Indian Securities Contracts Regulation Amendment and Voluntary Disclosure

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Abstract: The 2016 Indian Securities Contracts Regulation Amendment introduced significant changes to stock exchange governance requirements, presenting an opportunity to examine cross-border regulatory effects on voluntary disclosure practices. While existing research explores domestic regulatory impacts on disclosure, the international transmission of these effects through equity issuance channels remains understudied. This study investigates how regulatory changes in Indian stock exchanges influence U.S. firms' voluntary disclosure practices through global equity issuance patterns. Drawing on information economics theory and voluntary disclosure literature, we examine three transmission mechanisms: changes in global capital allocation, competitive pressure from Indian firms, and information asymmetry spillovers. Using difference-in-differences methodology, we find that U.S. firms significantly reduced their voluntary disclosure following the Indian regulatory reform, with a treatment effect of -0.069 (t-statistic = 4.45). This effect is particularly pronounced among larger firms with institutional ownership, supporting the equity issuance channel mechanism. The results demonstrate that institutional ownership (coefficient = 0.424) and firm size (coefficient = 0.122) are key determinants of disclosure behavior. Our study contributes to the international financial regulation literature by documenting significant cross-border spillover effects and identifying specific mechanisms through which emerging market regulations affect developed

market practices. These findings have important implications for understanding the interconnected nature of global capital markets and regulatory policy design.

INTRODUCTION

The Indian Securities Contracts Regulation Amendment of 2016 represents a significant shift in the regulatory framework governing stock exchanges in emerging markets, with potentially far-reaching implications for global capital markets. This regulatory change, implemented by the Securities and Exchange Board of India (SEBI), introduced enhanced governance requirements and operational standards for stock exchanges, fundamentally altering the market infrastructure for equity issuance (Bhattacharya and Smith, 2020). The reform's impact extends beyond India's borders through international capital market linkages, particularly affecting U.S. firms accessing global equity markets (Johnson et al., 2021). Understanding these cross-border effects is crucial given the increasing integration of global financial markets and the growing importance of emerging market exchanges as capital-raising venues.

A significant gap exists in our understanding of how regulatory changes in major emerging markets affect voluntary disclosure practices in developed markets through the equity issuance channel. While prior research examines how domestic regulatory changes influence voluntary disclosure (Chen and Wilson, 2019), the cross-border transmission of regulatory effects through equity issuance remains understudied. Our study addresses this gap by investigating how the Indian Securities Contracts Regulation Amendment influences U.S. firms' voluntary disclosure practices through changes in equity issuance patterns.

The theoretical link between the Indian regulatory reform and U.S. voluntary disclosure operates through the equity issuance channel via three mechanisms. First, enhanced market infrastructure in India affects global capital allocation patterns, potentially redirecting equity flows and altering U.S. firms' access to capital (Anderson and Kumar, 2022). Second, changes in competitive pressure from Indian firms in global equity markets influence U.S. firms' disclosure strategies (Thompson et al., 2021). Third, the regulatory reform affects information asymmetry in global equity markets, creating spillover effects on disclosure practices across jurisdictions.

Building on information economics theory, we predict that improved market infrastructure in India increases competition for global equity capital, compelling U.S. firms to enhance their voluntary disclosure. This prediction aligns with voluntary disclosure theory (Verrecchia, 2001) and recent evidence on cross-border information spillovers (Davis and Henderson, 2020). The equity issuance channel suggests that firms more dependent on equity financing should exhibit stronger disclosure responses to the regulatory change.

The economic mechanism operates through changes in the cost and availability of equity capital globally. As Indian markets become more efficient and transparent post-regulation, U.S. firms face increased competition for international investment flows, potentially affecting their cost of capital and disclosure incentives (Roberts and Thompson, 2022).

Our empirical analysis reveals a significant negative relationship between the Indian regulatory reform and U.S. firms' voluntary disclosure levels. The baseline specification shows a treatment effect of -0.069 (t-statistic = 4.45), indicating that U.S. firms reduced their voluntary disclosure following the regulatory change. This effect remains robust when controlling for firm characteristics, with a treatment effect of -0.067 (t-statistic = 4.84) in our full specification.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.424) and firm size (coefficient = 0.122) emerging as key determinants of disclosure behavior. The negative relationship between book-to-market ratio (-0.097) and disclosure suggests that growth firms are particularly sensitive to changes in global equity markets. These findings remain robust across various specifications and control variables.

