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Quantity and Quality of Corporate Financial Risk Reporting in Bangladesh: Evidence from Manufacturing Industry

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Abstract: *The objective of this study is to investigate the level and the quality of the corporate financial risk reporting in Bangladesh. Through the manual content analysis, the extent of risk disclosures of the annual report is measured. Risk disclosures of 81 manufacturing companies in Bangladesh from 2012 to 2016 are collected and analyzed. Risk reporting is measured by the disclosure score using the judgment of the researcher. It has been found that the level of risk disclosures in the manufacturing companies in Bangladesh is very poor. The average risk disclosures score is only 2.91 (19.4%) on a scale of total score 15. In 2012, 34 (42%) companies out of 81 don't provide any disclosure regarding the financial risks and the number reduced to 27 (33%) companies in 2016. Companies generally provide the definition of different risks in their annual report. Very few companies provide quantitative data of financial risks. Credit risk, liquidity risk and exchange risk are disclosed mostly by the Bangladeshi manufacturing companies. In this study, the data is collected from the annual report only. The study determines the extent of financial risk reporting in Bangladesh but doesn't consider the factors that influence financial risk reporting. This study will help the future researchers for further cross country research.*

Keywords: *Risk; Corporate Risk Reporting; Quantity and Quality of Corporate Financial Risk Reporting; Manufacturing Companies; Bangladesh*

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I. Introduction

Business faces different types of risks such as changes in economic conditions, financial and nonfinancial risks time to time. Share price of a company, reputation in the market are influenced by these risks. To achieve the business objectives, Management should take different controlling measures to minimize these types of risks. Hence, the robust and well structured risk disclosure of a firm can be useful for the stakeholders in case taking major decisions. As the risk disclosure is vital for the users, the demand for disclosing risk information is increasing. The stakeholders of the companies want to find the financial and non-financial information over the years from the annual report of a company (Amran et al., 2009). They demand more non-financial disclosures in the annual report after the major accounting scandals and fraudulent accounting practices of the Enron, Satyam and WorldCom scandals (Cole and Jones, 2005).

However, there is still debate on whether release of this risk information should be mandatory or voluntary. At present, most of the risk information is voluntary except for disclosure of financial risk which is mandatory (Rodriguez Dominguez & Noguera Gamez, 2014). But disclosing financial risks in the manufacturing industry is not mandatory in Bangladesh. Various theories support the provision of risk information. Agency Theory suggests that disclosing information is essential in decision making process and can work as for shareholders and investors can use this monitoring tools to observe manager's activities (Jensen & Meckling, 1976). According to Political Cost Theory, reduction of political costs and the tax burden is possible with the disclosure of information. Similarly, Signaling Theory assumes that to reduce inconsistency of information and to increase the firm value, firms should disclose sufficient and useful information to capital markets (Baiman & Verrecchia, 1996). It is vital that companies voluntarily disclose information by signaling to the markets, various efforts taken to reap the benefits accruing from such disclosure. Consistent with these theories, the Stakeholders Theory (Freeman, 1984) also supports voluntary disclosure, as managers' duty is to preserve the interest of various stakeholders overtime. Social legitimacy can also be one of the factors for disclosure of risk information. However, Proprietary Cost Theory suggests that disclosing information can create problem for the firms as this information could be used not only by investors but also by competitors and other users. There could be other potential disadvantages from provision of information like threats of mergers or takeovers, intervention of government agencies and tax authorities and use of information by pressure groups, trade unions, employees and political groups (Rodriguez Dominguez & Noguera Gamez, 2014). So, there is a tradeoff between economic benefits from provision of risk information and the costs associated with that disclosure.

The purpose of this study is to measure the extent of corporate financial risk reporting practices and to analyze the quality of corporate risk reporting of Bangladeshi companies. Risk disclosures of 81 manufacturing companies listed in DSE of Bangladesh for the year 2012 to 2016 have been analyzed in the study. A content analysis of annual reports for obtaining risk information is conducted that includes only financial risk (credit, liquidity, interest rate, exchange rate and price risk) information.

Fisrtly, most researches on corporate risk disclosure have been conducted in western countries such as Europe (Abraham & Cox, 2007; Abraham & Shrives, 2014; Elshandidy et al., 2013; Elzahar & Hussainey (2012); Elshandidy and Neri, 2015; Iatridis,2008; Linsley & Shrives, 2005 and 2006; Netti, 2018; Oliveira et al., 2018; Serrasqueiro and Mineiro, 2018), Italy (Beretta & Bozzolan, 2004; Elshandidy and Neri, 2015), Germany (Elshandidy et al., 2013; Kajuter, 2001), US (Campbell et al., 2013; Hodder, Koonce, & McAnally, 2001; Jorion, 2002; Kothari et al., 2009), Canada (Lajili, 2009; Lajili & Zeghal, 2005) and other European countries (Rodriguez Dominguez & Noguera Gamez, 2014; Oliveira, Rodrigues, & Craig ,2011 and Deumes, 2008). There are some researches on Middle East countries and Asian Countries (Darussamin et al., 2019; habbash et al., 2019; Elshandidy et al., 2018; Shivani, 2018; Amran et al., 2009; Hassan, 2009; Al-Janadi et al., 2013; Mousa and Elamir, 2013; Al-Shammari, 2014; Al-Maghzom et al., 2016; Saggar and Singh, 2017; Konishi and Ali, 2007 and Mohobbot, 2005). Agyei-Mensah and Buertey (2019) worked on African perspective.

However, there are very few empirical researches on corporate risk reporting in Bangladesh. Some are based on banking industry (Sarker and Nahar, 2018 and kabir and sobhani, 2017) and others are based on manufacturing industry (Dey et al, 2018 and Afroze and Haque, 2017). (Rahman, 2011; Das and Das, 2007; Alam and Masukujjaman, 2011; Lalon, 2015 and Hussan, 2015) investigated risk management of banking industry. This study tried to explore the level of corporate risk reporting practices in Bangladesh to contribute in the literature of Bangladesh and to prove whether the findings are consistent with previous literature.

