IJAAF; Vol. 9, No. 4, Autumn 2025, Serial 33

Ferdowsi University of Mashhad

Iranian Journal of
Accounting, Auditing & Finance

Quarterly

RESEARCH ARTICLE

Mandatory Risk Disclosure Under Changing Accounting Standards: Effects on the Cost of Capital

Mojtaba Golmohammadi*
Department of Finance and Accounting, Humanities Faculty, Meybod University, Meybod, Iran

How to cite this article:
Golmohammadi, M. (2025). Mandatory Risk Disclosure Under Changing Accounting Standards: Effects on the Cost of Capital. Iranian Journal of Accounting, Auditing and Finance, 9(4), 183-204. doi: 10.22067/ijaaf.2025.46773.1526
https://ijaaf.um.ac.ir/article_46773.html

ARTICLE INFO

Article History
Received: 2024-10-11
Accepted: 2025-01-28
Published online: 2025-10-05

Keywords:
Board Independence, Cost of Capital, Mandatory Risk Disclosure, Institutional Ownership, Ownership Concentration

Abstract

In alignment with international accounting standards, the Iran Audit Organization (IAO) has required corporations to disclose risk information in their financial statements since 2019. This study is the first to examine the informational value of these newly mandated disclosures under Iran's accounting standards. While prior international research has examined the effects of risk disclosure, this study fills a significant gap by focusing on an emerging market—specifically, Iran's distinctive institutional environment—where accounting reforms and disclosure practices remain underexplored. To achieve this objective, we analyzed 1,580 firm-year observations from companies listed on the Tehran Stock Exchange (TSE) between 2014 and 2023 using multivariate panel data regressions with fixed effects. The empirical results show that mandatory risk disclosure is statistically unrelated to firms' cost of capital. Furthermore, the interaction terms between mandatory risk disclosure and corporate governance variables—such as ownership concentration and board independence—are also insignificant. However, the findings indicate that both board independence and institutional ownership are negatively and significantly associated with the cost of capital. These results suggest that although the adoption of new accounting standards has increased the quantity of mandatory risk disclosures, such disclosures do not necessarily reduce the cost of capital within the Iranian context. This outcome may stem from superficial compliance with disclosure requirements and limited oversight by audit committees and independent auditors. Overall, this study offers new insights into how transitional economies navigate disclosure mandates, with actionable implications for improving transparency, strengthening corporate governance, and realizing the potential benefits of accounting reforms.

https://doi.org/10.22067/ijaaf.2025.46773.1526

NUMBER OF REFERENCES
66

NUMBER OF FIGURES
3

NUMBER OF TABLES
3

Homepage: https://ijaaf.um.ac.ir
E-Issn: 2717-4131
P-Issn: 2588-6142

*Corresponding Author: Mojtaba Golmohammadi
Email: golmohammadi@meybod.ac.ir
Tel:
ORCID: 0000-0001-5485-4288

1. Introduction

Risk disclosure plays a crucial role in maintaining firms' credibility and reducing information asymmetry between managers and external stakeholders (Lei & Luo, 2023). In an increasingly complex economic environment, transparent communication of risks that influence financial performance and firm value has become indispensable. Such transparency enables shareholders, investors, and creditors to make more informed and rational decisions. Bushman and Smith (2001) argue that inadequate disclosure erodes trust and undermines stakeholder confidence, emphasizing the pivotal role of transparency in fostering stakeholder engagement and accountability. Given the importance of risk disclosure in mitigating information asymmetry, a key question arises: How does such disclosure influence firms' core financial outcomes, particularly the cost of capital?

Risk disclosure can influence a corporation's cost of capital through multiple channels, as evidenced by studies such as Leuz and Verrecchia (2000). First, by reducing information asymmetry, disclosure enhances investors' ability to assess corporate risk more accurately. Second, it increases transparency and accountability, thereby fostering trust among stakeholders in financial markets. Third, it strengthens corporate governance mechanisms, reducing the likelihood of fraud and managerial opportunism. Furthermore, Fauzi and Firmansyah (2023) argue that transparent risk disclosure can lower the cost of capital by addressing stakeholder expectations particularly those related to the efficient allocation of corporate resources. Beyond these direct effects, the finance and accounting literature has extensively explored the relationship between disclosure and financing costs. The subsequent section reviews key findings from prior studies and examines the implications of recent disclosure policies in Iran.

The association between the cost of capital and corporate transparency particularly through risk disclosure—has been extensively examined in the finance and accounting literature (e.g., Pakdelan et al., 2021; Ibrahim et al., 2022; Hao, 2024). In recent years, policymakers at both national and international levels have paid increasing attention to risk disclosure, prompting accounting standard-setting bodies to adopt a more responsive stance, including in Iran (Fasihi & Hosseini, 2020; Blue et al., 2024). This growing emphasis is reflected in recent amendments to Iran's accounting standards, which now require firms to disclose both qualitative and quantitative information regarding risks and risk management frameworks in their financial statements. Specifically, revisions to paragraphs 23–32 of Accounting Standard No. 37 (Financial Instruments: Disclosures) issued by the Iran Audit Organization (IAO, 2023) mandate entities to disclose detailed information about the nature and management of key risks, including market, liquidity, and credit risk.

Given the recent amendments to Iranian accounting standards, understanding the relationship between risk disclosure and the cost of capital has become increasingly important. The cost of capital—representing the minimum expected return required by investors is a fundamental determinant of firm value. Risk plays a pivotal role in shaping this cost: as perceived risk increases, investors demand higher expected returns. Accordingly, the cost of capital reflects the minimum acceptable rate of return for investors (Fama & French, 1993). Extensive prior research (e.g., Ibrahim & Aboud, 2024; He et al., 2019; Nahar et al., 2016; Leuz & Verrecchia, 2000; Botosan, 1997) has examined the relationship between disclosure levels and the cost of equity, with most studies focusing on developed markets.

The 2019 amendment to Iranian accounting standards represents an exogenous shock to firms' disclosure requirements. This change was neither voluntary nor firm-specific; instead, it was implemented universally and mandatorily across all listed companies. These characteristics render the reform a natural quasi-experiment, enabling an empirical examination of its effects. Accordingly, the study employs a dummy variable, SRefit, to distinguish the pre- and post-2019 periods and to precisely isolate the impact of this accounting standard change.

Empirical evidence indicates that voluntary risk disclosure can reduce a firm's cost of capital by enhancing market liquidity and mitigating information asymmetry. Consistent with this view, studies conducted in emerging markets have generally documented a negative association between risk disclosure and the cost of capital. For instance, Pakdelan et al. (2021) found no significant relationship between risk disclosure and the cost of debt; however, their results revealed a negative and significant association between risk disclosure and both the cost of common equity and the weighted average cost of capital among Iranian firms.

This study examines whether mandatory quantitative and qualitative risk disclosures, as required under Iran's accounting standards, reduce firms' cost of equity. The Iranian capital market an emerging economy characterized by limited voluntary disclosure, market inefficiencies, and pervasive information asymmetry (Rajabalizadeh & Schadewitz, 2025) provides a distinctive setting for evaluating the effects of mandatory risk disclosure on firms' financing costs. In addition, the study investigates the moderating role of corporate governance mechanisms in this relationship.

This study makes several significant contributions to the literature. First, it fills a key research gap by examining how firms' cost of equity is influenced by the mandatory disclosure of quantitative and qualitative risk information under Iran's accounting standards. This area has received limited scholarly attention. Second, although the body of research on mandatory risk disclosure has been expanding globally, studies focusing on emerging markets remain relatively scarce. This gap is particularly evident in the Iranian context, where the specific effects of recent accounting standard reforms on firms' cost of equity have not yet been systematically investigated.

Iran's distinctive institutional environment, together with recent accounting reforms particularly the introduction of new risk disclosure requirements provides a compelling context for examining their impact on firms' cost of equity. In addition, this study investigates the moderating role of corporate governance mechanisms in the relationship between mandatory risk disclosure and the cost of equity. A review of prior studies reveals that the association between risk disclosure and the cost of equity has been explored from multiple perspectives, with findings generally reporting either a negative or positive relationship between the two variables.

The remainder of this paper is structured as follows. Section 2 reviews the existing literature on risk disclosure, with particular emphasis on its direct and indirect effects on the cost of capital. It summarizes prior empirical findings and highlights key theoretical considerations. Section 3 describes the research methodology, including data sources, regression models, and sample selection criteria used to test the study's hypotheses. Section 4 presents the empirical results and discusses their relation to the study's overarching themes. Finally, Section 5 concludes by summarizing the main findings, outlining their practical implications, and offering directions for future research and policy.

2. Literature review

Information asymmetry where managers possess more and superior information than external stakeholders can give rise to problems such as adverse selection and moral hazard, ultimately increasing a firm's cost of capital. Improved disclosure can mitigate information asymmetry, potentially lowering the cost of equity and enhancing corporate value (Healy and Palepu, 2001; Diamond and Verrecchia, 1991; Botosan, 1997; Ibrahim and Aboud, 2024).