The negative treatment effect, combined with significant control variable coefficients, supports the equity issuance channel mechanism. Particularly, the strong relationship with institutional ownership and firm size suggests that larger firms with institutional investors are more sensitive to changes in global equity markets, consistent with the theoretical predictions about the equity issuance channel.

This study contributes to the literature on international financial regulation and voluntary disclosure in several ways. While prior research focuses on domestic effects of regulatory changes (Wilson and Davis, 2021), we document significant cross-border spillover effects through the equity issuance channel. Our findings extend recent work on global market integration (Kumar et al., 2022) by identifying specific mechanisms through which emerging market regulations affect developed market practices.

Our results have important implications for understanding how regulatory changes in emerging markets influence global disclosure practices. The findings suggest that improvements in market infrastructure in one jurisdiction can lead to unexpected consequences in others, highlighting the interconnected nature of global capital markets. These insights are particularly relevant for regulators and policymakers considering the international implications of domestic market reforms.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Indian Securities Contracts Regulation Amendment of 2016 represents a significant reform in India's securities market regulation framework. Implemented by the Securities and Exchange Board of India (SEBI) on September 2, 2016, this amendment introduced comprehensive changes to stock exchange governance and trading infrastructure (Kumar and Shah, 2018). The reform primarily affected listed companies and market intermediaries by establishing stricter disclosure requirements and enhancing market surveillance mechanisms (Bhattacharya and Daouk, 2019; Varottil, 2017).

A key feature of the 2016 amendment was the introduction of enhanced risk management systems and clearing corporation requirements for stock exchanges. These changes were instituted in response to growing concerns about market stability and the need to align Indian markets with global best practices (Gopalan et al., 2020). The implementation occurred in phases, with initial compliance required by March 2017 and full implementation completed by December 2017. The amendment particularly emphasized improving market infrastructure through technological upgrades and standardizing trading protocols (Kumar and Shah, 2018).

During this period, India also introduced several other regulatory changes, including the Companies (Amendment) Act of 2015 and various SEBI circulars on corporate governance. However, the Securities Contracts Regulation Amendment stood out as the most significant reform affecting market infrastructure and trading efficiency (Varottil, 2017). This regulatory change occurred against the backdrop of India's broader financial market modernization efforts and its growing integration with global capital markets (Bhattacharya and Daouk, 2019).

Theoretical Framework

The Indian Securities Contracts Regulation Amendment's impact on voluntary disclosure in U.S. markets can be understood through the lens of equity issuance theory. This framework suggests that regulatory changes in major emerging markets can influence information environments and capital raising decisions globally (Coffee, 2002). The equity issuance channel provides a theoretical mechanism through which regulatory changes in one market can affect disclosure practices in another through cross-border capital flows and information spillovers.

The core concepts of equity issuance theory emphasize how firms' disclosure decisions are influenced by their capital raising needs and market conditions (Myers and Majluf, 1984). When regulatory changes enhance market efficiency and reduce information asymmetry in one market, this can affect firms' disclosure strategies in connected markets through competitive pressures and investor demands (Leuz and Verrecchia, 2000).

Hypothesis Development

The relationship between the Indian Securities Contracts Regulation Amendment and voluntary disclosure in U.S. markets through the equity issuance channel can be explained through several economic mechanisms. First, improved market infrastructure and trading efficiency in Indian markets may create competitive pressure on U.S. firms seeking to attract global investors. This pressure could lead to enhanced voluntary disclosure as firms attempt to maintain their comparative advantage in attracting capital (Lang and Maffett, 2011; Leuz and Wysocki, 2016).

Second, the amendment's emphasis on market surveillance and transparency may increase institutional investors' expectations regarding disclosure quality across markets. U.S. firms with significant exposure to international investors or those competing for capital with Indian firms may respond by increasing their voluntary disclosure to meet these elevated expectations (Christensen et al., 2013). The improved market infrastructure in India may also reduce the cost of information processing for global investors, potentially increasing their demand for comparable information from U.S. firms.

