ABSTRACT

SEC risk disclosure standards require the standalone disclosure of risk factors and do not permit the concurrent disclosure of risk management information. This differs from requirements in regimes such as Germany. The SEC is considering mandating risk management disclosures. We experimentally examine how the disclosure of risk management information alongside risks and the risk disclosure tone used influence investors’ stock valuation judgments, with and without materialization of the disclosed risk. We find that without risk materialization, investors provide lower (higher) stock valuations when a positive versus negative disclosure tone is used in the absence (presence) of risk management.
disclosures. With risk materialization, a positive tone leads to lower stock valuations only in the presence of risk management disclosures. Our findings have implications for managers and regulators, as investors may penalize firms that make good faith risk disclosures, even if these risks have been properly managed.