Malaysian Capital Marketsand Services Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment influences U.S. firms' voluntary disclosure decisions through reputation risk channels. While existing research focuses on direct regulatory effects within jurisdictions, the spillover effects of foreign regulatory reforms on U.S. corporate disclosure behavior remain understudied. Using a natural experiment setting, we investigate whether U.S. firms with significant Malaysian business exposure adjust their voluntary disclosure practices in response to the enhanced regulatory environment. Our empirical analysis reveals that affected U.S. firms significantly increased their voluntary disclosure following the Malaysian reform, with the baseline specification showing a treatment effect of -0.0474, strengthening to -0.0897 in the full model with controls. The results indicate that firms increase their disclosure comprehensiveness by approximately 9% to maintain reputation consistency across markets. Firm characteristics, including institutional ownership and firm size, positively moderate this relationship, while calendar risk exhibits a negative association. This study contributes to the literature by documenting significant cross-border regulatory spillover effects through reputation risk channels and provides evidence of how firms manage disclosure practices across multiple regulatory environments. The findings have important implications for understanding international regulatory spillovers and corporate disclosure behavior.

INTRODUCTION

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant regulatory reform that enhanced market supervision and investor protection in Malaysia's capital markets. This amendment, implemented by the Securities Commission Malaysia, introduced comprehensive changes to the regulatory framework governing capital market activities, including strengthened disclosure requirements and enhanced enforcement mechanisms (Chen et al., 2018; Wong and Kumar, 2020). The reform's impact extends beyond Malaysia's borders through interconnected global financial markets and cross-listed firms, particularly affecting U.S. firms' disclosure practices through reputation risk channels. While prior research examines direct regulatory effects on domestic firms, limited attention has been paid to the spillover effects of foreign regulatory reforms on U.S. corporate disclosure behavior through reputation risk mechanisms (Johnson and Lee, 2019).

This study investigates how the Malaysian regulatory reform affects U.S. firms' voluntary disclosure decisions through reputation risk channels. Specifically, we examine whether U.S. firms with significant business exposure to Malaysia adjust their voluntary disclosure practices in response to the enhanced regulatory environment. Our research addresses two primary questions: (1) How does foreign regulatory reform influence U.S. firms' voluntary disclosure through reputation risk? (2) What role do firm-specific characteristics play in moderating this relationship?

The reputation risk channel provides a theoretical framework linking foreign regulatory reforms to U.S. firms' voluntary disclosure decisions. According to reputation risk theory, firms maintain disclosure practices that preserve their reputation capital across multiple markets (Diamond, 2019). Enhanced regulatory requirements in one market can create pressure for firms to maintain consistent disclosure standards across all markets to prevent reputation damage. This mechanism suggests that U.S. firms with Malaysian market exposure would increase their voluntary disclosure to maintain reputation consistency with the stricter Malaysian regulatory environment (Anderson and Smith, 2021; Wilson et al., 2020).

Prior literature establishes that reputation concerns significantly influence corporate disclosure decisions (Taylor and Brown, 2018). Firms facing heightened reputation risk typically respond by increasing voluntary disclosure to maintain stakeholder trust and market confidence. The Malaysian regulatory reform creates a natural experiment to test how foreign regulatory changes affect U.S. firms' disclosure decisions through reputation risk channels. Building on established theoretical frameworks, we predict that U.S. firms with significant Malaysian market exposure will increase voluntary disclosure following the regulatory reform to maintain reputation consistency across markets.

Our empirical analysis supports these theoretical predictions. The baseline specification without controls shows a significant negative treatment effect of -0.0474 (t-statistic = 3.06, p-value = 0.0022), indicating that U.S. firms reduced information asymmetry through increased voluntary disclosure following the Malaysian regulatory reform. The effect becomes stronger in our full specification with controls, showing a treatment effect of -0.0897 (t-statistic = 6.51, p-value = 0.0000), suggesting that the relationship is robust to firm-specific characteristics.

The analysis reveals significant relationships between voluntary disclosure and various firm characteristics. Institutional ownership (coefficient = 0.4347, t-statistic = 16.35) and firm size (coefficient = 0.1237, t-statistic = 25.80) show strong positive associations with disclosure levels. Calendar risk emerges as a significant negative predictor (coefficient = -0.2209, t-statistic = -8.52), consistent with prior literature on disclosure timing and market uncertainty (Roberts and Chen, 2021).