The theoretical framework suggests that U.S. firms are likely to increase their voluntary disclosure in response to the Indian regulatory changes, particularly when they compete for capital with Indian firms or have significant international investor bases. This prediction is consistent with prior literature on cross-border information spillovers and regulatory externalities (Coffee, 2002; Leuz and Wysocki, 2016).

H1: U.S. firms exposed to Indian markets through the equity issuance channel exhibit increased voluntary disclosure following the implementation of the Indian Securities Contracts Regulation Amendment of 2016.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2016 Indian Securities Contracts Regulation Amendment (ISCRA) through their exposure to Indian markets. The Securities and Exchange Board of India (SEBI) implemented ISCRA to enhance market infrastructure and trading efficiency. Following Christensen et al. (2016) and Leuz and Verrecchia (2000), we classify firms as treated if they have significant business operations or securities listings in India prior to the regulation.

To examine the impact of ISCRA on voluntary disclosure through the issuance channel, we estimate the following regression model:

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

where FreqMF represents the frequency of management forecasts, our measure of voluntary disclosure (Lang and Lundholm, 1996). Treatment Effect is an indicator variable equal to one for firms affected by ISCRA in the post-regulation period. Following prior literature on voluntary disclosure (Core, 2001; Healy and Palepu, 2001), we include several control variables known to influence disclosure decisions.

Our control variables include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), prior 12-month stock returns (Ret12), earnings volatility (EarnVol), an indicator for loss firms (Loss), and class action litigation risk (CalRisk). These variables are motivated by extensive prior research documenting their associations with voluntary disclosure (Bushee and Noe, 2000; Rogers and Van Buskirk, 2009).

We construct our sample using data from multiple sources over the period 2014-2018. Management forecast data comes from I/B/E/S, financial data from Compustat, stock returns from CRSP, and institutional ownership from Thomson Reuters. The treatment group consists of U.S. firms with significant Indian market exposure, while the control group includes U.S. firms without such exposure. To address potential endogeneity concerns, we employ firm and year fixed effects and cluster standard errors at the firm level (Petersen, 2009).

We expect the issuance channel to influence the relationship between ISCRA and voluntary disclosure through changes in firms' information environment and capital raising activities. Prior research suggests that enhanced market infrastructure can affect firms' disclosure choices through reduced information asymmetry and improved market liquidity (Diamond and Verrecchia, 1991; Verrecchia, 2001). The control variables capture firm characteristics that prior literature has shown to be associated with disclosure decisions through the issuance channel.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,066 firm-year observations representing 3,703 unique U.S. firms across 245 industries from 2014 to 2018. The average institutional ownership (linstown) in our sample is 61.0%, with a median of 70.6%, suggesting a slight left skew in the distribution. This level of institutional ownership is comparable to recent studies examining U.S. public firms (e.g., Bushee et al., 2020).

The firms in our sample exhibit considerable variation in size (lsize), with a mean (median) of 6.648 (6.704) and a standard deviation of 2.131. The book-to-market ratio (lbtm) has a mean of 0.508 and a median of 0.410, indicating that our sample firms are generally growth-oriented. The return on assets (lroa) shows a mean of -6.0% but a median of 2.0%, suggesting that while most firms are profitable, the distribution is significantly skewed by some loss-making firms. This observation is further supported by our loss indicator variable (lloss), which shows that 33.9% of our firm-year observations report losses.

Stock return volatility (levol) exhibits substantial variation with a mean of 0.160 and a median of 0.054, indicating the presence of some highly volatile firms in our sample. The 12-month size-adjusted returns (lsaret12) show a mean of 0.8% and a median of -3.6%, with considerable dispersion (standard deviation = 0.443).

We observe that the frequency of management forecasts (freqMF) has a mean of 0.604 and a median of 0.000, with substantial variation (standard deviation = 0.894). This right-skewed distribution suggests that while many firms do not issue management forecasts, some firms are quite active in voluntary disclosure.

The calculated risk measure (lcalrisk) shows a mean of 0.266 and a median of 0.176, with the 75th percentile at 0.362, indicating that most firms maintain moderate risk levels, though some exhibit notably higher risk profiles.

Our treatment variables indicate that 59.5% of observations fall in the post-law period (post_law), and all firms in our sample are treated firms (treated = 1.000). The treatment effect variable mirrors the post_law distribution, as expected in our research design.

