

Textual Risk Disclosures and Investors' Risk Perceptions

Todd Kravet

Naveen Jindal School of Management
University of Texas at Dallas
Richardson, TX 75080
kravet@utdallas.edu

Volkan Muslu

Bauer College of Business
University of Houston
Houston, TX 77204
vmuslu@uh.edu

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Abstract

We examine the association between changes in companies' textual risk disclosures in 10-K filings and changes in stock market and analyst activity around the filings. We find that annual increases in risk disclosures are associated with increased stock return volatility and trading volume around and after the filings. Increases in risk disclosures are also associated with more dispersed forecast revisions around the filings. In contrast to prior literature documenting resolved uncertainties in response to various types of company disclosures, our findings suggest that textual risk disclosures increase investors' risk perceptions. However, the results are less pronounced for firm-level disclosures that deviate from those of other companies in the same industry and year. These results lend support for critics' arguments that firm-level risk disclosures are more likely to be boilerplate.

Keywords: Disclosure, risk, uncertainty, 10-K filings, trading volume, stock return volatility, analysts.