Secondly, mostly prior risk disclosure studies conducted content analysis using a sentence or word count as a coding unit; word count and sentence count (Beretta and Bozzolan, 2004; Linsley and Shrives, 2006; Amran et al., 2009 and Oliveira et al., 2011). In this study, the risk disclosures scores of description index are used to measure the extent of risk reporting practices to overcome previous limitations.

The study is structured in five sections. After the introduction, the second section reviews previous risk reporting disclosure literature; focuses on the current situation of risk reporting practices for Bangladeshi listed manufacturing companies. Section three discusses the research methodology adopted in the current study. Section four, analyzes the empirical evidence and assimilates the findings and finally, the last section draws conclusion with the implications of the findings.

II. Literature Review

Risk can be called uncertainty or deviation. According to Frank Knight (1920) “risk is the variability that can be quantified in terms of probabilities, while immeasurable variability is best thought of as uncertainty”. Crouhy, et al. (2006, p.25) define risk as “the volatility of returns leading to unexpected losses, with higher volatility indicating higher risk”. The ICAEW report (on a model statement of business risk by companies) defined “risk as the uncertainty associated with both a potential gain and loss”. Corporate risks can be defined as the variability or any uncertainty of a corporation. “Risk refers to any uncertain future outcome. The potential outcome may be either good (an upside risk) or bad (a downside risk). An extension of this meaning sees risk as variability around an outcome” (ICAEW, 2011). Linsley and Shrives (2006a) noted that “in the past risks were considered to be bad, whereas at present it is thought risks have both the positive and negative effect”.

“Risk reporting is the incorporation of general, specific and potential circumstances in the financial statements of a corporation that may cause corporations assets and liabilities’ value fluctuates, decreases or otherwise” (Kamal Hassan, 2008a, c). Corporate risk can be reported with both financial and non-financial information. In this study, corporate financial risk reporting is focused.

Risk disclosure is way of making corporate interaction among the stakeholders a firm. (Combes Thuélin et al., 2006). Dobler (2005) assumed that users would be beneficial with corporate risk reporting and Lajili and Miihkinen (2012) also agreed that investors and other stakeholders show great demand of quality information in the annual reports of a firm realizing the usefulness of disclosed information. The ICAEW (2002) mentioned in its position paper on risk disclosure that company directors should provide more risk management information in prospectuses and annual reports of that company. According to the ICAEW, the company would get the benefit of reduced cost of capital, benefit of strong corporate governance compliances and benefit of better management of risk of the company by disclosing more amounts of risk disclosures in their annual report.

The investors would feel safe and secured and would take better decisions analyzing forward looking information provided through such disclosures. A firm should provide its sources of risks and the way of managing that risks as it can boost up the market confidence that would help to reduce its cost of capital. Information gap between investors and company can be decreased that would thereby increase investor's trust toward the firm and corporate governance. It is further illustrated that qualified risk disclosure would further help the investors to take more effective and efficient decisions about managing and diversifying the risk (Solomon et al., 2000). Bravo (2017) highlighted that effective and useful information provided by the firms for the stakeholders can increase the firm value through the improvement of the reputation of the firm. It was found that a firm can face some problem for the nondisclosures of risks such as the cost of equity capital would be higher than firms which disclose risk information. The disclosing firm's beta is lower than the firm which doesn't provide voluntary disclosures regarding the risks. A voluntary disclosure regime may have the lower expected beta and lower expected risk premium but it is totally reverse in a mandatory disclosure regime (Jorgensen and Kirschenheiter, 2003). Zehgal (2005) also mentioned that corporate governance can be improved with the disclosures of risk management information as it is one of the main components of strong governance. Barakat and Hussainey (2011) mentioned that disclosure of risk information is useful to observe the behavior of senior management, to analyze the changes in a firm's future cash flows and reduced firm's cost of capital, and to increase the investor's faith in the firm improving the reputation and loyalty towards the investors. Linsley and Shrives (2000) have caught up the directors to justify risks facing the corporate and steps taken to manage those risks to shareholders. They mentioned that disclosure of risk and risk management data can end in higher well-read individual and institutional investors and creditors. Well informed investors and creditors are going to be able to higher portion their resources to their investment portfolio leading to overall better allocation of resources within the financial markets.

The ICAEW (2011) described that disclosures of corporate risk play not only the role of reducing the cost of capital, making rational investors but also improving stewardship function of the firm and the quality of corporate governance. Corporate risk reporting is useful of making the capital market efficient and transparent for the users (Deumes, 2008). To understand and capture a overview regarding a firm's future prospect and current situation, analysis of financial and nonfinancial information (quantitative and qualitative disclosures) in the annual reports and regulatory filings has become an important matter of fact (Amran et al., 2009). But risk reporting is not sufficient and structured to the extent the users expect. The degree of corporate risk reporting in the annual reports of Kuwaiti companies' was not satisfactory (Al-Shammari, 2014). As the demand and significance of risk disclosures is increasing, the regulators and the users should make the management understand disclosing sufficient risk information. Linsley et al (2014) mentioned that stakeholders including managers, users, regulators and auditors can play pioneer role in case of increasing the quality of risk reporting.

