

## Development of a Risk Disclosure Index and Examination of Its Determinants: An Empirical Study in Indian Context

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**Abstract :** Worldwide regulators, practitioners and researchers view risk-disclosure as one of the most important steps that will promote corporate accountability and transparency. Recognizing this growing significance of risk disclosures, the paper first develops a risk disclosure index. Covering 69 risk items/themes, this index is developed by employing thematic content analysis and encompasses three attributes of disclosure: namely, nature (qualitative or quantitative), time horizon (backward-looking or forward-looking) and tone (no impact, positive impact or negative impact). As the focus of study is on substantive rather than symbolic disclosure, content analysis has been carried out manually. The study is based on non-financial companies of Nifty500 index and covers a ten year period from April 1, 2005 to March 31, 2015, thus yielding 3,872 annual reports for analysis. The analysis reveals that (on an average) only about 14% of risk items (i.e. about 10 out of 69 risk items studied) are being disclosed by Indian companies. Risk items that are frequently disclosed are mostly macroeconomic in nature and their disclosures tend to be qualitative, forward-looking and conveying both positive and negative aspects of the concerned risk. The second objective of the paper is to gauge the factors that affect the level of disclosures in annual reports. Given the panel nature of data, and possible endogeneity amongst variables, Diff-GMM regression has been applied. The results indicate that age and size of firms have a significant positive impact on disclosure quality, whereas growth rate does not have a significant impact. Further, post-recession period (2009-2015) has witnessed significant improvement in quality of disclosures. In terms of corporate governance variables, board size, board independence, CEO duality, presence of CRO and constitution of risk management committee appear to be significant factors in determining the quality of risk disclosures. It is noteworthy that the study contributes to literature by putting forth a variant to existing disclosure indices that not only captures the quantity but also the quality of disclosures (in terms of semantic attributes). Also, the study is a first of its kind attempt in a prominent emerging market i.e. India. Therefore, this study is expected to facilitate regulators in mandating and regulating risk disclosures and companies in their endeavor to reduce information asymmetry.

**Keywords :** risk disclosure, voluntary disclosures, corporate governance, Diff-GMM

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