According to signaling theory, voluntary risk disclosure serves as a positive signal to external stakeholders, reflecting management's commitment to transparency in communicating risks and risk management practices. Such disclosure enhances stakeholder confidence, promotes effective risk management, and reduces uncertainty regarding future cash flows. As a result, investors and other stakeholders require a lower risk premium, thereby decreasing the firm's cost of equity (Myers and

Majluf, 1984; Core et al., 2015; Connelly et al., 2025).

Recent studies exploring new dimensions of risk disclosure have deepened our understanding of how mandatory disclosure practices influence firms' cost of equity. Increasingly, research on corporate governance and financial reporting highlights the growing importance of transparency, particularly amid the evolution of mandatory risk disclosure requirements across developed and emerging markets over the past few years. Historically, firms have provided only limited information about their risk exposure, often relying on qualitative disclosures that lack consistency and comparability. This inconsistency has led to divergent perceptions of corporate risk among investors and creditors, underscoring the need for more standardized and structured reporting frameworks (Thitinun and Yomchinda, 2021).

The adoption of IFRS 7 marked a pivotal development in the evolution of risk disclosure practices. This standard seeks to enhance the quality of financial instrument reporting by requiring entities to provide both qualitative and quantitative information about risk exposures (Thitinun & Yomchinda, 2021). Specifically, IFRS 7 mandates the disclosure of credit, liquidity, and market risks, compelling firms to communicate more comprehensively about the risks they face and their potential impact on financial performance. Researchers have increasingly examined the effects of these disclosure requirements on corporate risk-taking behavior and the cost of equity. Prior studies suggest that mandatory risk disclosures can influence investor perceptions and, consequently, affect a firm's cost of equity (Ibrahim & Aboud, 2024; Nahar et al., 2016). In line with these global developments, Iran's accounting standards have been aligned with international frameworks and now require firms to disclose similar risk categories in their financial statements. Therefore, based on previous empirical findings, it is reasonable to expect that such disclosures will affect firms' cost of capital in the Iranian context.

2.1. Potential relationships between mandatory risk disclosure and the cost of capital: direct or inverse

Theoretical and empirical evidence suggest that there are both inverse and direct relationships between risk disclosure and the cost of capital.

2.1.1. Direct relationship

A review of prior studies indicates that the effect of risk disclosure on the cost of equity depends on the nature and tone of the information disclosed. Specifically, when the disclosed information is negative or unfavorable, it heightens uncertainty regarding the firm's future cash flows and, consequently, increases the cost of equity (Thitinun & Yomchinda, 2021). Johnstone (2016) and Dutta and Nezlobin (2017) further demonstrate that unfavorable disclosures amplify investors' ambiguity about firm value, resulting in a higher required return. Emphasizing the contextual sensitivity of risk disclosure, Tirado-Beltrán et al. (2020) show that a positive association between risk disclosure and the cost of equity is observed only for non-financial risks.

Verrecchia (1983), drawing on proprietary cost theory, argued that disclosing certain types of information—such as specific risks or managerial strategies may expose sensitive details to competitors, thereby weakening a firm's competitive advantage. This potential exposure can prompt investors to demand higher expected returns, ultimately increasing the firm's cost of equity.

Campbell et al. (2014) emphasize the critical role of tone in risk disclosures, showing that a more negative tone is associated with higher subsequent stock return volatility. This finding suggests that risk disclosures may be interpreted as negative signals, particularly when they are perceived as overly pessimistic or reveal previously undisclosed vulnerabilities. When investors view mandatory risk disclosures as indicators of weakness or poor risk management, they may perceive higher risk and

demand a higher cost of equity. Moreover, Campbell et al. argue that extensive disclosure can expose firms to greater scrutiny from regulators, investors, and other stakeholders, as well as increase the risk of litigation if such disclosures are deemed inaccurate or misleading. Figure 1 illustrates the hypothesized direct relationship between mandatory risk disclosure and the cost of capital.

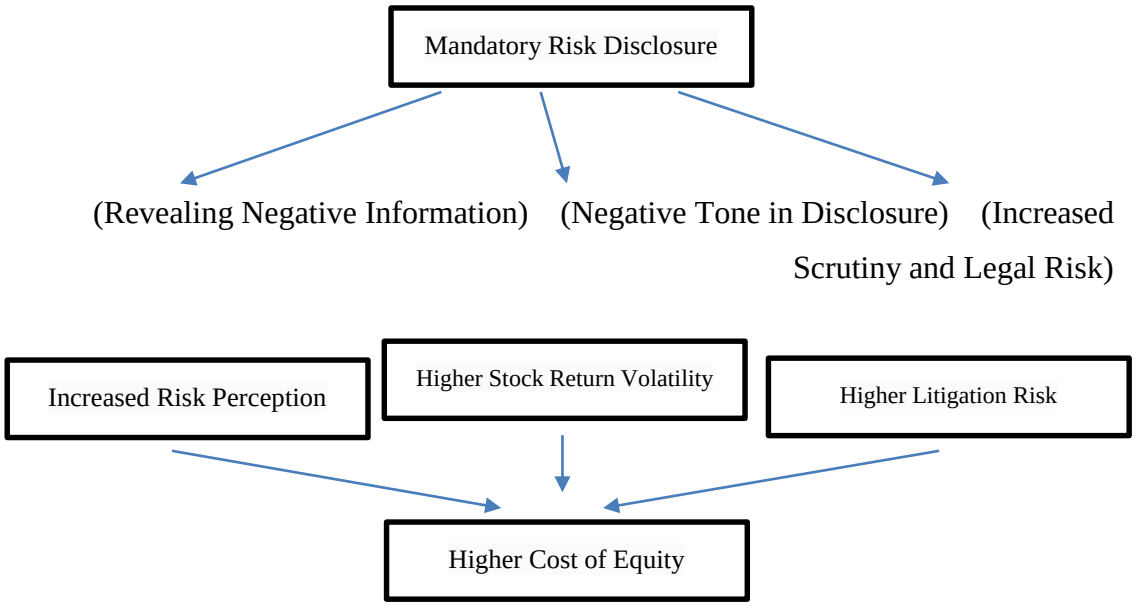

Figure 1. The direct relationship between mandatory risk disclosure and the cost of capital

2.1.2. Inverse relationship

According to Akerlof (1970), moral hazard and adverse selection arise from information asymmetry between managers and investors. When investors lack complete knowledge of a firm's risk profile, they demand higher expected returns to compensate for this uncertainty. Mandatory risk disclosure helps mitigate this information gap by providing detailed quantitative and qualitative information on firms' risk exposure. Such transparency reduces perceived uncertainty and, consequently, lowers investors' required rate of return that is, the firm's cost of equity. This mechanism aligns with signaling theory (Spence, 1973), which suggests that high-quality firms voluntarily disclose more information to signal their sound management practices and credibility. Empirical evidence supports this reasoning: Yasar et al. (2020) find that market participants respond positively to credible signals from informed insiders, particularly when these signals counterbalance negative information. Similarly, Lambert et al. (2007) argue that low information quality constitutes a negative signal, thereby increasing firms' cost of capital.

Furthermore, according to agency theory (Jensen & Meckling, 1976), disclosure serves as a mechanism to reduce agency costs. In contrast to the theory's ideal assumptions, managers do not always act in shareholders' best interests. The central argument is that increased risk disclosure diminishes information asymmetry between managers and shareholders, thereby lowering the firm's cost of capital (Verrecchia, 2001). Bertomeu et al. (2011) suggest that informed investors benefit from the informational advantages generated by firms' disclosure policies, thereby further reducing the cost of capital. Similarly, Lopes and Alencar (2010) document a negative association between disclosure quality and the cost of capital among Brazilian firms, attributing the relatively weak relationship between risk disclosure and the cost of capital to the country's well-developed corporate environment.

According to legitimacy theory (Suchman, 1995) and stakeholder theory (Freeman, 1984), firms seek to maintain organizational legitimacy while addressing the interests of their stakeholders. Enhanced disclosure increases transparency and credibility, thereby enabling companies to better meet the expectations of diverse stakeholder groups (Corazza et al., 2020). Such disclosure functions as a key mechanism for establishing and sustaining corporate legitimacy (Shivaani & Agarwal, 2020; Martens & Bui, 2023). As Araújo Júnior et al. (2014) argue, providing comprehensive, fair, neutral, and relevant information to various stakeholders allows them to more effectively assess and monitor corporate activities and managerial performance.

Consistent with the arguments of Deegan (2006) and Alam (2006), protecting stakeholders' interests is essential for establishing corporate legitimacy, with information disclosure serving as a key mechanism in this process. Empirical evidence supports this perspective. For instance, Lemma et al. (2019) found that South African firms enhance their legitimacy through voluntary information disclosure, which in turn is associated with a lower cost of capital. Similarly, Bui et al. (2020) provide international evidence that risk disclosure weakens the positive relationship between higher greenhouse gas (GHG) emissions and the cost of capital. Collectively, these findings suggest that disclosing risk-related information can reduce firms' cost of capital while simultaneously reinforcing their legitimacy.

