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# Risk reporting: A review of the literature and implications for future research<sup>☆</sup>



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## ABSTRACT

This paper provides a wide-ranging and up-to-date (1997–2016) review of the archival empirical risk-reporting literature. The reviewed papers are classified into two principal themes: the incentives for and/or informativeness of risk reporting. Our review demonstrates areas of significant divergence in the literature specifically: mandatory versus voluntary risk reporting, manual versus automated content analysis, within-country versus cross-country variations in risk reporting, and risk reporting in financial versus non-financial firms. Our paper identifies a number of issues which require further research. In particular we draw attention to two: first, a lack of clarity and consistency around the conceptualization of risk; and second, the potential costs and benefits of standard-setters' involvement.

## 1. Introduction

A substantial body of risk-reporting regulations (e.g., ICAEW, 1997, 2011; SEC, 1997, 2010) has emerged demanding greater quantity and quality in firms' risk reporting. A series of accounting scandals and the recent financial crisis have emphasized the importance of this topic. Hence, there has been a great deal of scrutiny of firms' risk-reporting practices (e.g., Pérignon & Smith, 2010; Singleton-Green, 2012). Various groups of stakeholders have urged regulators to act to ensure that users of financial statements are protected from material levels of information asymmetry (Bamber & McMeeking, 2015). The complexities and controversiality of regulating risk-reporting practices, as well as the regulations themselves, have played a major role in the emergence of a large and growing risk-reporting literature.

This study collates and critically discusses the recent risk-reporting research, highlights trends and patterns, and suggests opportunities for future research. The following aspects of this article are noteworthy: it focuses on archival empirical studies of external risk reporting; it is a wide-ranging review of recent literature (1997–2016); and it complements and extends previous reviews (i.e., Ryan, 1997, 2012a).

Our review considers literature that deals with external risk reporting as part of a firm's disclosure strategy, which we organize

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**Table 1**

The study sample is based on a search for articles dealing with risk reporting, published after 1997 in journals ranked as 3\* (A) or 4\* (A\*) based on ABS (ABDC).