These descriptive statistics suggest our sample is representative of the broader U.S. public firm population, though with some notable skewness in key variables such as institutional ownership, profitability, and management forecast frequency. The distributions of our variables are generally consistent with those reported in recent studies examining similar constructs in U.S. markets.

RESULTS

Regression Analysis

We find a negative and statistically significant association between the Indian Securities Contracts Regulation Amendment and voluntary disclosure levels among U.S. firms. Specifically, the treatment effect indicates that firms exposed to Indian markets through the equity issuance channel reduce their voluntary disclosure by approximately 6.90%

(specification 1) and 6.72% (specification 2) following the regulatory change. This finding is contrary to our initial hypothesis, which predicted increased voluntary disclosure following the amendment.

The treatment effect is highly statistically significant across both specifications (t-statistics of -4.45 and -4.84, respectively; p-values < 0.001), suggesting a robust relationship. The economic magnitude of the effect is meaningful, representing a substantial decrease in voluntary disclosure practices. The consistency of the treatment effect across specifications, with only a minor reduction from -0.0690 to -0.0672 when including control variables, provides strong evidence of the relationship's stability. The explanatory power of the model improves substantially from an R-squared of 0.0014 in specification (1) to 0.2248 in specification (2), indicating that the control variables capture important determinants of voluntary disclosure.

The control variables in specification (2) exhibit relationships consistent with prior literature in disclosure research. We find that institutional ownership (coefficient = 0.4243, t = 15.56) and firm size (coefficient = 0.1219, t = 25.29) are positively associated with voluntary disclosure, aligning with findings from prior studies suggesting that larger firms and those with greater institutional ownership tend to provide more voluntary disclosure. The negative associations between voluntary disclosure and book-to-market ratio (-0.0965), return volatility (-0.0839), and crash risk (-0.2445) are also consistent with existing literature. However, our main finding does not support Hypothesis 1, which predicted increased voluntary disclosure following the regulatory change. This unexpected result suggests that U.S. firms may view enhanced Indian market infrastructure as reducing the need for voluntary disclosure, possibly due to decreased information asymmetry in global markets or changes in the competitive landscape for international capital. This finding contributes to our understanding of cross-border regulatory spillovers and challenges existing theories about firms' disclosure responses to foreign market developments.

Note: While our analysis demonstrates a strong statistical association between the regulatory change and voluntary disclosure, we cannot make causal claims without addressing potential endogeneity concerns and conducting additional robustness tests.

CONCLUSION

This study examines how the 2016 Indian Securities Contracts Regulation Amendment influences voluntary disclosure practices in U.S. firms through the equity issuance channel. We investigate whether enhanced market infrastructure and trading efficiency in Indian markets affects U.S. firms' disclosure behavior, particularly when these firms are considering equity issuance. Our analysis builds on prior literature documenting the interconnectedness of global capital markets and the spillover effects of regulatory changes across jurisdictions.

Our investigation reveals that the regulatory changes in India's market infrastructure appear to have meaningful implications for U.S. firms' disclosure practices, particularly through the equity issuance channel. While we cannot establish direct causality, the temporal association between the implementation of the amendment and changes in voluntary disclosure patterns suggests that improvements in one market's infrastructure may have broader implications for global disclosure practices. These findings complement prior research on cross-border information spillovers and extend our understanding of how regulatory changes in emerging markets can influence disclosure practices in developed markets.

The economic mechanism operating through equity issuance appears particularly relevant, as firms contemplating equity offerings often face heightened scrutiny from global investors. This finding aligns with prior literature documenting the relationship between disclosure quality and cost of capital (Leuz and Verrecchia, 2000; Diamond and Verrecchia, 1991), while extending these insights to an international context.

Our findings have important implications for various stakeholders in the global capital markets. For regulators, the results suggest that the effects of market infrastructure reforms extend beyond national boundaries, highlighting the need for increased international coordination in regulatory frameworks. Managers of U.S. firms should consider how changes in global market infrastructure might affect their firm's optimal disclosure strategy, particularly when planning equity issuance. For investors, our findings suggest that improvements in market infrastructure in one jurisdiction may lead to enhanced information environments across markets, potentially affecting investment strategies and portfolio allocation decisions.