Mandatory risk disclosure enhances corporate credibility by improving transparency and accountability, thereby enabling stakeholders such as investors and creditors—to more effectively monitor managerial risk-taking behavior. This reduction in agency costs and the risk premium demanded by investors lowers firms' cost of capital. Addressing stakeholder concerns through transparent disclosure also signals responsible governance, which further reduces perceptions of managerial recklessness and, consequently, the cost of capital. Diamond and Verrecchia (1991) argue that greater disclosure mitigates information asymmetry by limiting private access to information and reducing investor uncertainty regarding investment risks and outcomes. Enhanced risk disclosure can therefore lower transaction costs and improve stock market liquidity, increasing trading volume and attracting a broader investor base. As liquidity rises, the perceived risk of holding a firm's securities declines, ultimately leading to a lower cost of equity. Empirical evidence supports the negative association between the quality of risk disclosure and information asymmetry (e.g., Miihkinen, 2013; Campbell et al., 2014). Moreover, Kassamany et al. (2023) confirm the positive impact of mandatory risk disclosure on market liquidity, an effect further strengthened by the adoption of international accounting standards.

In this context, Botosan (1997) reports a negative association between the extent of disclosure and the cost of equity, particularly among firms with low analyst coverage. Hail and Leuz (2006) demonstrate that firms operating in countries with stronger disclosure requirements and enforcement mechanisms tend to face lower equity capital costs. Similarly, Leuz and Verrecchia (2000) show that German firms adopting international accounting standards experience higher trading volumes and narrower bid–ask spreads, which they attribute to enhanced stock liquidity and reduced information asymmetry. Furthermore, Kravet and Muslu (2013) find that companies providing more extensive risk disclosures in their 10-K filings exhibit lower levels of information asymmetry. The inverse relationship between mandatory risk disclosure and the cost of capital is illustrated in Figure 2.

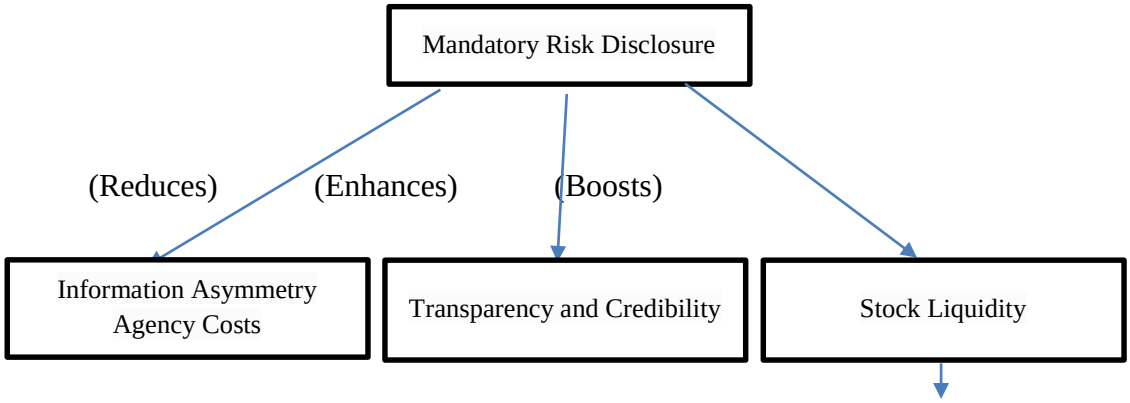

Figure 2. The inverse relationship between mandatory risk disclosure and the cost of capital

Although the general theoretical relationship between disclosure and the cost of capital is well established, the specific requirements introduced by the recent amendments to Iranian Accounting Standards create distinct theoretical channels through which a reduction in the cost of capital can be expected. Aligned with international developments, these amendments require disclosures that go beyond mere risk acknowledgment, incorporating both qualitative and quantitative dimensions. This expansion enhances the information available to capital providers and supports the theoretical expectation of a lower cost of capital.

Specifically, IAS 1 (paragraphs 134–136) requires firms to disclose their objectives, policies, and procedures for managing capital, thereby providing investors with critical insights into the strategic management of financial resources and risk. According to agency theory (Jensen & Meckling, 1976), such transparency in managerial processes reduces information asymmetry regarding managerial ability and risk tolerance, which, in turn, lowers perceived agency costs and, consequently, the cost of capital. Consistent with signaling theory (Spence, 1973; Core et al., 2015), comprehensive disclosure of robust capital management policies can also signal managerial quality and prudent financial stewardship, thereby reducing the risk premium investors require.

Additionally, IAS 37 (paragraphs 23–32) requires firms to disclose risks associated with financial instruments—namely credit, liquidity, and market risks—and to explain how these risks are managed. Such disclosures address key sources of investor uncertainty. Through both quantitative and qualitative reporting, these standards are theoretically designed to further reduce information asymmetry (Healy & Palepu, 2001; Diamond & Verrecchia, 1991). Quantitative disclosures (e.g., sensitivity analyses for market risk) enable investors to estimate exposure levels more accurately, while qualitative information (e.g., descriptions of risk management structures) provides essential contextual understanding. This enriched information set is expected to improve the precision of investor forecasts and decrease perceived risk, ultimately reducing the required rate of return (Botosan, 1997). Moreover, enhanced disclosure of specific financial risks can improve market liquidity by reducing adverse selection costs for informed traders (Diamond & Verrecchia, 1991;

Leuz & Verrecchia, 2000), thereby lowering the overall cost of capital.

Hence, the recent amendments to Iranian Accounting Standards—requiring firms to disclose capital management policies and provide comprehensive quantitative and qualitative information on financial instrument risks—establish a strong theoretical foundation for anticipating a causal relationship between disclosure and the cost of capital. Specifically, these mandatory disclosures are expected to reduce information asymmetry, enhance signaling quality, strengthen monitoring mechanisms, and potentially increase market liquidity. Collectively, these effects should lower the cost of capital for compliant firms.

H1: Mandatory risk disclosure under Iran's accounting standards has a significant relationship with the cost of capital.

2.2. Corporate governance mechanisms as a moderator

The moderating role of corporate governance mechanisms in the relationship between mandatory risk disclosure and the cost of equity can be explained through several well-established theoretical perspectives, including agency theory, signaling theory, legitimacy theory, and stakeholder theory (Ntim et al., 2013). Strong corporate governance enhances the credibility and informativeness of risk disclosures, thereby influencing the extent to which disclosure requirements affect the firm's cost of equity.

Agency theory (Jensen & Meckling, 1976) posits that conflicts often arise between managers (agents) and shareholders (principals) due to information asymmetry and divergent objectives. Managers may be reluctant to fully disclose risks if they perceive that such disclosures could adversely affect their compensation, reputation, or job security. As a result, they may act in their own interests rather than shareholders', potentially leading to suboptimal corporate decisions. Corporate governance mechanisms are designed to mitigate agency problems by aligning managerial incentives with shareholder interests and by strengthening monitoring and accountability processes (Fama & Jensen, 1983).

When corporate governance is strong, investors are more likely to perceive risk disclosures as credible and reliable, since effective monitoring reduces the likelihood of managerial opportunism (Gordon et al., 2010). This enhanced credibility lowers investors' perceived risk, thereby reducing the required rate of return and, consequently, the firm's cost of capital. Accordingly, we expect that stronger corporate governance will amplify the negative relationship between mandatory risk disclosure and the cost of equity.

Signals help reduce information asymmetry by mitigating conflicts of interest between owners and managers (Taj, 2016). Corporate governance mechanisms can serve as informational signals in their own right (Ibrahim & Aboud, 2024). Strong governance structures convey a firm's commitment to transparency and accountability, thereby enhancing the credibility of its risk disclosure signals (Gordon et al., 2010). Empirical evidence suggests that higher-quality governance attributes—such as CEO duality, institutional ownership, board independence, and female board representation—promote greater risk disclosure through effective market signaling (Saggar & Singh, 2017; Salem et al., 2019; Gull et al., 2023).

Past research (e.g., Dam & Scholtens, 2012) shows that higher levels of stakeholder conflict motivate firms to respond through greater disclosure, particularly of risk-related information. Holm and Laursen (2007) argue that a more substantial commitment to transparency and accountability via risk disclosure reduces information asymmetry between managers and corporate stakeholders. According to Rhodes (2010), this reduction in information asymmetry can mitigate agency problems by aligning managerial interests with those of stakeholders. Managerial stakeholder theory posits that risk disclosure enables firms to manage stakeholder expectations, secure their support, and ensure

organizational continuity by addressing the informational needs of shareholders, employees, and government entities. As emphasized by Ntim et al. (2013), corporate governance mechanisms play a critical role in achieving these outcomes.