Risks reporting vary from country to country for their regulations, cultures and stakeholder's demand. Dobler et al. (2016) tried to strive for the impact of cultural values on corporate risk disclosures from the cross country perspective. The study shows that cultural values measured by Power distance, uncertainty avoidance, individualism, and long-term orientation have a positive and significant influence on the amount of corporate disclosures. In the comparative study of (Cordazzo et al., 2017), it is found that German firms provide more mandatory disclosures with voluntary disclosures than the US, the UK, French and Italian firms. The national regulations have no impact on complementing effect of mandatory and voluntary risk disclosure in case of the US, UK, Germany and France. Domínguez and Gámez, 2014) showed that Spanish companies reveal relatively little information on risks. Their disclosure mainly focuses on the divulgation of the basic characteristics of the financial risks involved. On average, German firms tend to disclose significantly higher levels of risk information mandatorily than UK firms but lower than the US firms. German firms, on average, tend to reveal considerably higher levels of VRR than US firms but lower than the UK firms. MRR and VRR variations are significantly influenced by systematic risk, the legal system and cultural values (Elshandidy et al., 2014). In comparing the results of voluntary disclosure between the two countries, UAE companies have significantly higher voluntary disclosure than Saudi companies, with an average of around 42 per cent for UAE companies and 32 per cent for Saudi companies (Al-Janadi et al., 2011). Oliveira et al (2018) assessed the impact of corporate governance factors to explain the variations in corporate risk disclosures. Companies with flexible legal requirements provide more voluntary disclosures in both Portugal and Spain.

Several studies tried to find out the relationship between corporate governance and corporate risk reporting. Habbash et al (2019) noted that the risk reporting of a firm is positively affected by the governance factors such as CEO-Chairperson separation, audit committee effectiveness, govt. ownership, firm complexity and size. Darussamin et al (2019) also investigated the association between the corporate governance mechanism and the level of risk disclosures of Malaysian govt. owned firm. It is discussed that larger board with multiple directorship provides more risk information. So the firm should increase its no. of board of directors to increase the degree of risk reporting. Agyei-Mensah and Buertey (2019) tried to measure the impact of culture and corporate governance on corporate risk disclosures and confirmed that Institutional ownership of a firm positive influence the corporate risk reporting. Dobler and Luckner (2018) explored the impact of governance and ownership on corporate risk reporting in Germany. They non-listed German firms provide less amount of disclosures than listed firms and also indicated a positive association between the size of the supervisory board, big 4 audit firm and risk disclosures but negative association with family owned firm and subsidiary firm. Bravo (2018) argued that the gender diversity and ethnic diversity in the board of directors have a greater positive impact on the quantity of risk disclosures. The result supported their claim that corporate governance is an influencing factor in case of disclosing risk information. Board Size, Independent directors, CEO duality, CEO compensation, Gender diversity and audit committee significantly influence the corporate risk disclosures (Bravo. 2018; Romano et al, 2018; Saggar and Singh, 2017; Al-Maghzom, Hussainey and Aly, 2016; (Elshandidy and Neri, 2015; Al-Shammari, 2014; Al-Janadi et al., 2013 and Mokhtar and Mellett, 2013). But Serrasqueiro and Mineiro (2018) marked that quantitative disclosures are found in the interim report of the company. It is also described that audit quality does not have any influence on the pattern of corporate risk disclosures in public non financial companies in Portugal.

There are some firm specific factors that also influence the corporate risk reporting. Netti (2018) worked on the impact of firm specific factors on the corporate risk reporting of the nonfinancial companies in Italy. But he found that only size of the firm is positively associated with the risk disclosures. Regulators are eagerly trying to improve the quality of disclosures but the large firm provides disclosures with better quality than the small firms. Romano et al. (2018) investigated association between firm's characteristics and forward looking risk information. They mentioned that large firms with more independent directors disclose more information than small firms as they are capable of maintaining the cost. Elshandidy et al. (2018) supported the previous researcher with his findings that large financial firm in China provide better quality risk disclosures and thus risks disclosures influence the market liquidity. The evidence also supports that Firm Size, Company's level of risk and Profitability are primary determinants (Agyei-Mensah and Buertey, 2019; Habbash et al ,2019; Dey at al., 2018; Afroze and Haque, 2017; Al-Maghzom et al., 2016; Elshandidy et al 2013; Mousa and Elamir, 2013; Miihkinen, 2012; Höring and Gründl (2011; Hassan, 2009; Iatridis, 2008; Konishi and Ali, 2007; Linsley and Shrives, 2006 and Linsley and Shrives, 2005).

Very few researches are found regarding corporate risk reporting in Bangladesh. Among them, Kabir and Sobhani (2017) focused on providing the risk disclosures practices of the banking industry in Bangladesh and found that the quality of corporate risk reporting is very poor. Dey et al. (2018) investigated the status of corporate risk disclosures of Bangladeshi manufacturing companies and highlighted that the risk reporting practices are different among the companies. It is also found that firm size, financial performance, and auditor type have a positive impact on corporate risk disclosures. Afroze and Haque (2017) tried to find out relationship of firms specific factors and corporate risk reporting of manufacturing industry. Mazumdar and Hossain (2018) did an extensive study on the literature review of corporate risk reporting that is the only review in Bangladesh regarding this topic.

Most of the researchers in Bangladesh worked on the Credit risk Management of banking industry. Alam and Masukujjaman (2011) examined the risk management practices by commercial banks in Bangladesh. The study examined to what extent the banks follow the guidelines of Bangladesh Bank regarding risk management. Lalon (2015) analyzed the efficiency in managing credit risk of Bangladeshi Banks and provided conclusive evidence how Credit Risk Management practices helps to increase profitability and long term sustainability of commercial banks. Hussan (2015) covered the systemic importance of the risk management practices, overview of the various concepts of risks and the industry standards of risk management techniques. Risk reporting is mandatory for banking industry in Bangladesh. Bangladesh Bank advised all the banks and financial institutions in Bangladesh to follow a sound and structured framework for risk management in its guidelines (Rahman, 2011). Risk reporting practices are not satisfactory in Bangladesh. Das and Das (2007) found that for the challenging financial environment, the present credit management procedures are not sufficient to compete.

III. Research Methodology

Research Design:

This is a descriptive research in nature. According to the objective, the quantity and quality of corporate financial risk reporting in the annual reports of Bangladeshi manufacturing companies has been investigated in this study.

Sample Selection:

There are 22 sectors in Dhaka Stock Exchange (DSE). Sample selection has been done purposively. According to the objective of the study, eight sectors from manufacturing industry were purposively selected from the available sectors which are listed with DSE. The selected sectors are textile, cement, Engineering, food and allied, ceramics, pharmaceuticals, Jute and Tannery. Again, from these stratified eight sectors, purposively 81 companies from this eight were selected conveniently.