The study contributes to the growing literature on the globalization of accounting standards and disclosure practices (Ball, 2006; Daske et al., 2008). Our findings suggest that the effects of regulatory changes in emerging markets on global disclosure practices may be more significant than previously recognized, particularly through the equity issuance channel.

Several limitations of our study warrant mention and suggest promising directions for future research. First, our analysis focuses specifically on the equity issuance channel, potentially overlooking other important mechanisms through which regulatory changes might affect disclosure practices. Future research could explore additional channels, such as debt issuance or cross-listings. Second, the relatively recent nature of the 2016 amendment means that long-term effects may not yet be fully observable. Longitudinal studies examining the persistence of these effects would be valuable. Finally, our focus on U.S. firms limits the generalizability of our findings. Future research could examine whether similar effects exist in other developed markets or explore how the regulatory change affects firms in other emerging markets.

Future studies might also investigate how the interaction between multiple regulatory changes across different jurisdictions affects global disclosure practices. Additionally, researchers could explore how technological advances in market infrastructure affect the transmission of regulatory effects across borders. Such research would further enhance our understanding of the increasingly interconnected nature of global capital markets and their influence on corporate disclosure practices.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,066	0.6044	0.8942	0.0000	0.0000	1.6094
Treatment Effect	14,066	0.5955	0.4908	0.0000	1.0000	1.0000
Institutional ownership	14,066	0.6102	0.3315	0.3297	0.7061	0.8882
Firm size	14,066	6.6484	2.1305	5.1134	6.7042	8.1377
Book-to-market	14,066	0.5079	0.5469	0.2102	0.4099	0.6982
ROA	14,066	-0.0602	0.2757	-0.0437	0.0200	0.0620
Stock return	14,066	0.0078	0.4432	-0.2306	-0.0361	0.1636
Earnings volatility	14,066	0.1596	0.3286	0.0231	0.0538	0.1432
Loss	14,066	0.3386	0.4733	0.0000	0.0000	1.0000
Class action litigation risk	14,066	0.2661	0.2495	0.0853	0.1757	0.3616

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

Table 2
Pearson Correlations
IndianSecuritiesContractsRegulationAmendment Equity Issuance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.04**	**0.06**	-0.01	-0.01	**-0.08**	**-0.06**	**0.05**	**0.07**	**0.06**
FreqMF	**-0.04**	1.00	**0.38**	**0.44**	**-0.15**	**0.25**	-0.01	**-0.20**	**-0.26**	**-0.08**
Institutional ownership	**0.06**	**0.38**	1.00	**0.63**	**-0.17**	**0.36**	**-0.03**	**-0.28**	**-0.30**	-0.02
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.29**	**0.42**	**0.07**	**-0.30**	**-0.43**	**0.05**
Book-to-market	-0.01	**-0.15**	**-0.17**	**-0.29**	1.00	**0.10**	**-0.15**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.08**	**0.25**	**0.36**	**0.42**	**0.10**	1.00	**0.16**	**-0.61**	**-0.61**	**-0.25**
Stock return	**-0.06**	-0.01	**-0.03**	**0.07**	**-0.15**	**0.16**	1.00	**-0.05**	**-0.13**	**-0.05**
Earnings volatility	**0.05**	**-0.20**	**-0.28**	**-0.30**	**-0.10**	**-0.61**	**-0.05**	1.00	**0.40**	**0.23**
Loss	**0.07**	**-0.26**	**-0.30**	**-0.43**	**0.02**	**-0.61**	**-0.13**	**0.40**	1.00	**0.27**
Class action litigation risk	**0.06**	**-0.08**	-0.02	**0.05**	**-0.05**	**-0.25**	**-0.05**	**0.23**	**0.27**	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 Indian Securities Contracts Regulation Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0690*** (4.45)	-0.0672*** (4.84)
Institutional ownership		0.4243*** (15.56)
Firm size		0.1219*** (25.29)
Book-to-market		-0.0965*** (8.80)
ROA		0.0650*** (2.82)
Stock return		-0.0929*** (7.37)
Earnings volatility		-0.0839*** (5.25)
Loss		-0.0812*** (4.60)
Class action litigation risk		-0.2445*** (9.86)
N	14,066	14,066
R^2	0.0014	0.2248

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