So, for firms with stronger corporate governance mechanisms, the negative relationship between mandatory risk disclosure and the cost of capital is expected to be more pronounced. This relationship is illustrated in Figure 3.

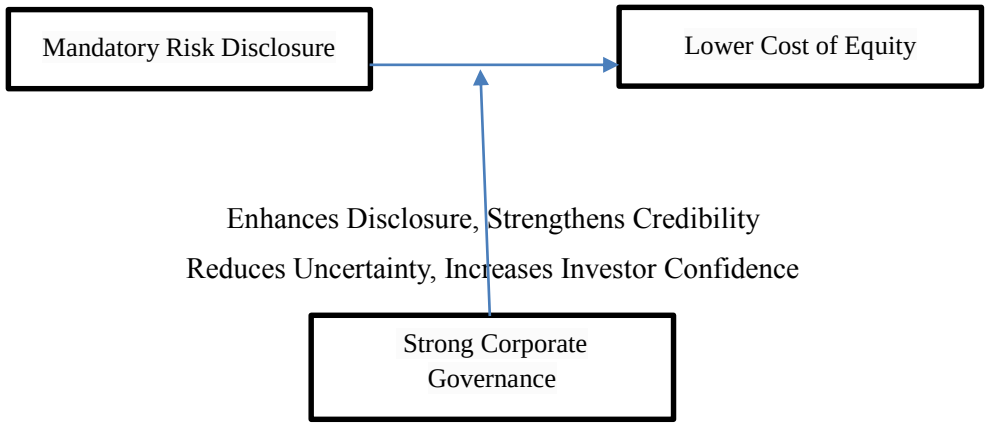

Figure 3. Corporate governance mechanisms as a moderator of the relationship between mandatory risk disclosure and the cost of capital

H2: Corporate governance mechanisms moderate the relationship between mandatory risk disclosure mandated by Iran's accounting standards and the corporate cost of capital.

3. Methodology

This study adopts a descriptive–correlational design and is applied in nature. The statistical population comprises all corporations listed on the Tehran Stock Exchange (TSE) between 2014 and 2023. To examine the long-term effects of the accounting standard amendments, data were collected for five years before and five years after the implementation of the new standards. The following criteria were applied in selecting the final sample used to test the research hypotheses:

1. The company must not operate in the real estate, investment, or other financial intermediation industries.
2. The company must not have changed its fiscal year during the study period.
3. All research variables must be available for the entire observation period.

After applying the above criteria and using a systematic elimination approach, a final sample of 158 firms was selected for statistical analysis. To examine the relationship between the cost of equity and mandatory risk disclosure, the following regression model (Model 1) was employed (Gebhardt et al., 2001; Dhaliwal et al., 2006; He et al., 2019):

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + Industry\ Dummy\ Variables + Year\ Dummy\ Variables + \varepsilon_{it} \quad (1)$$

Where:

COC_{it}: This is the study's dependent variable. The calculation method is described in detail in the following section. $SRef_{it}$: The main independent variable, capturing the effect of changes in accounting standards. It equals 1 for fiscal years 2019 and onward (i.e., the post-reform period when the new accounting standards are reflected in financial statements), and zero otherwise. $Size_{it}$: A control variable measuring corporate size, calculated as the natural logarithm of the firm's average total assets and sales. Lev_{it}: A control variable measuring financial leverage, calculated as the ratio of total debt to total assets. ROA_{it}: A control variable representing profitability, calculated as the ratio of net profit to total assets. $Growth_{it}$: A control variable capturing the annual rate of sales growth. BTM_{it}: A control variable defined as the ratio of the book value of equity to its market value. Age_{it}: A control variable for firm maturity, measured as the natural logarithm of (1 + the number of years since the company's initial public offering).

Although this approach is limited in capturing firm-level heterogeneity, SRefit is used as a binary variable due to the novelty of the accounting standard reform and the challenges of constructing standardized, objective measures of disclosure intensity or quality for a large dataset under Iranian conditions. This operationalization allows the study to capture the average market response to the adoption of the new mandatory disclosure regime.

3.1. Measuring the cost of capital

In this study, two indicators are employed to measure the cost of equity. The first indicator is based on the Capital Asset Pricing Model (CAPM) and is calculated according to Model 2. This measure is denoted as $COC1_{it}$:

$$COC1_{it} = R_f + \beta_i (R_{m\ t} - R_f) \quad (2)$$

In which $COC1_{it}$ represents the firm's cost of equity based on the CAPM, Rf denotes the risk-free rate, set at 18% for years before 2023 and 23% for 2023, reflecting the official interest rates in Iran, β_i represents the sensitivity of the firm's stock returns to market returns, and $R_{m,t}$ indicates the market return rate.

The second indicator for measuring the cost of equity is based on the Gordon Growth Model and is calculated according to Model 3. This measure is denoted as $COC2_{it}$:

$$COC2_{it} = \frac{D_{0\,i}(1+g_i)}{P_{0\,it}} + g_i \quad (3)$$

In which $COC2_{it}$ represents the firm's cost of equity based on the Gordon Growth Model, $D_{0,i}$ denotes the dividend per share at the end of the previous fiscal year, $P_{0,it}$ indicates the market price per share at the beginning of the current year, and g_i represents the expected sales growth rate.

To investigate the moderating role of corporate governance mechanisms in the relationship between mandatory risk disclosure and the cost of equity, Regression Model 4 was employed, as specified below:

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \beta_2 CG_{it} + \beta_3 SRef_{it} * CG_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + Industry\ Dummy\ Variables + Year\ Dummy\ Variables + \varepsilon_{it} \quad (4)$$

Where:

CG_{it} is treated as a moderating variable in this study. Three indicators of corporate governance were employed: Board independence: Operationalized as the proportion of non-executive (independent) members on the board relative to the total number of board members. Institutional ownership: Defined as the percentage of a firm's shares held by banks, insurance companies, financial institutions, holding companies, organizations, government agencies, and state-owned enterprises. Ownership concentration: Measured by comparing a firm's free-floating shares to the cross-sectional average across all firms. Firms with a free-floating share percentage above the average were assigned a value of 0, while those below or equal to the average were assigned a value of 1. This measurement approach is based on Mehrani and Safarzadeh (2011) and is recommended for the Iranian context according to expert opinion. The use of a binary variable for ownership concentration has also been adopted in studies outside Iran (Hautz et al., 2013; He & Huang, 2017; Azar et al., 2018).

4. Findings

Table 1 presents the descriptive statistics of the variables. The mean values of the cost of capital variables (COC1it and $COC2_{it}$) suggest that, on average, Iranian firms exhibit a cost of capital within a reasonable range. Both variables display positive skewness, indicating that extreme values above the mean are relatively uncommon. The average debt ratio is approximately 0.59, reflecting a substantial reliance on debt in these firms' capital structures. In the context of the Iranian economy—particularly during periods of international sanctions—firms often face limited access to external financing, thereby increasing their dependence on domestic debt.

Table 1. Descriptive statistics

variable	Median	Mean	Min	Max	SD	skewness	kurtosis
$COC1_{it}$	0.195	0.201	0.837	-0.363	0.291	0.092	3.232
$COC2_{it}$	0.094	0.159	0.939	-0.329	0.326	0.806	3.185
$Size_{it}$	14.956	15.136	14.413	16.058	0.512	0.617	2.632
Lev_{it}	0.602	0.588	0.300	0.840	0.174	-0.189	1.946
ROA_{it}	0.071	0.105	0.485	-0.155	0.154	0.776	3.500
$Growth_{it}$	0.099	0.134	-0.225	0.601	0.255	0.437	2.219
BM_{it}	0.396	0.459	-5.536	3.301	0.447	-1.107	2.100
Age_{it}	2.796	2.832	2.513	3.001	0.120	-0.322	2.267
$BoaIndu_{it}$	0.612	0.647	0.000	0.874	0.174	-0.607	2.951
$InsOwn_{it}$	0.823	0.711	0.000	1.020	0.276	-1.069	3.679
$OwnCon_{it}$	1.100	0.597	0.000	1.100	0.502	-0.318	1.299

Table 2 presents the results for the first hypothesis, which examines the relationship between mandatory risk disclosure and the cost of equity using both the CAPM and Gordon growth models. The coefficient of compulsory risk disclosure ($SRef_{it}$) is negative in both models; however, it is not statistically significant. This indicates that higher levels of mandatory risk disclosure do not significantly affect the cost of capital. Among the control variables, firm size ($Size_{it}$) is positively and significantly associated with the cost of capital in both models. Leverage (Lev_{it}) exhibits a significant

negative relationship with the cost of equity. Furthermore, profitability (ROA_{it}) and sales growth (Growthit) are both positively and significantly related to the cost of equity.