Sources of Data

The study was conducted on the basis of secondary data. The secondary data were collected from annual reports of the selected sample companies. These annual reports were collected from the websites of the respective companies and remaining annual reports, which were not possible to collect from the websites, were collected from DSE. The data has been collected for five recent available years (2012 to 2016).

Data collection method

Different studies adopt different approaches to analyze annual reports in order to measure the quality and quantity of Corporate Risk Disclosures. Some of these studies use the content analysis (Beretta and Bozzolan, 2004; Lajili and Ze´ghal, 2005; Mohobbot, 2005; Linsley and Shrives, 2006; Abraham and Cox, 2007 and Konishi and Ali, 2007). Others aim at developing an index (Cabedo and Tirado, 2004; Barako et al., 2006; Aljifri and Hussainey, 2007). Prior risk disclosures studies have adopted either automated or manual content analysis (Beretta and Bozzolan, 2004; Lajili and Zehgal, 2005; Mohobbot, 2005; Linsley and Shrives, 2006; Abraham and Cox, 2007; Miihkinen, 2013; Mokhtar and Mellet, 2013; Ntim et al., 2013; Elshandidy et al., 2013; 2014; Elshandidy and Neri, 2015 Al-Maghzom et al., 2016 and Saggar and Singh, 2017). Some studies are based on sentence as a unit of analysis (Mohobbot, 2005; Linsley and Shrives, 2006; Amran et al., 2008; Oliveira, et al., 2011) and some studies are based on word as a unit of analysis (Abraham and Cox, 2007; Campbell et al., 2014 and Saggar and Singh, 2017). According to the purpose of the study, a manual content analysis approach has been used to analyze the annual reports to measure the volume of Risk disclosure. Scoring index has been used to measure the corporate financial risk disclosures. This study uses a Risk Disclosure Score Index to screen for the presence of risk disclosure items. According to Cormier et al (2005) and Akrout (2016), the approach to scoring items is as follows:
The score for each company ***j*** is calculated as follows:

$$TRDS_{j,t} = \sum_{i=1}^{n} X_i$$

Where n is the total number of risk items expected to be disclosed for firm ***i***. Xi scores have been considered according to the risk disclosure's score.

Types of Risks (Linsley and Shrives, 2005; Mohobbot, 2005 and Konishi and Ali, 2007)	**Descriptions**	(X_i) **Score**
Credit Risk Liquidity Risk Exchange Risk Price Risk Interest Risk	Non disclosure	0
	Brief definition of risk	1
	Key procedures to manage risk	2
	Quantitative analysis of risk	3

IV. Analysis and Findings

It is observed **(table 4.1)** that the level of risk reporting in the manufacturing industry of Bangladesh is very poor. The study reveals that on an average the companies' risk disclosures score is 2.91 on a scale of 15.00, the maximum risk disclosure score is 13 but minimum is 0. In summary the manufacturing industry's average risk disclosure score is only 19.4% that is very low in comparison to other countries.

Table: 4.1

Variable	Obs	Mean	Std. Dev.	Min	Max
Total	405	2.908642	3.695602	0	13
Credit	405	.7012346	1.102258	0	3
Liquidity	405	.7061728	1.085497	0	3
Exchange	405	.5950617	.8495633	0	3
Price	405	.508642	.7597872	0	3
Interest	405	.3975309	.6581506	0	3

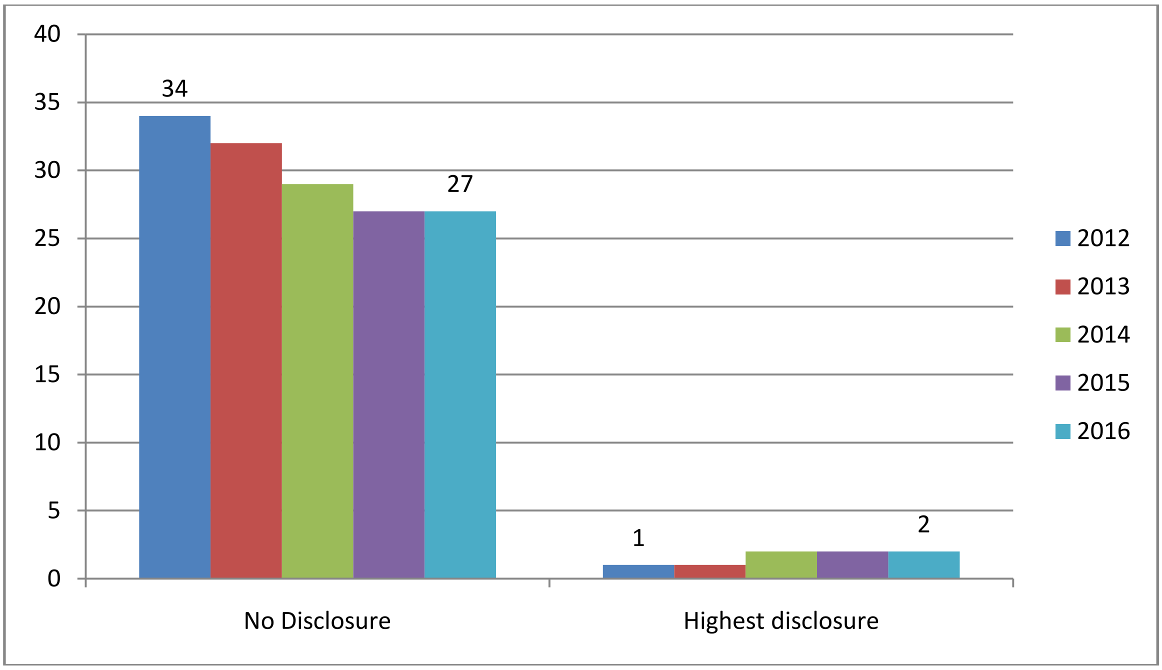

Figure-4.1: No. of Companies with Highest and Lowest Disclosure

From the above graph (Figure-4.1) it is found that 34 companies provide no risk disclosure in 2012 and that is reduced to 27 in 2016. In 2012, only one company's risk disclosure score was 13 and there are two companies in 2016.

