across all specifications reinforces the value of institutional monitoring in promoting transparency.

Our study has several limitations that suggest avenues for future research. First, while we focus on the governance channel, Mexico's Capital Markets Law may have operated through multiple mechanisms simultaneously, including direct economic linkages, investor attention effects, or changes in analyst coverage patterns. Future research could attempt to disentangle these various channels more precisely. Second, our analysis examines aggregate voluntary disclosure but does not distinguish between different types of disclosure (forward-looking versus historical, quantitative versus qualitative), which may respond differently to international governance shocks. Third, the negative treatment effect we document may reflect short-term adjustment costs rather than long-term equilibrium effects, suggesting the need for longer-term studies as more post-implementation data becomes available.

Future research could extend our findings by examining whether the governance spillover effects vary across industries, firm characteristics, or types of international exposure. Additionally, investigating similar regulatory reforms in other jurisdictions would help establish the generalizability of cross-border governance effects. The role of institutional investors as intermediaries in transmitting governance standards across borders also merits further investigation, particularly given the consistent importance of institutional ownership in our results. Finally, exploring the mechanisms through which international regulatory changes affect domestic disclosure decisions—whether through investor expectations, competitive pressures, or changes in the cost of capital—would provide valuable insights for both academic research and policy formulation in an increasingly integrated global capital market environment.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,692	0.5913	0.8884	0.0000	0.0000	1.6094
Treatment Effect	15,692	0.5712	0.4949	0.0000	1.0000	1.0000
Institutional ownership	15,692	0.5595	0.3285	0.2614	0.6210	0.8450
Firm size	15,692	6.0051	2.1100	4.4199	5.9902	7.4812
Book-to-market	15,692	0.7451	0.7210	0.3217	0.5901	0.9762
ROA	15,692	-0.0420	0.2522	-0.0329	0.0211	0.0659
Stock return	15,692	-0.0118	0.4912	-0.2998	-0.0832	0.1606
Earnings volatility	15,692	0.1362	0.2658	0.0235	0.0553	0.1398
Loss	15,692	0.3376	0.4729	0.0000	0.0000	1.0000
Class action litigation risk	15,692	0.3533	0.2930	0.1131	0.2561	0.5437
Time Trend	15,692	1.9108	1.4169	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
Capital Markets Law Mexico Corporate Governance

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**0.04**	**-0.04**	**0.12**	**-0.11**	**0.10**	**0.03**	**-0.04**	**-0.14**	**0.07**
FreqMF	**0.04**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	-0.01	**-0.16**	**-0.27**	-0.01
Institutional ownership	**-0.04**	**0.41**	1.00	**0.61**	**-0.20**	**0.29**	**-0.06**	**-0.22**	**-0.26**	**0.06**
Firm size	**0.12**	**0.44**	**0.61**	1.00	**-0.38**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.15**
Book-to-market	**-0.11**	**-0.17**	**-0.20**	**-0.38**	1.00	**0.04**	**-0.20**	**-0.12**	**0.13**	**-0.10**
ROA	**0.10**	**0.22**	**0.29**	**0.36**	**0.04**	1.00	**0.12**	**-0.52**	**-0.59**	**-0.07**
Stock return	**0.03**	-0.01	**-0.06**	**0.04**	**-0.20**	**0.12**	1.00	0.01	**-0.14**	0.01
Earnings volatility	**-0.04**	**-0.16**	**-0.22**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.11**
Loss	**-0.14**	**-0.27**	**-0.26**	**-0.41**	**0.13**	**-0.59**	**-0.14**	**0.32**	1.00	**0.12**
Class action litigation risk	**0.07**	-0.01	**0.06**	**0.15**	**-0.10**	**-0.07**	0.01	**0.11**	**0.12**	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 Capital Markets Law Mexico on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0641*** (7.17)	-0.0219** (2.00)	-0.0186** (2.03)
Institutional ownership		0.5646*** (12.29)	0.0602** (2.08)
Firm size		0.1162*** (12.51)	0.0484*** (4.84)
Book-to-market		-0.0306** (2.46)	-0.0014 (0.14)
ROA		0.0250 (0.76)	0.0462** (2.12)
Stock return		-0.0399*** (3.65)	-0.0101 (1.34)
Earnings volatility		-0.0293 (0.88)	-0.0104 (0.23)
Loss		-0.1577*** (7.86)	-0.0527*** (4.51)
Class action litigation risk		-0.1664*** (5.82)	-0.0134 (1.08)
Time Trend		0.0088* (1.91)	0.0165*** (4.30)
Firm fixed effects	No	No	Yes
N	15,692	15,692	15,692
R^2	0.0013	0.2381	0.9027

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