N	Paper	Journal
Panel A: papers on incentives for risk reporting, presented in chronological order (16 papers discussed in Section 2, categorized in Section 5, and summarized in Table 2)		
1	Solomon (1999)	<i>The British Accounting Review (BAR)</i>
2	Solomon, Solomon, Norton, and Joseph (2000)	<i>The British Accounting Review (BAR)</i>
3	Beretta and Bozzolan (2004)	<i>The International Journal of Accounting (IJOA)</i>
4	Linsley and Shrivs (2006)	<i>The British Accounting Review (BAR)</i>
5	Abraham and Cox (2007)	<i>The British Accounting Review (BAR)</i>
6	Marshall and Weetman (2007)	<i>Journal of Business Finance and Accounting (JBFA)</i>
7	Deumes and Knechel (2008)	<i>Auditing: A Journal of Practice and Theory (AJPT)</i>
8	Hill and Short (2009)	<i>Accounting and Finance (AF)</i>
9	Taylor, Tower, and Neilson (2010)	<i>Accounting and Finance (AF)</i>
10	Miihkinen (2012)	<i>The International Journal of Accounting (IJOA)</i>
11	Barakat and Hussainey (2013)	<i>International Review of Financial Analysis (IRFA)</i>
12	Elshandidy, Fraser, and Hussainey (2013)	<i>International Review of Financial Analysis (IRFA)</i>
13	Ntim, Lindop, and Thomas (2013)	<i>International Review of Financial Analysis (IRFA)</i>
14	Elshandidy, Fraser, and Hussainey (2015)	<i>The British Accounting Review (BAR)</i>
15	Malafronte, Porzio, and Starita (2016)	<i>International Review of Financial Analysis (IRFA)</i>
16	Al-Hadi, Hasan, and Habib (2016)	<i>Corporate Governance: An International Review (CGIR)</i>
Panel B: papers on informativeness of risk reporting, presented in chronological order (12 papers discussed in Section 3, categorized in Section 5, and summarized in Table 4)		
17	Rajgopal (1999)	<i>The Accounting Review (TAR)</i>
18	Roulstone (1999)	<i>Accounting Horizons (AH)</i>
19	Hodder and McAnally (2001)	<i>Financial Analysts Journal (FAJ)</i>
20	Jorion (2002)	<i>The Accounting Review (TAR)</i>
21	Linsley and Lawrence (2007)	<i>Accounting, Auditing and Accountability Journal (AAAJ)</i>
22	Akhigbe and Martin (2008)	<i>Journal of Banking and Finance (JBF)</i>
23	Pérignon and Smith (2010)	<i>Journal of Banking and Finance (JBF)</i>
24	Kravet and Muslu (2013)	<i>Review of Accounting Studies (RAST)</i>
25	Abraham and Shrivs (2014)	<i>The British Accounting Review (BAR)</i>
26	Bao and Datta (2014)	<i>Management Science (MS)</i>
27	Elbannan and Elbannan (2015)	<i>Journal of Accounting Auditing and Finance (JAAF)</i>
28	Filzen (2015)	<i>Accounting Horizons (AH)</i>
Panel C: papers on both, presented in chronological order (4 papers discussed in Section 4, categorized in Section 5, and summarized in Table 6)		
29	Campbell, Chen, Dhaliwal, Lu, and Steele (2014)	<i>Review of Accounting Studies (RAST)</i>
30	Elshandidy and Neri (2015)	<i>Corporate Governance: An International Review (CGIR)</i>
31	Elshandidy and Shrivs (2016)	<i>The International Journal of Accounting (IJOA)</i>
32	Hope, Hu, and Lu (2016)	<i>Review of Accounting Studies (RAST)</i>

around two themes: (i) the underlying drivers and determinants (the main incentives) that motivate firms to provide risk information; and (ii) whether externally reported risk information is informative, by observing its impact on market indicators (e.g., the stock price, investor-perceived risk, market liquidity). This focus allows us to build on the recent trend in the literature for examining the narrative sections of firms' annual reports (for a review see, Beattie, 2014). The study of risk reporting has been facilitated by the availability of machine-readable data and the increased(-ing) sophistication of automated content analysis software, methodologies, and techniques (for a review see, Li, 2010; Loughran & McDonald, 2016). Thus, our paper also supplements these recent reviews of narrative disclosures and content analysis with a practical focus on risk reporting.

Our article provides a wide-ranging review of the recent literature. We cover papers published between 1997, the year of the last published similarly wide-ranging survey of Ryan (1997), and 2016 that have appeared in an internationally recognized peer-reviewed journal. We define such journals according to the UK's Association of Business Schools (ABS) journal quality ranking guide (i.e., those termed 3 star and 4 star journals), the Australian Business Deans' Council, ABDC, (i.e., those termed A or A star journals), or the Financial Times 50 journals (FT50), which are compiled based on the Business School research rank in America and Canada. We review 32 papers. Table 1 provides details of these, categorizing each according to their primary theme (i.e., incentives, informativeness, or both).

Our article complements Ryan (1997) and extends Ryan (2012a). Our survey reviews work on risk disclosure that has been published after Ryan (1997) and synthesizes its principal themes into incentives for risk disclosure and/or informativeness of risk information. Ryan (1997) concludes that disclosure guidelines should concentrate on providing useful decision-making information to help investors identify sources of risk. This information should enable investors to determine both the *ex-ante* exposure to risk and the *ex post* realization of risk. Ryan (2012a) focuses mostly on the potential opportunities offered by risk information and concludes that firms do not appear to estimate – and auditors, analysts, and others do not appear to evaluate – fair values with as much effort if these values are *disclosed* rather than *recognized*.

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