Comparison of Total Risk Disclosures Level among Years:

The risk disclosures level has been increased continuously from 2012 to 2016. The result (Table-4.2) shows that the average risk disclosure score is 2.44 (16.3%) in 2012 and it was increasing continuously from 2.85 (19%) in 2013 to 3.17 (21.2%) in 2016. But it is still very poor. But the level of disclosures doesn't vary much from 2015 to 2016. The disclosures score has changed up to 0.10% in the recent year. It can be concluded that the management of manufacturing companies in Bangladesh is reluctant to disclose more risks information.

Table: 4.2

Year	Mean (Total Score)	Mean (%)	Std. Dev.	Freq.
2012	2.4444444	16.3%	3.471311	81
2013	2.8518519	19.0%	3.7084738	81
2014	2.9135802	19.4%	3.7121339	81
2015	3.1604938	21.1%	3.8224887	81
2016	3.1728395	21.2%	3.797335	81
Total	2.908642	19.4%	3.6956021	405

Credit Risk Disclosures:

The average risk disclosure score of credit risk is 0.70 on a scale of 3.00 which is very poor. Its only 23.36% score. It indicates that most of the companies don't provide the credit risk disclosures and those companies provide credit risk disclosures provide only the definition of credit risks. Some companies' credit risk disclosure is 3.00 on a scale of 3.00 but their number is very few. From the (Figure-4.2) following graph it is observed that in 2012, 55 companies out of 81 companies provide no disclosures regarding credit risk and the number of companies reduced to 50 in 2016. It is found that risk 15 companies' risk disclosure score is 1 in 2012 and exactly the same in 2016. It means 15 companies only mention the definition of credit risk in their annual report of 2012 and 2016. Only 1 or 2 companies provide the process the credit risk management from 2012 to 2016.

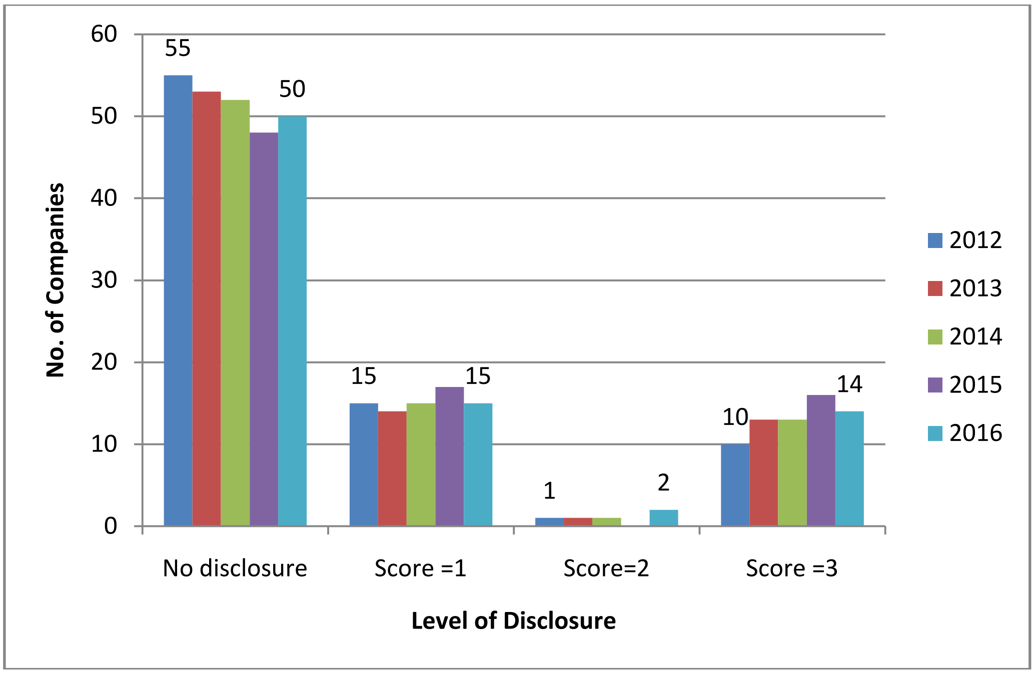

Figure-4.2: Frequency of Credit Risk Disclosure Score

The proper disclosures regarding credit risk is provided by only 10 companies in 2012 and the number is increased to 14 companies in 2016. But it is still not significant

Liquidity Risk Disclosures:

The average risk disclosure score of liquidity risk is 0.71 on a scale of 3.00. Though it has the highest average risk score, it is still not satisfactory at all. Its only 23.67% score. It indicates that most of the companies don't provide the liquidity risk disclosures and a few companies provide only the definition (risk score=1) of liquidity risks. Some companies' liquidity risk disclosure is 3.00 on a scale of 3.00 but their number is very few. From the (Figure-4.3) following graph it is observed that in 2012, 54 companies out of 81 companies provide no disclosures regarding liquidity risk and the number of companies reduced to 48 in 2016 that is not very remarkable. It is found that 17 companies' risk disclosure score is 1 in 2012 and that of 18 companies in 2016. It means 17 companies only mention the definition of liquidity risk in their annual report of 2012 and 18 companies mention the definition of this risk in 2016. Only 1 companies provide the procedure of liquidity risk management (Score=2) in 2016.

