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Determinants of Risk Disclosure and its Impact on the Cost of Equity Capital

(An Empirical Study on Firms Listed in the Egyptian Stock Exchange Market)

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Abstract

Purpose- The purpose of this research is to identify the determinants that shape the Egyptian firms' risk disclosure practices and to further examine the impact of risk disclosure on the firm's cost of equity capital.

Design/methodology/approach- This research is descriptive and empirical in scope. It will attempt to directly measure the cost of equity using one of the best models used in this regard, which is the capital assets pricing model (CAPM). The analysis will be based on a sample of firms listed in the EGX 100-index. Information in annual financial reports for each firm for the period (2016-2018) will be sought and analyzed. More importantly, EGX-100 firms are Egypt's largest, audited by the biggest firms and tend to be well monitored; hence, the selection will ensure analysts' forecasts accuracy.

Findings- All the EGX 100 Egyptian listed companies disclose risk-related information on their annual reports, however, the level of risk reporting in the Egyptian environment is low comparable to the developed countries. Egyptian firms tend to disclose more qualitative and backward-looking risk information when referring to bad news, while they tend to disclose forward-looking and also qualitative information when referring to good news. Factors such as firm characteristics, corporate governance mechanisms and ownership structure are key determinants of risk reporting practices of Egyptian firms.

Practical implications- The findings of this research regarding the impact on cost of equity capital should be of concern to companies' management.

Originality/value- This research will contribute to the existing literature by identifying factors that determine risk reporting. The research will be useful both in assisting regulators and investors in identifying the type of risk information disclosed by different firms in different sectors and by identifying the characteristics of firms disclosing such information. Finally, this research contributes to the existing literature by examining the usefulness of this information by empirically testing the association between risk disclosure and firm's cost of equity capital.

Keywords- Risk Reporting, Cost of Equity Capital, EGX100, Corporate Governance, GAAP, IFRS, EAS

JEL classification- M410

Introduction

In the past few decades, the business environment has faced many changes that have been triggered by technology advancements and changes in the societal aspects. Globalization activities of capital and product markets have brought up more diversity that has caused enormous changes in the ways that countries use to develop its regulations. Legal systems in which firms operate have become even more and more complex and the rise in volatility worldwide has affected both the credit markets and the way firms build up its capital. The increased economic and political uncertainty across the globe has created concerns and the failures of some major companies (Johnson Matthey, BCCI and Barings, Enron, Maxwell, WorldCom; AIG, Lehman Brothers) have created difficult economic conditions and brought down the confidence of both investors and credit granting institutions.

There have been lot of pressures on firms to undertake more efforts in disclosure of corporate information, especially those related to risks and uncertainties (Lindqvist, 2016; Wieczorek-Kosmala et al., 2014). Many approaches related to risk management have been developed over recent years to help managers in managing different types of risks (Financial Reporting Council, 2014; Grody et al., 2011; Linsley and Shrive, 2000), hence, reducing the quality gap in internal risk management reporting systems. Despite of all the previously mentioned approaches, firms' external reporting was lacking an adequate disclosure on risks and uncertainties. Previous literature have suggested that corporate reports are lacking sufficient relevant and reliable information for users to help them assess firm's risk profile and make informed decisions (Adamu, 2013; Beattie, 2005; Beattie and Pratt, 2002; Healy and Palepu, 2001a; Linsley and Shrive, 2000). In addition, it has commonly been recognized that financial reporting standards - developed by bodies such as the International Accounting Standards Board (IASB) and the UK's

Accounting Standards Board (ASB) or from other professional bodies in all over the world- fell short of providing sufficient relevant information to the users of corporate reports (Lindqvist, 2016). Thus, while the internal reporting gap has been narrowed, the external reporting gap still remains high. This has created an information problem, known as "information asymmetry", which is caused by agency problem (Gaulin, 2017; Lindqvist, 2016; Bhasin, 2016; Bosse, and Phillips, 2016). Agency problem arises because of the separation of ownership between managers and owners of the business and occurs when managers -who hold information- withhold it from owners for certain reasons (Bhasin, 2016; Bosse, and Phillips, 2016). Information problems comprise a key issue in corporate disclosure literature; it may disturb the functioning of the capital markets leading to their partial or complete breakdown (Leuz and Wysocki, 2016).

