

# Risk disclosure and cost of equity

## The Spanish case

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### **Abstract**

In this paper we make an empirical study of the relationship between risk disclosure and the cost of equity. In particular, the objective being pursued is to contrast whether or not the cost of equity for the company is related to its financial and non-financial risk disclosure. Our results show no statistically significant relationship between the latter and the cost of equity; and a statistically significant relationship, with a positive sign, between this cost and financial risk disclosure. This suggests that company risk disclosures appear to introduce unknown contingencies and risk factors rather than only update information about known risks.

Keywords: cost of equity, risk, risk reporting, risk disclosure  
Classification JEL: M41

## **Divulgación de riesgos y costo de capital de los recursos propios. El caso español**

### **Resumen**

En este trabajo se hace un estudio empírico de la relación entre la divulgación de riesgos por parte de las empresas y el costo de capital de los recursos propios. En particular, el objetivo que se persigue es contrastar si el costo de capital de los recursos propios está relacionado con la divulgación de riesgos financiero y no financiero. Nuestros resultados no muestran relación estadísticamente significativa entre el riesgo no financiero y el costo de capital de los recursos propios; y una relación estadísticamente significativa positiva entre este costo y la divulgación de riesgos financieros. Esto sugiere que las divulgaciones de riesgo de la empresa parecen presentar contingencias desconocidas y factores de riesgo en vez de sólo actualizar la información sobre los riesgos conocidos.

Palabras clave: costo de los recursos propios, riesgo, información sobre riesgos

Clasificación JEL: M41

### **Introduction**

There are numerous studies on the economic consequences of divulging accounting information. From a theoretical perspective, greater disclosure is mainly associated with a reduction in information asymmetry (Diamond and Verrecchia, 1991 and Kim and Verrecchia, 1994) and a reduction in investor uncertainty (Botosan, 1997), which indirectly reduces the cost of equity. However, empirical studies have not provided any conclusive findings on whether more information results in a lower cost of equity (Verrecchia, 1999). In any case, it is worth noting that almost all these studies focus on analysing the relationship between the cost of equity and disclosure, considering the information as a whole, without distinguishing between the different types of information companies disclose. Obviously not all published information is equally relevant. Furthermore, the publication of additional information will probably be more influential in areas where obligatory and standardised accounting information has the greatest gaps. For that reason, study of the impact on the cost of equity of publishing different types of information may be especially important.

Risks are one of the categories with particular shortfalls in the accounting information that is currently published. For several years now, professional accounting

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