To assess potential multicollinearity among the independent variables in our regression models (Table 2), we computed the Variance Inflation Factor (VIF) for each predictor. All VIF values are well below the commonly applied threshold of 10, with a maximum of 1.986, indicating that multicollinearity is not a concern. This confirms the stability and reliability of the estimated regression coefficients and their associated t-values reported in Table 2. We also examined first-order serial correlation in the regression residuals using the Durbin-Watson (DW) statistic. The DW values are 1.761 for Model 1 (CAPM) and 1.742 for Model 2 (Gordon), both of which are close to 2, suggesting that first-order autocorrelation is not a concern. These diagnostic results support the validity of the statistical inferences drawn from the regression models.

The adjusted R^2 values of 0.515 for the CAPM model and 0.778 for the Gordon model indicate that the latter provides a substantially better fit, explaining a larger proportion of the variance in the cost of capital. This conclusion is further supported by the higher F-statistic observed for the Gordon model. Although the risk disclosure variable itself is not statistically significant, the results suggest that firm-specific characteristics play a meaningful role in determining the cost of capital. The higher adjusted R^2 for the Gordon model implies that its estimates are more reliable and provide a more accurate assessment of the factors influencing firms' cost of capital.

Table 2. Test of hypothesis 1

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + \varepsilon_{it}$$

	$COC1_{it}$ = CAPM (1)		$COC2_{it}$ = Gordon (2)		
Variable	**β**	**t-Stat**	**β**	**t-Stat**	**VIF**
α_0	0.945***	3.805	0.401***	3.496	
$SRef_{it}$	-0.028	-0.635	-0.017	-0.465	1.151
$Size_{it}$	0.031***	2.833	0.043***	3.762	1.854
Lev_{it}	-0.118***	-2.655	-0.083***	-2.231	1.629
ROA_{it}	0.152***	2.401	0.108**	2.035	1.553
$Growth_{it}$	0.082**	2.133	0.102***	3.130	1.437
BTM_{it}	0.011	0.471	0.007	0.311	1.986
Age_{it}	-0.019	-0.765	-0.011	-0.415	1.352
Industry fixed effects	Included		included		
Year fixed effects	Included		Included		
Adjusted R^2	0.535		0.795		
Durbin-Watson	1.761		1.742		
F Statistics	29.550***		78.150***		

***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

The regression results in Table 3 examine the relationships among mandatory risk disclosure, corporate governance mechanisms, and the cost of capital, as estimated by both the CAPM and the Gordon growth models. The findings indicate that mandatory risk disclosure ($SRef_{it}$), reflecting changes in accounting standards, does not exhibit a statistically significant direct effect on the cost of capital (β1 is insignificant in both models). Moreover, the interaction term representing the moderating effect of corporate governance ($SRef_{it} \times CG_{it}$) is also insignificant, suggesting that board independence does not moderate the relationship between mandatory risk disclosure and the cost of

capital. Nevertheless, board independence itself demonstrates a significant negative association with the cost of capital in both models. This result implies that firms with higher board independence experience a lower cost of capital, independent of the level of mandatory risk disclosure.

These findings suggest that reforms in accounting standards regarding risk disclosure, while influencing the extent of mandatory disclosure (SRefit), do not have a significant effect on firms' cost of equity. In contrast, the significant negative coefficient of board independence in both models highlights the substantial role of corporate governance mechanisms in shaping the cost of equity. This result implies that greater board independence may mitigate agency problems and reduce information asymmetry. Overall, while mandatory risk disclosure has a limited impact on the cost of capital, corporate governance emerges as a more critical determinant of firms' financing costs.

Table 3. Test of hypothesis 2 (CG_{it}= $BoaIndu_{it}$)

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \beta_2 CG_{it} + \beta_3 SRef_{it} * CG_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + \varepsilon_{it}$$

Variable		$COC1_{it}$ = CAPM (1) β	t-Stat	$COC2_{it}$ = Gordon (2) β	t-Stat	vif
	α_0	0.876***	3.283	0.348***	3.041	
$SRef_{it}$		0.021	0.445	0.012	0.327	1.252
CG_{it}		-0.132**	-2.141	-0.076*	-1.872	1.451
$SRef_{it} * CG_{it}$		-0.012	-0.305	-0.007	-0.225	1.657
$Size_{it}$		0.029***	2.663	0.041***	3.604	1.902
Lev_{it}		-0.112***	-2.568	-0.078***	-2.176	1.684
ROA_{it}		0.145***	2.327	0.101**	1.956	1.588
$Growth_{it}$		0.078**	2.044	0.098***	3.071	1.482
BTM_{it}		0.009	0.397	0.005	0.246	2.056
Age_{it}		-0.016	-0.692	-0.009	-0.366	1.381
Industry fixed effects		Included		included		
Year fixed effects		Included		Included		
Adjusted R^2		0.546		0.804		
Durbin-Watson		1.813		1.688		
F Statistics		27.850***		75.230***		

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 4. Test of hypothesis 2 (CG_{it}= $InsOwn_{it}$)

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \beta_2 CG_{it} + \beta_3 SRef_{it} * CG_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + \varepsilon_{it}$$

Variable		$COC1_{it}$ = CAPM (1) β	t-Stat	$COC2_{it}$ = Gordon (2) β	t-Stat	vif
	α_0	0.908***	3.401	0.361***	3.145	
$SRef_{it}$		-0.015	-0.343	-0.011	-0.274	1.281
CG_{it}		-0.141*	-1.883	-0.081*	-1.794	1.757
$SRef_{it} * CG_{it}$		-0.040*	-1.804	-0.029*	-1.742	1.954
$Size_{it}$		0.027***	2.626	0.039***	3.487	1.883
Lev_{it}		-0.121***	-2.615	-0.085***	-2.245	1.655
ROA_{it}		0.150***	2.379	0.103**	1.986	1.574
$Growth_{it}$		0.083**	2.029	0.100***	3.057	1.468
BTM_{it}		0.011	0.394	0.006	0.242	2.101
Age_{it}		-0.018	-0.733	-0.010	-0.388	1.370
Industry fixed effects		Included		included		
Year fixed effects		Included		Included		
Adjusted R^2		0.552		0.814		
Durbin-Watson		1.796		1.724		
F Statistics		29.106***		77.957***		

***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 4 presents the regression results for the second hypothesis, using institutional ownership ($InsOwn_{it}$) as an indicator of corporate governance. Consistent with the previous analysis, mandatory risk disclosure ($SRef_{it}$) does not exhibit a statistically significant relationship with the cost of equity in either the CAPM or Gordon growth models. However, the coefficient for institutional ownership is negative and significant, indicating that higher levels of institutional ownership substantially reduce the cost of equity. Additionally, the interaction term representing the moderating effect ($SRef_{it} \times CG_{it}$) is also negative, suggesting that institutional ownership may attenuate the impact of new accounting standards on mandatory risk disclosure, which could, in turn, influence firms' cost of capital.

Additional information about the connection between required risk disclosure, ownership concentration, and the cost of capital can be found in the re-estimated regression models (Table 5), which use OwnConit as the corporate governance metric. Interestingly, in both the CAPM and Gordon growth models, the coefficients for required risk disclosure ($SRef_{it}$) and its relationship to ownership concentration ($SRef_{it}$*CG_{it}) are negative and statistically insignificant. The negative coefficient on CG_{it} suggests that ownership concentration may be inversely related to the cost of capital.

Table 5. Test of hypothesis 2 (CG_{it}= $OwnCon_{it}$)

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \beta_2 CG_{it} + \beta_3 SRef_{it} * CG_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + \varepsilon_{it}$$

Variable		$COC1_{it}$ = CAPM (1) β	t-Stat	$COC2_{it}$ = Gordon (2) β	t-Stat	vif
	α_0	0.928***	3.506	0.383***	3.242	
$SRef_{it}$		-0.019	-0.423	-0.015	-0.355	1.304
CG_{it}		-0.078	-1.665	-0.049	-1.626	1.549
$SRef_{it} * CG_{it}$		-0.035	-1.658	-0.026	-1.592	1.721
$Size_{it}$		0.024***	2.466	0.037***	3.382	1.957
Lev_{it}		-0.128***	-2.720	-0.091***	-2.315	1.713
ROA_{it}		0.158***	2.497	0.108**	2.028	1.607
$Growth_{it}$		0.075**	1.977	0.094***	2.994	1.505
BTM_{it}		0.007	0.337	0.003	0.188	2.159
Age_{it}		-0.024	-0.830	-0.014	-0.505	1.403
Industry fixed effects		Included		Included		
Year fixed effects		Included		Included		
Adjusted R^2		0.568		0.829		
Durbin-Watson		1.802		1.762		
F Statistics		30.522***		79.145***		

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

4.1. Robustness check

To further assess the validity of our results for Hypothesis 1 and address potential concerns related to heteroskedasticity and serial correlation in panel data, we re-estimated our baseline models (Model 1 and Model 2 in Table 2) using firm-clustered standard errors. The results of this robustness test are presented in Table 6. Although the t-statistics are slightly adjusted compared to the baseline fixed-effects estimators, the coefficient estimates (β) remain unchanged. Importantly, the statistical significance and signs of all variables, including the main variable of interest ($SRef_{it}$), are preserved. Mandatory risk disclosure ($SRef_{it}$) continues to show no significant relationship with the cost of capital under both the CAPM and Gordon models. These results confirm that our main findings for Hypothesis 1 are robust to potential violations of standard error assumptions, including heteroskedasticity and within-firm serial correlation.