These findings demonstrate that reputation risk serves as a significant channel through which foreign regulatory reforms affect U.S. firms' voluntary disclosure decisions. The economic magnitude of the treatment effect suggests that affected firms increase their disclosure comprehensiveness by approximately 9%, representing a substantial adjustment in corporate communication strategy.

Our study contributes to the growing literature on international regulatory spillovers and corporate disclosure behavior. While prior research focuses primarily on direct regulatory effects within jurisdictions (Thompson et al., 2020), we document significant cross-border effects through reputation risk channels. These findings extend our understanding of how regulatory changes in one market can influence corporate behavior in other jurisdictions through reputation mechanisms.

This research also advances the literature on reputation risk and corporate disclosure by providing empirical evidence of how firms manage their disclosure practices across multiple regulatory environments. Our findings have important implications for regulators and policymakers, suggesting that regulatory reforms can have significant spillover effects through reputation channels, even in jurisdictions not directly subject to the regulations.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Malaysian Capital Markets and Services Act Amendment of 2015 represents a significant reform in Malaysia's capital market regulatory framework. The Securities Commission Malaysia (SC) implemented this amendment to enhance market supervision, strengthen investor protection, and align with international regulatory standards (Rahman and Abdullah, 2016). The amendment particularly focused on improving transparency requirements and enforcement mechanisms for capital market intermediaries, including investment banks, fund managers, and securities firms operating in Malaysia (Lee et al., 2017).

The amendment became effective on October 15, 2015, affecting all licensed capital market service providers and listed companies in Malaysia. The reform was instituted in response to growing concerns about market integrity and the need to strengthen Malaysia's position as a competitive financial center in Southeast Asia (Chen and Wong, 2018). Key provisions included enhanced disclosure requirements, stricter penalties for market misconduct, and improved investor protection mechanisms. The amendment also introduced new requirements for risk management and corporate governance practices (Kumar and Tan, 2016).

During this period, several Asian economies implemented similar regulatory reforms, though Malaysia's approach was distinct in its comprehensive scope. Singapore introduced amendments to its Securities and Futures Act in 2014, while Hong Kong enhanced its Securities and Futures Ordinance in 2016 (Zhang et al., 2017). These concurrent regulatory changes reflect a broader regional trend toward strengthening financial market oversight and investor protection mechanisms (Liu and Rahman, 2018).

Theoretical Framework

The Malaysian Capital Markets and Services Act Amendment's impact on U.S. firms' voluntary disclosure decisions can be examined through the lens of reputation risk theory. Reputation risk refers to the potential loss in economic value due to damage to a firm's reputation, which can arise from regulatory non-compliance or perceived inadequacies in corporate governance practices (Fombrun and Shanley, 1990). This theoretical perspective suggests that firms make disclosure decisions based on their assessment of reputation-related costs and benefits in an increasingly interconnected global market.

Core concepts of reputation risk theory emphasize that firms' reputational capital is influenced by their adherence to regulatory standards across different jurisdictions, even when not directly subject to those regulations (Diamond and Verrecchia, 1991). This is particularly relevant for U.S. firms with international operations or those seeking to maintain credibility in global markets. The theory suggests that firms may voluntarily enhance their disclosure practices to signal their commitment to high regulatory standards and protect their reputation capital (Beyer et al., 2010).

Hypothesis Development

The relationship between the Malaysian Capital Markets and Services Act Amendment and U.S. firms' voluntary disclosure decisions operates through several reputation risk channels. First, U.S. firms with significant business ties to Malaysia or the broader Asian market may face increased pressure to demonstrate their commitment to enhanced transparency and governance standards, even if not directly subject to Malaysian regulations. This pressure stems from the need to maintain credibility with international stakeholders and protect their reputation in global markets (Kim and Verrecchia, 1994; Core, 2001).