The increasing demand for more disclosure has directed the regulatory authorities and professional bodies worldwide to discuss the quality of financial reporting. Regulators and accounting bodies around the world have been considering issuing new rules and formal codes of corporate governance best practices (Alfraih and Almutawa, 2017; Juhmani, 2017; Klumpes et al., 2017; Elshandidy and Neri, 2015). Thus, the abovementioned events and debates on risk disclosure represent a motivation for research on risk disclosure in financial reports of Egyptian firms with a view to particularly examining its nature, its determinants, and further its effect on the firm's cost of equity capital.

Research Problem

Risk disclosure has received considerable attention in the last few years, which in turn has given a rise to the number of studies conducted in this field (Nahar et al., 2016). In the accounting literature, many theories have been developed over years in order to explain the phenomenon of disclosure, and to explain the variation in

disclosure practices between firms. Examples of these theories include agency theory, signaling theory, positive accounting theory and capital need theory. Based on theoretical argument, prior research (Gray, 1988; Leventis and Weetman, 2004; Roberts et al., 2005; Mulyati, 2017 and Athanasakou et al., 2020) also have demonstrated different factors, including financial, non-financial and social responsibility factors behind disclosure differences.

Prior research on risk disclosure have claimed that the way firms disclose risk information and the means by which these risks are identified, managed, analyzed and evaluated should assist users of financial reports to understand business and risk profiles (Madriral et al., 2015; Marzouk, 2016; Kulikova et al., 2016). More recent attention has focused on considering risk disclosure to be a win-win deal, as firms would realize benefits by being transparent about the risks and uncertainties they are facing. This view is supported by many authors who argue that more disclosures reduce information asymmetry and investor uncertainty, which may have a positive effect on the firm's cost of capital (Gaulin, 2017; Lindqvist, 2016; Bahmani, 2014). Recent evidence has also suggested the importance of disclosure and its critical role for the functioning of the capital markets and, by extension, for the stability of the economy (Leuz and Wysocki, 2016). This increasing interest induced International and Egyptian bodies to put forth more effort calling for more risk disclosure. These efforts are highlighted in the next section.

- **International and Egyptian Bodies efforts toward risk disclosure**

At the international level, the Institute of Chartered Accountants in England and Wales (ICAEW) published a study in 2011 that emphasized the need for listed companies to disclose various risks. The International Accounting Standards Board (IASB) also issued The Management Commentary within the IFRS in 2010 and that these comments should include a clear statement of the resources and risks and how

they should be managed, besides any important events that would affect firm's value. Moreover, The IASB issued three standards for the presentation and measurement of financial instruments (IAS32, IAS39, IFRS7). IFRS 7 (Financial Instruments: Disclosure) also pointed to the necessity that firms should disclose in their financial statements the nature and extent of the risks to which they are exposed to.

In the Egyptian context, there were some attempts to improve the accounting disclosure for risks. An example, is the issuance of some standards such as the Egyptian accounting standard no.7 (Events after the reporting period), the Egyptian accounting standard no.13 (the effects of changes in foreign exchange rates), the Egyptian accounting standard no.25 (Financial Instruments – Presentation) and standard no.26 (Financial Instruments - Recognition and Measurement). The Capital Market Law No. 95 of 1992 also stated in article 6 that "Companies must disclose risks in a timely manner for any material events that may affect their performance". While the Audit Committee's August 2008 audit manual indicated that the Audit Committee should "determine the firms' vulnerability to various risks in general and to verify the existence of an appropriate system for risk management". The Egyptian Guide to Corporate Governance (Issue 3, 2016) in point 2.3.3 stipulates the formation of a risk management committee from non-executive and independent board members to handle procedures for dealing with all types of risks facing the firm and to assess the risk level that the firm can handle besides supervising and verifying the effectiveness of the firm's risk management. Moreover, firms should comply with the rules of listing and delisting securities on the Stock Exchange in Articles (28), (30) and (34) to disclose information that may affect their financial position such as judicial decisions and the board of directors' structure, however, these efforts seem to be insufficient as it is limited to mandatory disclosure of risks. Moreover, the Egyptian accounting standards issued by decree no. (110) for the year

2015 applicable from January 1st, 2016 do not include a standard regulating the accounting treatment of risk disclosure.