Table 6. Robustness check for hypothesis 1 using firm-clustered standard errors

$$COC_{it} = \alpha + \beta_1 SRef_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 ROA_{it} + \gamma_4 Growth_{it} + \gamma_5 BTM_{it} + \gamma_6 Age_{it} + \varepsilon_{it}$$

	$COC1_{it}$ = CAPM (1)		**$COC2_{it}$ = Gordon (2)**		
Variable	**β**	**t-Stat**	**β**	**t-Stat**	**vif**
α_0	0.951***	3.755	0.405***	3.458	
$SRef_{it}$	-0.025	-0.596	-0.015	-0.433	1.151
$Size_{it}$	0.032***	2.788	0.045***	3.715	1.854
Lev_{it}	-0.120***	-2.613	-0.085***	-2.206	1.629
ROA_{it}	0.155***	2.377	0.110**	2.019	1.553
$Growth_{it}$	0.085**	2.108	0.105***	3.098	1.437
BTM_{it}	0.012	0.468	0.008	0.312	1.986
Age_{it}	-0.018	-0.750	-0.010	-0.400	1.352
Adjusted R^2	0.535		0.795		
Durbin-Watson	1.761		1.742		
F Statistics	25.851***		70.126***		

***, **, and * indicate significance at the 1%, 5% and 10% levels, respectively.

5. Conclusion

This paper investigates the relationship between mandatory risk disclosure and the cost of capital following the implementation of new accounting standards in Iran, and the moderating role of corporate governance mechanisms. Using both the Capital Asset Pricing Model (CAPM) and the Gordon Growth Model, the regression analyses yield several notable insights. The findings reveal that mandatory risk disclosure ($SRef_{it}$) does not exhibit a statistically significant direct relationship with the cost of capital, contrasting with evidence from studies conducted in developed markets (Leuz & Verrecchia, 2000).

Said and Mellett (2013) similarly found low levels of compliance with mandatory risk disclosure among Egyptian firms, influenced by factors such as auditor type, board size, and CEO duality. Consistent with these findings, prior studies—including Lopes and Alencar (2010), Nahar et al. (2016), and Bui et al. (2020) have documented a negative association between both voluntary and mandatory risk disclosure and the cost of capital.

There are several possible explanations for why theoretical expectations regarding the direct and indirect effects of mandatory risk disclosure on the cost of capital were not supported. First, the low quality of the disclosed information may render mandatory risk reporting ineffective in influencing investors' perceptions. If the information provided is not timely, accurate, or reliable, investors are likely to disregard it, thereby limiting its impact on firms' cost of capital and perceived risk. Furthermore, since the mandatory disclosure requirements are relatively new, many firms may still lack sufficient understanding of how to prepare and present risk-related information in a meaningful way. Consequently, investors may derive little benefit from disclosures that are incomplete, poorly structured, or irrelevant.

Furthermore, firms may be less willing to fully and accurately disclose risk-related information when enforcement mechanisms for non-compliance are weak or ineffective. The Iranian capital market is characterized by limited voluntary disclosure, pronounced information asymmetry, and high levels of unsystematic risk—all of which can influence the effect of mandatory risk disclosure on the cost of capital. Finally, another contributing factor may be the superficial nature of many firms' qualitative and quantitative risk disclosures, combined with insufficient oversight by institutional bodies, such as audit committees and independent auditors, of the quality and completeness of the

disclosed information.

The finding that mandatory risk disclosure ($SRef_{it}$), introduced through recent amendments to Iranian accounting standards, does not appear to reduce firms' cost of capital warrants interpretation within Iran's distinctive institutional environment. Several characteristics of this developing market likely moderate and weaken the theoretically expected relationship. First, the high level of information asymmetry in the Iranian capital market (Rajabalizadeh & Schadewitz, 2025) may heighten demand for mandatory disclosure. However, when such asymmetry is accompanied by low-quality reporting or superficial compliance possibly due to weak enforcement mechanisms or firms' limited familiarity with the new standards the informational value perceived by investors becomes restricted, thereby rendering the expected reduction in the cost of capital largely ineffective.

Second, pervasive unsystematic risks such as sanctions, inflation, and exchange rate volatility may overshadow investors' perceptions of firm-specific risks, rendering mandatory risk disclosures largely redundant. Consequently, variations in the cost of capital may be driven more by macroeconomic determinants than by firm-level disclosures mandated by accounting standards. Finally, extensive institutional and state control in the Iranian market may lead major stakeholders to rely less on public disclosures and more on private channels of information or direct monitoring. While this strong governance factor, as reflected in the significant coefficients for our governance variables, reduces the cost of capital, it simultaneously diminishes the marginal contribution of mandatory risk disclosures in mitigating market-wide information asymmetry. Overall, although the recent accounting reforms aim to enhance the informativeness of financial reporting, these institutional characteristics likely explain the observed absence of a significant statistical relationship between increased mandatory risk disclosure and the cost of capital in Iran.

Furthermore, ownership concentration and board independence do not moderate the relationship between mandatory risk disclosure and the cost of capital. In the Iranian context, mandating greater risk disclosure has not resulted in a lower cost of capital for firms. It is therefore essential to distinguish between the direct and moderating effects of corporate governance identified in this study. While our second hypothesis—addressing the moderating influence of corporate governance on the relationship between mandatory risk disclosure (SRefit) and the cost of capital was not supported (as indicated by the insignificant interaction terms across all models in Tables 3, 4, and 5), the results consistently reveal a significant direct negative association between governance mechanisms and the cost of capital. In particular, board independence and institutional ownership, and to a lesser extent ownership concentration, are found to reduce firms' cost of capital. Accordingly, the emphasis on corporate governance in our conclusions stems from this strong direct effect, suggesting that sound governance practices lower the cost of capital primarily through enhanced monitoring and reduced information asymmetry, rather than by moderating the impact of the accounting standard changes examined in this study.

A consistent finding across our analyses (Tables 2–5) is the pronounced difference in explanatory power between the models based on the CAPM-derived cost of capital (COC1) and those using the Gordon Growth Model (COC2). Specifically, the Gordon Growth Model generally yields a substantially higher adjusted R^2 and a larger F-statistic compared with the CAPM model. This evidence suggests that, given the included control and independent variables, the Gordon Growth Model provides a significantly better fit in explaining variations in the cost of capital among Iranian firms during the sample period.

This discrepancy can be explained by the underlying inputs and assumptions of the two models within the unique context of Iran's emerging market. The Gordon Growth Model relies more heavily on firm-level fundamentals such as growth rates and dividend expectations which may be perceived by investors as more tangible and meaningful in an environment characterized by market

inefficiencies and dominant firm-specific (unsystematic) risks. In contrast, the CAPM's reliance on beta and market returns may fail to capture the full spectrum of risks and investor expectations in a market subject to external factors beyond historical systematic risk, such as sanctions and persistent inflation. Given that both models are widely applied, the stronger statistical fit of the Gordon Growth Model in this study suggests that its underlying components align more closely with the factors driving firms' cost of capital in this particular emerging market setting. Accordingly, the findings from the Gordon Growth Model (COC2) can be regarded as more empirically robust within the scope of this research.

The findings of this study offer several practical implications. First, firms should recognize that mere compliance with mandatory risk disclosure requirements may not effectively reduce their cost of capital. To enhance investor confidence and lower financing costs, companies should instead prioritize strengthening their corporate governance mechanisms particularly by improving institutional ownership structures and increasing board independence. Second, investors evaluating opportunities in the Iranian market should consider corporate governance characteristics, such as institutional ownership and board independence, as key indicators of firm quality. Firms with stronger governance structures are likely to exhibit lower risk profiles, which can translate into lower capital costs. Finally, regulatory authorities should actively monitor the effectiveness of corporate governance frameworks and incentivize firms to improve the quality, consistency, and transparency of their governance practices to foster greater trust and market efficiency.