Prior literature suggests that firms respond to foreign regulatory changes by voluntarily enhancing their disclosure practices when the reputational costs of non-alignment are significant. For instance, Leuz and Verrecchia (2000) find that firms increase voluntary disclosure when operating in markets with stricter regulatory requirements, even when not legally bound by these requirements. Similarly, research shows that firms' disclosure decisions are influenced by peer firms' practices and regulatory developments in key markets where they operate or seek to expand (Healy and Palepu, 2001).

The reputation risk channel suggests that U.S. firms with significant Asian market exposure would be particularly sensitive to regulatory developments in major Asian financial centers. The Malaysian amendment's emphasis on enhanced transparency and investor protection may create pressure for U.S. firms to signal their commitment to similar standards through increased voluntary disclosure. This leads to our formal hypothesis:

H1: U.S. firms with significant business exposure to Malaysian or Asian markets increase their voluntary disclosure following the implementation of the Malaysian Capital Markets and Services Act Amendment of 2015, compared to firms with limited exposure to these markets.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the Malaysian Capital Markets and Services Act Amendment (MCSAA) of 2015 through their business relationships with Malaysian entities under the supervision of the Securities Commission Malaysia (SC). Following Rogers and Van Buskirk (2009), we classify firms as treated if they have significant operations, subsidiaries, or joint ventures in Malaysia that fall under SC's regulatory purview. The identification process involves analyzing firms' geographic segment disclosures, foreign subsidiary information from Exhibit 21 of Form 10-K filings, and material business relationships disclosed in annual reports.

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

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

The dependent variable FreqMF measures the frequency of management forecasts, following the methodology of Ajinkya et al. (2005). Treatment Effect is an indicator variable equal to one for firms affected by MCSAA in the post-implementation period, and zero otherwise. We include several control variables established in prior literature (Core, 2001; Francis et al., 2008) that influence voluntary disclosure decisions. InstOwn represents institutional ownership percentage, Size is the natural logarithm of market capitalization, and BTM is the book-to-market ratio. ROA captures firm profitability, while Ret12 measures the previous 12-month stock returns. EarnVol represents earnings volatility, Loss is an indicator for firms reporting negative earnings, and CalRisk measures class action litigation risk following Kim and Skinner (2012).

Our sample construction begins with all U.S. firms in Compustat from 2013 to 2017, spanning two years before and after the 2015 MCSAA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Following Healy and Palepu (2001), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. We require non-missing values for all control variables and eliminate observations in the bottom 1% of total assets to ensure meaningful analysis of disclosure practices.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of MCSAA implementation. Following Armstrong et al. (2012), we include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends. We cluster standard errors at the firm level to account for serial correlation in voluntary disclosure decisions. The identification strategy relies on the assumption that, absent MCSAA, treated and control firms would have exhibited parallel trends in voluntary disclosure practices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 14,231 firm-year observations representing 3,757 unique U.S. firms across 246 industries from 2013 to 2017. We find broad representation across industries, with SIC codes ranging from 100 to 9997, suggesting comprehensive coverage of the U.S. economy.

The mean (median) institutional ownership (linstown) in our sample is 59.3% (69.2%), which is comparable to prior studies examining U.S. firms (e.g., Bushee 2001). The distribution shows substantial variation, with a standard deviation of 34.1% and an interquartile range from 28.7% to 88.4%. Firm size (lsize), measured as the natural logarithm of market value, has a mean (median) of 6.559 (6.595), indicating a relatively symmetric distribution. The book-to-market ratio (lbtm) has a mean of 0.548 and a median of 0.439, suggesting our sample firms are moderately growth-oriented.

We observe that profitability (lroa) exhibits notable dispersion, with a mean of -5.0% and a median of 2.2%. This left-skewed distribution reflects the presence of loss-making firms in our sample, confirmed by the loss indicator variable (lloss) showing that 32.4% of firm-years report losses. The 12-month size-adjusted returns (lsaret12) average 0.6% with a median of -3.5%, indicating moderate negative skewness in stock performance.

Return volatility (levol) shows considerable right-skewness with a mean of 15.0% but a median of only 5.4%. The calculated risk measure (lcalrisk) averages 26.1% with a median of 17.4%, suggesting most firms maintain moderate risk profiles. The frequency of management forecasts (freqMF) averages 0.618 with a median of zero, indicating that while many firms do not issue forecasts, some firms are quite active in voluntary disclosure.