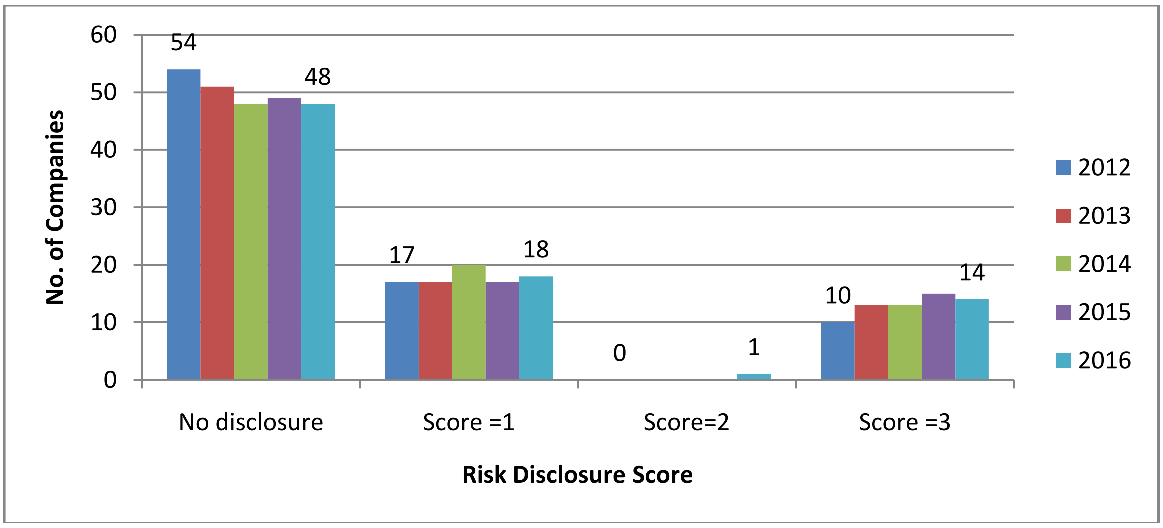

Figure-4.3: Frequency of Liquidity Risk Disclosure Score

The proper disclosures (Score=3) regarding liquidity risk is provided by only 10 companies in 2012 and the number is increased to 14 companies in 2016. But it is still not satisfactory.

Exchange Risk Disclosures:
The average risk disclosure score of exchange risk is 0.60 on a scale of 3.00. The average score of exchange risk is lower than that of credit and liquidity risk and it is not satisfactory as like previous two risk disclosures. Its only 20% score. From the (Figure-4.4) following graph it is observed that in 2012, 50 (almost 62%) companies out of 81 companies provide no disclosures regarding exchange risk and the number of companies reduced to 42 in 2016 that is still 52% companies. It is found that 25 companies' risk disclosure score is 1 in 2012 and that of 32 companies in 2016. It means 25 companies only mention the definition of exchange risk in their annual report of 2012 and 32 companies mention the definition of this risk in 2016. Only 1 companies provide the procedure to manage exchange risk (Score=2) from 2012 to 2016.

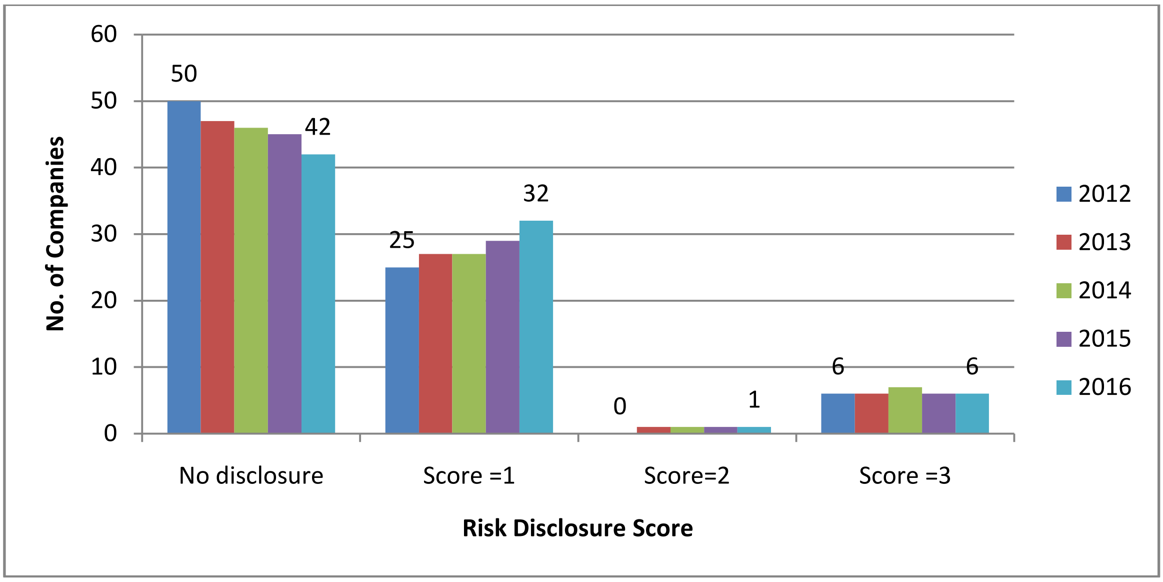

Figure-4.4: Frequency of Exchange Risk Disclosure Score

The proper disclosures (Score=3) regarding exchange risk is provided by only 10 companies in 2012 which is only 12% of total companies and the number of companies exactly the same in 2016. The highest score (quantitative analysis or details discussion) regarding exchange risk is comparatively lower than the credit risk and the liquidity risk.

Price Risk Disclosures:
The average risk disclosure score of price risk is 0.51 on a scale of 3.00. It is only 17% score of maximum score. From the (Figure-4.5) following graph it is found that in 2012, 56 companies (69%) out of 81 companies provide no disclosure regarding price risk and the number of companies reduced to 45 in 2016. But the disclosure's level has not been improved in 2016; still it 45 (56%) companies provide no data of price risk. It is found that risk 22 companies' risk disclosure score is 1 in 2012 and 31 companies score is 1 in 2016. It means 22 companies only mention the definition of price risk in their annual report of 2012 and 31 companies in 2016. There is no companies provide the procedure of price risk management from 2012 to 2016.