In this regard, it is recommended that policymaking and regulatory bodies such as the Securities and Exchange Organization (SEO), the Iran Audit Organization (IAO), and the Iranian Association of Certified Public Accountants (IACPA) implement both punitive and incentive-based measures to improve the quality of disclosures following changes in accounting standards. One recommendation is to introduce a graduated penalty system for non-compliance, calibrated to the severity of disclosure deficiencies. Reputational accountability could also be strengthened by publicly identifying non-compliant firms and disclosing the nature of their deficiencies in official reports. Moreover, firms that fail to comply with both quantitative and qualitative risk disclosure requirements could be temporarily restricted from issuing new equity or debt instruments. On the incentive side, measures such as tax benefits for firms that fully comply with disclosure requirements, professional training programs on risk management, and public recognition for the top-performing companies in disclosure quality could be implemented. Finally, it is advisable to conduct a qualitative review of firms' risk disclosures. Audit committees, risk committees, and independent auditors should assess and comment on the quality and comprehensiveness of these disclosures in financial statements.

This study has several limitations. First, the analysis focuses exclusively on firms listed on the TSE, an emerging market characterized by limited voluntary disclosure. This feature may constrain the generalizability of the findings to more developed capital markets. Second, the study employs a binary variable (SRefit) based on changes in accounting standards to capture mandatory risk disclosure. However, this measure may not fully capture variations in disclosure quality such as the distinction between qualitative and quantitative information and does not address issues related to superficial compliance. Third, although two approaches are used to estimate the cost of capital (the Gordon Growth Model and the Capital Asset Pricing Model [CAPM]), the lack of a statistically significant relationship between mandatory risk disclosure and the cost of capital suggests that differences in estimation methods may influence the results. Finally, the analysis incorporates only three corporate governance mechanisms—board independence, institutional ownership, and ownership concentration—while excluding other potentially relevant factors, such as audit committee effectiveness and risk committee characteristics.

Future research should incorporate richer measures of risk disclosure quality, including content

analysis of narrative reports and quantitative indicators of risk exposure, to address the limitations identified in this study. To better understand the contextual factors influencing disclosure effects, scholars could extend their analyses across different institutional settings, comparing developed and emerging economies. Additionally, examining alternative corporate governance mechanisms such as the roles of risk committees and audit committees would offer further insights into how governance structures shape disclosure outcomes. In highly information-asymmetric environments such as Iran, future studies may also explore stakeholder perceptions of disclosure credibility and its influence on investment decisions through experimental or survey-based approaches. Such methodological extensions would deepen our understanding of how risk disclosure reduces financing costs and mitigates information asymmetry.

References

1. Akerlof, G. A. (1970). The market for "lemons": quality uncertainty and the market mechanism. *The Quarterly Journal of Economics, 84*(3), pp. 488–500. https://doi.org/10.2307/1879431
2. Alam, M. (2006). Stakeholder theory. In Methodological Issues in Accounting Research: Theories, Methods, and Issues (pp. 207-222). Spiramus, London, UK
3. Azar, J., Schmalz, M. C. and Tecu, I. (2018). Anticompetitive effects of common ownership. *The Journal of Finance*, 73(4), pp. 1513-1565. https://doi.org/10.1111/jofi.12698
4. Bertomeu, J., Beyer, A. and Dye, R. A. (2011). Capital structure, cost of capital, and voluntary disclosures. *The Accounting Review*, 86(3), pp. 857-886. https://doi.org/10.2308/accr.00000037
5. Blue, G., Faraji, O., Khotanlou, M. and Rezaee, Z. (2024). A corporate risk assessment and reporting model in emerging economies. *Journal of Applied Accounting Research*, 25(4), pp. 783-811. https://doi.org/10.1108/JAAR-02-2023-0047
6. Botosan, C. A. (1997). Disclosure level and the cost of equity capital. *The Accounting Review*, 72(3), pp. 323-349. https://www.jstor.org/stable/248475
7. Bui, B., Moses, O. and Houqe, M. N. (2020). Carbon disclosure, emission intensity and cost of equity capital: multi-country evidence. *Accounting & Finance*, 60(1), pp. 47-71. https://doi.org/10.1111/acfi.12492
8. Bushman, R. M. and Smith, A. J. (2001). Financial accounting information and corporate governance. *Journal of accounting and Economics*, 32(1-3), pp. 237-333. https://doi.org/10.1016/S0165-4101(01)00027-1
9. Campbell, J. L., Chen, H., Dhaliwal, D. S., Lu, H. M. and Steele, L. B. (2014). The information content of mandatory risk factor disclosures in corporate filings. *Review of Accounting Studies*, 19(1), pp. 396-455. https://doi.org/10.1007/s11142-013-9258-3
10. Connelly, B. L., Certo, S. T., Reutzel, C. R., DesJardine, M. R. and Zhou, Y. S. (2025). Signaling theory: state of the theory and its future. *Journal of Management*, 51(1), pp. 24-61. https://doi.org/10.1177/01492063241268459
11. Corazza, L., Truant, E., Scagnelli, S. D. and Mio, C. (2020). Sustainability reporting after the Costa Concordia disaster: a multi-theory study on legitimacy, impression management and image restoration. *Accounting, Auditing & Accountability Journal*, 33(8), pp. 1909-1941. https://doi.org/10.1108/AAAJ-05-2018-3488
12. Core, J. E., Hail, L. and Verdi, R. S. (2015). Mandatory disclosure quality, inside ownership, and cost of capital. *European Accounting Review*, 24(1), pp. 1-29. https://doi.org/10.1080/09638180.2014.985691
13. Dam, L. and Scholtens, B. (2012). Does ownership type matter for corporate social responsibility?. *Corporate Governance: An International Review*, 20(3), pp. 233-252.

https://doi.org/10.1111/j.1467-8683.2011.00907.x
14. Deegan, C. (2006). Legitimacy theory. In Z. Hoque (Ed.), *Issues in accounting research: theories and methods*. Spiramus Press Ltd, London, U.K.
15. Dhaliwal, D., Heitzman, S. and Zhen Li, O. L. I. V. E. R. (2006). Taxes, leverage, and the cost of equity capital. *Journal of Accounting Research*, 44(4), pp. 691-723. https://doi.org/10.1111/j.1475-679X.2006.00214.x
16. Diamond, D. W. and Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. *The Journal of Finance*, 46(4), pp. 1325-1359. https://doi.org/10.1111/j.1540-6261.1991.tb04620.x
17. Dutta, S. and Nezlobin, A. (2017). Information disclosure, firm growth, and the cost of capital. *Journal of Financial Economics*, 123(2), pp. 415-431. https://doi.org/10.1016/j.jfineco.2016.04.001
18. Fama, E. F. and French, K. R. (1993). Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics*, 33(1), pp. 3-56. https://doi.org/10.1016/0304-405X(93)90023-5
19. Fama, E. F. and Jensen, M. C. (1983). Separation of ownership and control. *The journal of Law and Economics*, 26(2), pp. 301-325. https://www.jstor.org/stable/725104
20. Fasihi, S. and Hosseini, S. A. (2020). Do risk disclosure increase firms' value?. *Iranian Journal of Finance*, 4(2), pp. 67-76. https://doi.org/10.22034/ijf.2020.232416.1132
21. Fauzi, I. and Firmansyah, A. (2023). Corporate social responsibility disclosure, intellectual capital disclosure, risk disclosure, cost of capital: moderating role of earnings management. *Accounting Analysis Journal*, 12(1), pp. 50-70. https://journal.unnes.ac.id/sju/index.php/aaj/article/view/66185
22. Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman Publishing. Cambridge university press, Cambridge, England.
23. Gebhardt, W. R., Lee, C. M. and Swaminathan, B. (2001). Toward an implied cost of capital. *Journal of Accounting Research*, 39(1), pp. 135-176. https://doi.org/10.1111/1475-679X.00007
24. Gordon, L. A., Loeb, M. P. and Sohail, T. (2010). Market value of voluntary disclosures concerning information security. *MIS Quarterly*, 34(3), pp. 567-594. https://doi.org/10.2307/25750692
25. Gull, A. A., Abid, A., Hussainey, K., Ahsan, T. and Haque, A. (2023). Corporate governance reforms and risk disclosure quality: evidence from an emerging economy. *Journal of Accounting in Emerging Economies*, 13(2), pp. 331-354. https://doi.org/10.1108/JAEE-11-2021-0378
26. Hail, L. and Leuz, C. (2006). International differences in the cost of equity capital: do legal institutions and securities regulation matter?. *Journal of Accounting Research*, 44(3), pp. 485-531. https://doi.org/10.1111/j.1475-679X.2006.00209.x
27. Hao, J. (2024). Disclosure regulation, cost of capital, and firm values. *Journal of Accounting and Economics*, 77(1), A. 101605. https://doi.org/10.1016/j.jacceco.2023.101605
28. Hautz, J., Mayer, M. C. and Stadler, C. (2013). Ownership identity and concentration: A study of their joint impact on corporate diversification. *British Journal of Management*, 24(1), pp. 102-126. https://doi.org/10.1111/j.1467-8551.2011.00792.x
29. He, J. and Huang, J. (2017). Product market competition in a world of cross-ownership: Evidence from institutional blockholdings. *The Review of Financial Studies*, 30(8), pp. 2674-2718. https://doi.org/10.1093/rfs/hhx028
30. He, J., Plumlee, M. A. and Wen, H. (2019). Voluntary disclosure, mandatory disclosure and the cost of capital. *Journal of Business Finance & Accounting*, 46(3-4), pp. 307-335. https://doi.org/10.1111/jbfa.12368
31. Healy, P. M. and Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the

capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1-3), 405-440. https://doi.org/10.1016/S0165-4101(01)00018-0
32. Holm, C. and Laursen, P. B. (2007). Risk and control developments in corporate governance: changing the role of the external auditor?. *Corporate Governance: An International Review*, 15(2), pp. 322-333. https://doi.org/10.1111/j.1467-8683.2007.00563.x
33. Ibrahim, A. E. A. and Aboud, A. (2024). Corporate risk disclosure and firm value: UK evidence. *International Journal of Finance & Economics*, 29(4), pp. 4225-4246. https://doi.org/10.1002/ijfe.2871
34. Ibrahim, A. E. A., Hussainey, K., Nawaz, T., Ntim, C. and Elamer, A. (2022). A systematic literature review on risk disclosure research: State-of-the-art and future research agenda. *International Review of Financial Analysis*, 82, A. 102217. https://doi.org/10.1016/j.irfa.2022.102217
35. Iranian Audit Organization. (IAO). (2023). Accounting Standards (Publication 160). Tehran: Audit Organization, Tehran, Iran.
36. Jensen, M. C. and Meckling, W. H. (1976). Theory of the firm: managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics, 3*(4), pp. 305–360. https://doi.org/10.1016/0304-405X(76)90026-X
37. Johnstone, D. (2016). The effect of information on uncertainty and the cost of capital. *Contemporary Accounting Research*, 33(2), pp. 752-774. https://doi.org/10.1111/1911-3846.12165
38. Júnior, J. F. A., Oliveira, M. C., Ponte, V. M. R. and de Sousa Ribeiro, M. (2014). Social disclosure of Brazilian and UK firms in light of stakeholder theory, legitimacy theory and voluntary disclosure theory. *Advances in Scientific and Applied Accounting*, 7(2), pp. 175-200. https://doi.org/10.14392/ASAA.2014070201
39. Kassamany, T., Harb, E., Louhichi, W. and Nasr, M. (2023). Impact of risk disclosure on the volatility, liquidity and performance of the UK and Canadian insurance companies. *Competitiveness Review: An International Business Journal*, 33(1), pp. 30-61. https://doi.org/10.1108/CR-10-2021-0129
40. Kravet, T. and Muslu, V. (2013). Textual risk disclosures and investors' risk perceptions. *Review of Accounting Studies*, 18(4), pp. 1088-1122. https://doi.org/10.1007/s11142-013-9228-9
41. Lambert, R., Leuz, C. and Verrecchia, R. E. (2007). Accounting information, disclosure, and the cost of capital. *Journal of Accounting Research*, 45(2), pp. 385-420. https://doi.org/10.1111/j.1475-679X.2007.00238.x
42. Lei, L. and Luo, Y. (2023). Political/policy uncertainty, corporate disclosure, and information asymmetry. *Accounting Perspectives*, 22(1), pp. 87-110. https://doi.org/10.1111/1911-3838.12317
43. Lemma, T. T., Feedman, M., Mlilo, M. and Park, J. D. (2019). Corporate carbon risk, voluntary disclosure, and cost of capital: S outh A frican evidence. *Business Strategy and the Environment*, 28(1), pp. 111-126. https://doi.org/10.1002/bse.2242
44. Leuz, C. and Verrecchia, R. E. (2000). The economic consequences of increased disclosure. *Journal of Accounting Research,* 38, pp. 91-124. https://doi.org/10.2307/2672910
45. Lopes, A. B. and de Alencar, R. C. (2010). Disclosure and cost of equity capital in emerging markets: the Brazilian case. *The International Journal of Accounting*, 45(4), pp. 443-464. https://doi.org/10.1016/j.intacc.2010.09.003
46. Martens, W. and Bui, C. N. M. (2023). An exploration of legitimacy theory in accounting literature. *Open Access Library Journal*, 10(1), pp. 1-20. https://doi.org/10.4236/oalib.1109713
47. Mehrani, K. and Safarzadeh, M.H. (2011). 'Explaining the relationship between corporate

governance and earnings quality with a native approach ', *Journal of Accounting Knowledge*, 2(7), pp. 69-98 (In Persion). https://doi.org/10.22103/jak.2011.13
48. Miihkinen, A. (2013). The usefulness of firm risk disclosures under different firm riskiness, investor-interest, and market conditions: New evidence from Finland. *Advances in Accounting*, 29(2), pp. 312-331. https://doi.org/10.1016/j.adiac.2013.09.006
49. Myers, S. C. and Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 13(2), pp. 187-221. https://doi.org/10.1016/0304-405X(84)90023-0
50. Nahar, S., Azim, M. and Anne Jubb, C. (2016). Risk disclosure, cost of capital and bank performance. *International Journal of Accounting & Information Management*, 24(4), pp. 476-494. https://doi.org/10.1108/IJAIM-02-2016-0016
51. Ntim, C. G., Lindop, S. and Thomas, D. A. (2013). Corporate governance and risk reporting in South Africa: A study of corporate risk disclosures in the pre-and post-2007/2008 global financial crisis periods. *International Review of Financial Analysis*, 30, pp. 363-383. https://doi.org/10.1016/j.irfa.2013.07.001
52. Pakdelan, S., Azarberahman, A., Akbari, S. and Azarberahman, J. (2021). Does risk disclosure affect firm's cost of capital. *International Journal of Management, Accounting and Economics*, 8(11), pp. 816-837. https://www.ijmae.com/article_144390_a37812153eb23b4b7359d7c387f60738.pdf
53. Rajabalizadeh, J. and Schadewitz, H. (2025). Audit report readability and information efficiency: evidence from the Tehran Stock Exchange. *Journal of Accounting in Emerging Economies*, 15(2), pp. 491-516. https://doi.org/10.1108/JAEE-08-2024-0344
54. Rhodes, M. J. (2010). Information asymmetry and socially responsible investment. *Journal of Business Ethics*, 95(1), pp. 145-150. https://doi.org/10.1007/s10551-009-0343-2
55. Saggar, R. and Singh, B. (2017). Corporate governance and risk reporting: Indian evidence. *Managerial Auditing Journal*, 32(4/5), pp. 378-405. https://doi.org/10.1108/MAJ-03-2016-1341
56. Said Mokhtar, E. and Mellett, H. (2013). Competition, corporate governance, ownership structure and risk reporting. *Managerial Auditing Journal*, 28(9), pp. 838-865. https://doi.org/10.1108/MAJ-11-2012-0776
57. Salem, I. H., Ayadi, S. D. and Hussainey, K. (2019). Corporate governance and risk disclosure quality: Tunisian evidence. *Journal of Accounting in Emerging Economies*, 9(4), pp. 567-602. https://doi.org/10.1108/JAEE-01-2019-0005
58. Shivaani, M. V. and Agarwal, N. (2020). Does competitive position of a firm affect the quality of risk disclosure?. *Pacific-Basin Finance Journal*, 61, A. 101317. https://doi.org/10.1016/j.pacfin.2020.101317
59. Spence, M. (1973). Job market signaling. *The Quarterly Journal of Economics, 87*(3), pp. 355–374. https://doi.org/10.2307/1882010
60. Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), pp. 571-610. https://doi.org/10.2307/258788
61. Taj, S. A. (2016). Application of signaling theory in management research: addressing major gaps in theory. *European Management Journal*, 34(4), pp. 338-348. https://doi.org/10.1016/j.emj.2016.02.001
62. Thitinun, P. and Yomchinda, N. (2021). The effect of specific risk disclosure under IFRS7 on cost of capital. *Academy of Accounting and Financial Studies Journal*, 251, p. 12. https://www.abacademies.org/articles/The-effect-of-specific-risk-disclosure-under-ifrs-7-on-Cost-of-capital-1528-2635-25-1-673.pdf
63. Tirado-Beltrán, J. M., Cabedo, D. and Muñoz Ramírez, D. E. (2020). Risk disclosure and cost of

equity: A Bayesian approach. *Instituto Tecnológico Metropolitano*, 6(11), pp. 25-43. https://doi.org/10.22430/24223182.1497

64. Verrecchia, R. E. (1983). Discretionary disclosure. *Journal of Accounting and Economics*, 5, pp. 179-194. https://doi.org/10.1016/0165-4101(83)90011-3
65. Verrecchia, R. E. (2001). Essays on disclosure. *Journal of Accounting and Economics*, 32(1-3), pp. 97-180. https://doi.org/10.1016/S0165-4101(01)00025-8
66. Yasar, B., Martin, T. and Kiessling, T. (2020). An empirical test of signalling theory. *Management Research Review*, 43(11), pp. 1309-1335. https://doi.org/10.1108/MRR-08-2019-0338