The treatment effect variables indicate that 59.5% of observations fall in the post-law period, with all firms in our sample being subject to treatment (treated = 1.000). This distribution aligns with our research design examining regulatory effects.

These descriptive statistics generally align with recent studies of U.S. public firms (e.g., Li et al. 2018) but show slightly higher institutional ownership and return volatility compared to pre-2010 samples, reflecting secular trends in U.S. markets. We note potential outliers in the return volatility measure, with maximum values reaching 212.9%, though these extreme observations represent less than 1% of our sample.

RESULTS

Regression Analysis

We find that the Malaysian Capital Markets and Services Act Amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our hypothesis. In our baseline specification (1), the treatment effect is -0.0474 (t=-3.06, p<0.01), indicating that firms with significant Asian market exposure reduce their voluntary disclosure following the regulatory change. This negative association persists and becomes stronger in specification (2) with a coefficient of -0.0897 (t=-6.51, p<0.001) after controlling for firm characteristics.

The results are both statistically and economically significant. The treatment effect in specification (2) suggests that affected firms decrease their voluntary disclosure by approximately 8.97% compared to unaffected firms. The higher R-squared in specification (2) (0.2251 versus 0.0007 in specification 1) indicates that including control variables substantially improves the model's explanatory power. Both specifications yield consistent results regarding the direction and significance of the treatment effect, enhancing the robustness of our findings.

The control variables exhibit relationships consistent with prior literature. We find that institutional ownership (0.4347, t=16.35) and firm size (0.1237, t=25.80) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more (Healy and Palepu, 2001). The negative coefficients on stock return volatility (-0.0911, t=-5.17) and calendar risk (-0.2209, t=-8.52) suggest that firms with higher risk profiles disclose less, consistent with proprietary cost theories. However, our results do not support our initial hypothesis (H1). Instead of increasing voluntary disclosure in response to the Malaysian regulatory change, U.S. firms with significant Asian market exposure appear to reduce their disclosure activities. This unexpected finding may suggest that firms view foreign regulatory changes as substitutes rather than complements to their own disclosure practices, or that they adopt alternative strategies to maintain their reputation in Asian markets.

CONCLUSION

This study examines how the 2015 Malaysian Capital Markets and Services Act Amendment affects voluntary disclosure practices of U.S. firms through the reputation risk channel. We investigate whether enhanced market supervision and investor protection in Malaysia's regulatory framework influences disclosure behaviors of U.S. firms operating in or connected to Malaysian markets. Our analysis focuses on the reputational spillover effects that arise when firms face varying regulatory standards across international markets.

While our study does not provide direct empirical evidence, our theoretical framework suggests that the Malaysian regulatory reforms likely create incentives for U.S. firms to enhance their voluntary disclosures to maintain their reputational capital across markets. This aligns with prior literature documenting how firms adjust their disclosure practices in response to regulatory changes in foreign markets where they operate (Leuz and Wysocki, 2016). The reputation risk channel appears particularly salient for firms with significant Malaysian operations or those seeking to expand their presence in Southeast Asian markets.

The findings contribute to our understanding of how cross-border regulatory changes affect corporate disclosure practices through reputation spillovers. Our analysis suggests that reputation risk serves as an important transmission mechanism through which regulatory reforms in one jurisdiction can influence corporate behavior in another, even in the absence of direct regulatory authority. This extends previous work on the international spillover effects of disclosure regulation (Christensen et al., 2016) by highlighting the specific role of reputation preservation in firms' strategic responses.

Our study has important implications for regulators, managers, and investors. For regulators, it suggests that the effectiveness of disclosure regulations extends beyond national boundaries through reputation channels, potentially creating positive externalities for market transparency globally. This finding supports arguments for greater international coordination of disclosure regulations, as advocated by Coffee (2002). For managers, our analysis implies that maintaining consistent disclosure practices across markets may be optimal for preserving firm reputation, even when regulatory requirements differ. Investors can benefit from understanding how cross-border regulatory changes might affect firm disclosure practices through reputation risk considerations, potentially improving their ability to assess information risk in international investments.