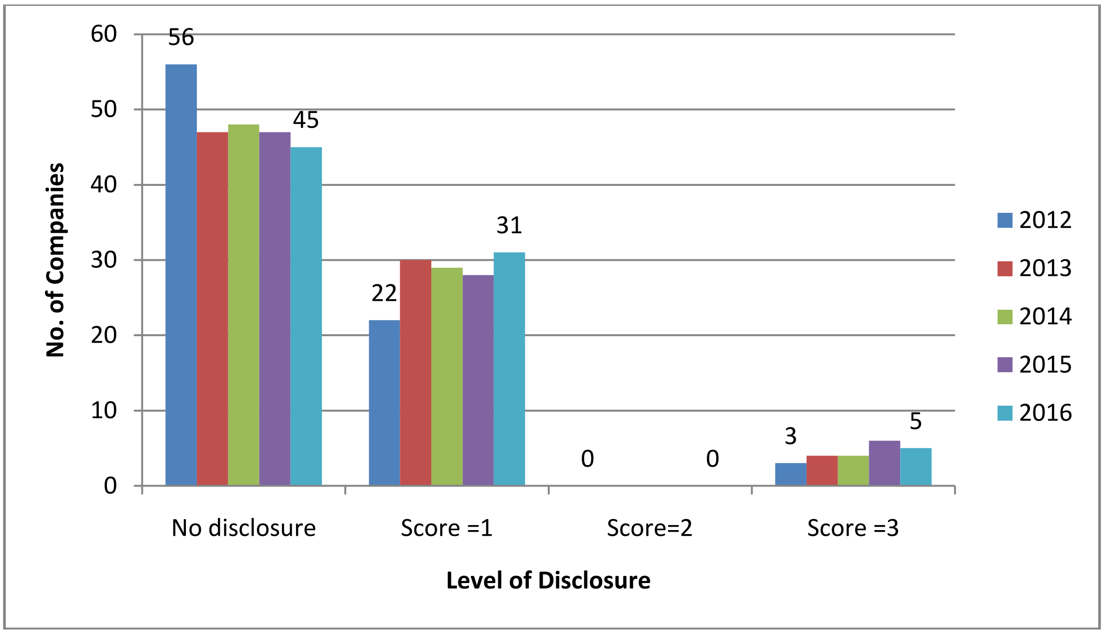

Figure-4.5: Frequency of Price Risk Disclosure Score

The proper disclosures (score=3) regarding price risk is provided by only 3 companies in 2012 and the number is increased to 5 companies in 2016 which is very insignificant in comparison to the size of the industry.

Interest Risk Disclosures:

The average risk disclosure score of interest risk is 0.40 on a scale of 3.00. It has the lowest average risk disclosures score among all the risk disclosures. It is only 13% score. It indicates that most of the companies (56 companies out of 81 companies) don't provide the interest risk disclosures in 2012 and it is almost the same in numbers in all the years; 51 companies (63% companies of total companies) don't have interest risk information in 2016. A few companies provide only the definition (risk score=1) of interest risk. Their number is 22 in 2012 and it has increased in 2016 to 26 companies. A company provided the procedure to manage the interest risk (Score=2) in 2012 and there is no change in 2013 to 2015 but in 2016, two companies provided this procedure to manage the interest risk

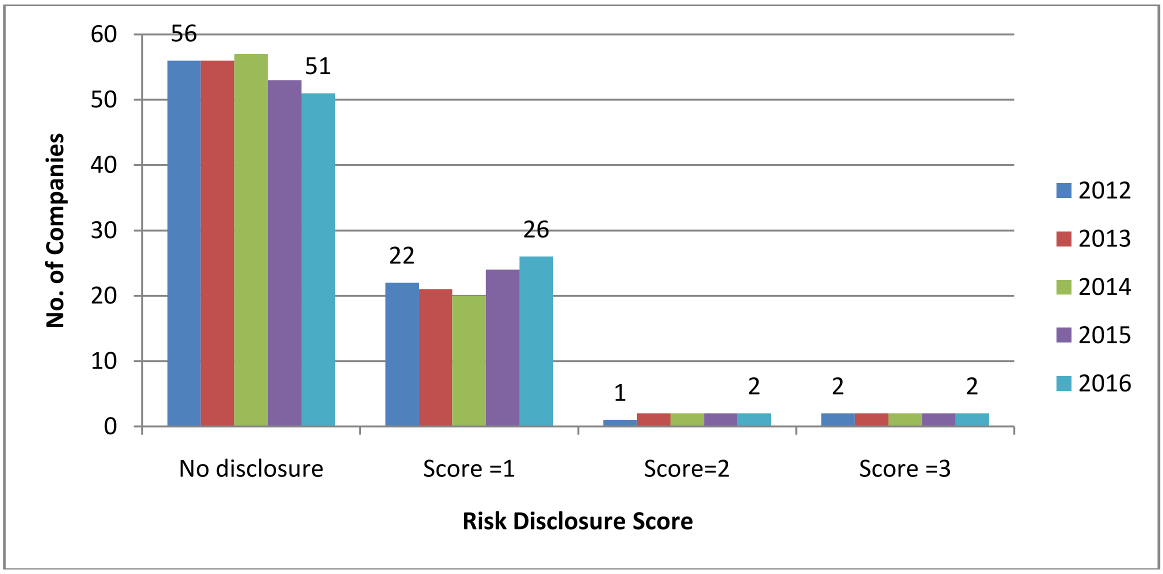

Figure-4.6: Frequency of Interest Risk Disclosure Score

Some companies' interest risk disclosure score is 3.00 on a scale of 3.00 but their number is very few. Here only two companies provided quantitative or detail discussion related to interest risk in 2012 and the number is still same in 2016. But it is still very poor.