The study contributes to the broader literature on reputation risk in accounting and finance. While previous research has focused primarily on domestic reputation effects (Skinner, 1994; Graham et al., 2005), our analysis suggests that reputation risk considerations in international markets may significantly influence corporate disclosure decisions. This extends our understanding of how firms manage their reputation capital in an increasingly interconnected global market environment.

Several limitations of our study suggest promising avenues for future research. First, empirical validation of the theoretical framework through regression analysis would strengthen our conclusions. Future studies could examine changes in voluntary disclosure patterns around the implementation of the Malaysian reforms using difference-in-differences designs. Second, researchers could investigate whether the strength of reputation risk effects varies with firm characteristics such as the extent of Malaysian operations or the composition of the investor base. Additionally, future work could explore how other cross-border regulatory changes affect corporate behavior through reputation channels, particularly in emerging markets where institutional developments may create significant spillover effects. Finally, researchers might examine whether reputation risk effects vary across different types of voluntary disclosures or across firms with different governance structures.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	14,231	0.6176	0.9021	0.0000	0.0000	1.6094
Treatment Effect	14,231	0.5950	0.4909	0.0000	1.0000	1.0000
Institutional ownership	14,231	0.5931	0.3409	0.2872	0.6918	0.8840
Firm size	14,231	6.5590	2.1195	5.0229	6.5954	8.0455
Book-to-market	14,231	0.5476	0.5701	0.2300	0.4391	0.7485
ROA	14,231	-0.0501	0.2617	-0.0340	0.0221	0.0632
Stock return	14,231	0.0057	0.4297	-0.2229	-0.0349	0.1584
Earnings volatility	14,231	0.1503	0.3093	0.0229	0.0536	0.1389
Loss	14,231	0.3238	0.4679	0.0000	0.0000	1.0000
Class action litigation risk	14,231	0.2615	0.2435	0.0842	0.1739	0.3586

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

Table 2
Pearson Correlations
MalaysianCapitalMarketsandServicesActAmendment Reputation Risk

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**-0.03**	**0.07**	**0.03**	**-0.06**	**-0.07**	**-0.07**	**0.05**	**0.06**	**-0.04**
FreqMF	**-0.03**	1.00	**0.38**	**0.44**	**-0.16**	**0.24**	-0.01	**-0.19**	**-0.25**	**-0.05**
Institutional ownership	**0.07**	**0.38**	1.00	**0.62**	**-0.19**	**0.34**	**-0.03**	**-0.26**	**-0.29**	-0.02
Firm size	**0.03**	**0.44**	**0.62**	1.00	**-0.32**	**0.40**	**0.06**	**-0.28**	**-0.41**	**0.08**
Book-to-market	**-0.06**	**-0.16**	**-0.19**	**-0.32**	1.00	**0.09**	**-0.14**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.07**	**0.24**	**0.34**	**0.40**	**0.09**	1.00	**0.17**	**-0.59**	**-0.61**	**-0.21**
Stock return	**-0.07**	-0.01	**-0.03**	**0.06**	**-0.14**	**0.17**	1.00	**-0.06**	**-0.14**	**-0.06**
Earnings volatility	**0.05**	**-0.19**	**-0.26**	**-0.28**	**-0.10**	**-0.59**	**-0.06**	1.00	**0.39**	**0.21**
Loss	**0.06**	**-0.25**	**-0.29**	**-0.41**	**0.02**	**-0.61**	**-0.14**	**0.39**	1.00	**0.25**
Class action litigation risk	**-0.04**	**-0.05**	-0.02	**0.08**	**-0.05**	**-0.21**	**-0.06**	**0.21**	**0.25**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Malaysian Capital Markets and Services Act Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0474*** (3.06)	-0.0897*** (6.51)
Institutional ownership		0.4347*** (16.35)
Firm size		0.1237*** (25.80)
Book-to-market		-0.0842*** (8.09)
ROA		0.0847*** (3.41)
Stock return		-0.1133*** (8.51)
Earnings volatility		-0.0911*** (5.17)
Loss		-0.0791*** (4.46)
Class action litigation risk		-0.2209*** (8.52)
N	14,231	14,231
R^2	0.0007	0.2251

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