Comparison of Average Risk Disclosure score among the Risks:

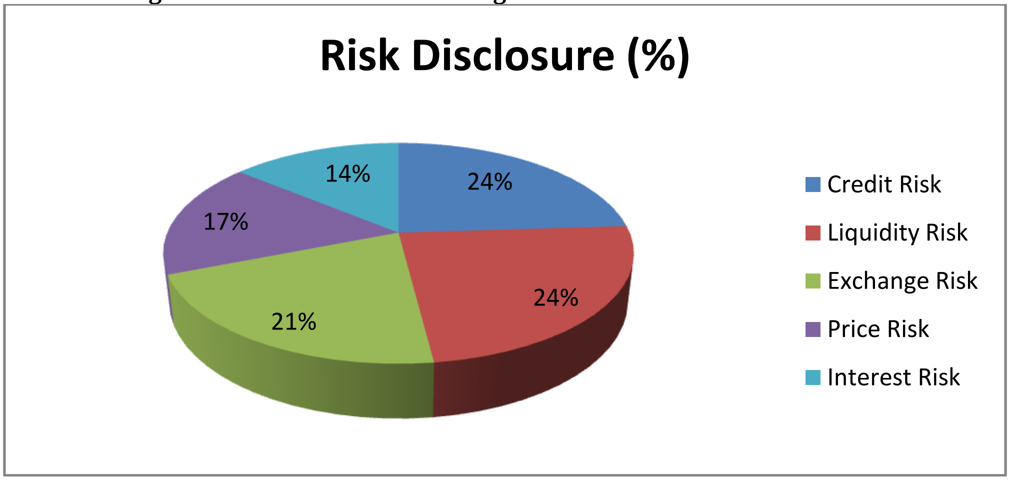

Figure-4.7: Comparison of Average Risk Disclosure Score

From the Figure-4.7, it is clearly seen that among all the risks score, interest risk disclosure score is the lowest and Credit and liquidity disclosure score are the highest. It indicates that Bangladeshi companies generally provide more liquidity risk disclosures, credit risk disclosures and exchange risk disclosures in comparison to price and interest risk disclosures.

Comparison of Different Types of Risks Disclosures Score among the Years:

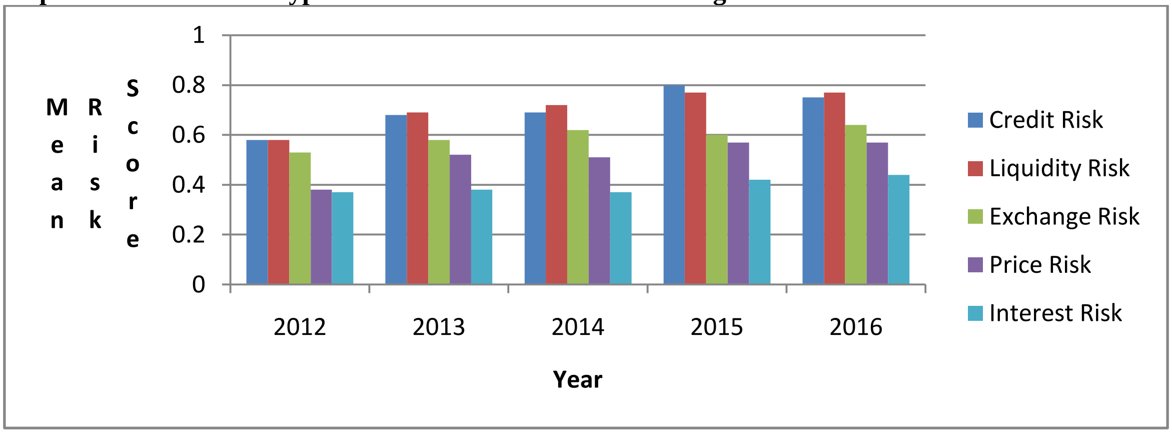

Figure-4.8: Comparison of Average Risk Disclosure Score of Different Risks

Figure 4.8 show that in 2012, credit risks and liquidity risks disclosure score are almost same and higher than any other risks and interest risk disclosure score is the lowest. In 2013, the Disclosure level is higher than 2012. Credit risk and liquidity risk disclosure score are almost 0.7 but the interest risk score is same as the previous year. Price risk disclosure score is higher in 2013. There is no specific change in the disclosures level of the risks except the liquidity and exchange risks disclosures level. In 2015, liquidity and credit risk disclosure have the highest score among all the 5 years that is almost 0.8. In 2016, the liquidity risk disclosure level has been fallen from 0.8 to 0.75 but the exchange risk disclosures level has been improved from the score of 0.6 to 0.64.

V. Conclusion:

This paper attempts to observe the status regarding the quantity and quality of corporate financial risk reporting practices in Bangladesh. It draws results based on manufacturing companies listed in Dhaka Stock Exchange. The paper investigates the level of financial risk reporting practices and finds that the level of risk reporting in Bangladesh is very poor especially in manufacturing industry. The average risk score for this industry is below 3.00 on a scale of 15.00. Though the level of risk reporting is increasing with the passage of time but it is still very poor. The credit risk and liquidity risk disclosures are mostly disclosed risk information by the companies. Price risk and interest risk are disclosed less in comparison to other risks. It is also found that the quality of financial risk disclosures are not up to the mark. Most of the companies provide the definition of different types of risks as risk disclosures. Very few companies disclose the methods of managing risks and the monetary value of the financial risks.

The findings of this study are useful to the shareholders, regulatory bodies and any other interested groups and the management will also have the real scenario of corporate risk reporting practices. In summary, this research provides an initial overview of corporate risk reporting practices in Bangladesh. It contributes towards drawing the attention of regulators who will try to improve the level of corporate risk reporting practices. This research is also having some limitations. This research purely based on the annual report and mainly focused on the financial risk disclosures.

Future research is encouraged to focus on different issues in this area. Firstly, the findings can be explained from primary sources of data (depth interview or survey). Secondly, the wide range of variables (Corporate governance factors, firm-specific factors and cultural factors) may provide a better explanation for more voluntary risk disclosures. Lastly, non-financial risks can be included in the checklist to reflect more practical insight in the research.

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