This research seeks to highlight these debates through reviewing the literature conducted on risk disclosure. The main aim of this review is to investigate the amount, type and nature of risk information disclosed by firms in their reports. Risk disclosure determinants and incentives will also be critically examined. Moreover, this research will examine the relation between risk disclosure and firm-specific characteristics through investigating risk disclosure practices and trends in the period from 2016 to 2018 in Egypt.

Research Gap

Risk reporting have gained much concern from researchers in the field of accounting through extensive research that has been carried out on this topic (Al-Hadi, 2016; Oberholzer, 2016), very few studies have investigated the determinants of risk disclosure (Khlif, and Hussainey, 2016; Lindqvist, 2016; Madrigal et al., 2015) or have only focused on few determinates. Moreover, most studies have only focused on examining risk disclosure in financial reports and quantified risk disclosure in financial statements (Gaulin, 2017; Marzouk, 2016), without investigating the association between the risk disclosure and the firm's costs of equity capital, as presented in table (1.1), also more studies are needed to examine how risk information is disclosed in different national contexts, using larger sample size, applied on different sectors, and examining the potential incentives of risk information disclosure. The scope of this research aims, therefore, to fill this gap in the literature.

Table (1): A Summary of empirical studies related to risk disclosure

Ali, 2013	Malaysia	This study found that government ownership is significantly and positively related to risk disclosure, however family ownership and foreign ownership are found to have an insignificant association with firm's risk disclosure.	<ul style="list-style-type: none"> • Malaysia has its different socio-cultural-political and economic-business context which can limit this study findings from being generalized to other countries. • This study has only focused on the effect of ownership structure on risk disclosure practices and neglected all other factors and determinants.
Anagnostopoulos and Gkermizis, 2013	Greece	This study found that bigger, more profitable and riskier banks do not disclose more than the minimum and necessary risk disclosures – especially in turbulent times – providing an example to smaller, less profitable or less risky banks to follow the same strategy thus through herding behaviour a vicious cycle is recreated.	<ul style="list-style-type: none"> • This study focuses on Greek banks that are located in Athens which limits the results to financial firms and banking sector besides the fact that the results are only limited to the Greek domain. • This study has studied the effect of both size and profitability of banks on the risk disclosure practices and neglected other factors.
Semper, (2014)	Spain	The study findings showed a relationship (weak relation) between the cost of equity capital and the amount of risk disclosure, while no statistically significant relationship was found between non-financial risk disclosure and the cost of equity; and found a statistically significant relationship between the cost of equity capital and financial risk disclosure.	The study recommended the extending of the analysis to other countries so the possible relationship between the cost of equity and different degrees of risk disclosure can be verified, as the study suggested that the difference in legal systems among countries can have many effects on these relationships.
Wieczorek-Kozmala et al. (2014)	Poland	Industry type was found to have significant association with the level of disclosure in general and risk information disclosure in particular.	The study sample only investigated practices of voluntary risk disclosures in the polish context and it suggested that researching in an international context with a larger sample of nonfinancial firms may affect the results.
Madrigal et al., (2015)	Spain	This study found that firm size and industry type have explained the sample firms' risk disclosure practices as they are positively and	<ul style="list-style-type: none"> • The study results cannot be generalized because of the sample size, as it was limited to only thirty-five firms quoted in the IBEX-35 index which may also

		statistically related to the level of the risk disclosure practices.	<p>interfere with generalizing results to smaller firms.</p> <ul style="list-style-type: none"> • The study sample only included financial firms, and this can have its impact on the study results. • The period under analysis, is only one year which is insufficient to obtain definite conclusions about the impact of the analysed variables on their risk reporting practices.
Allini et al. (2016)	Italy	The study findings showed that firm size is proved to have significant association with the level of risk information disclosed in firm's annual reports.	The study sample size was relatively small and was limited to a short period.
Khif and Hussainey, (2016)	International context	Findings show that firm size, leverage ratio, and profitability are positively associated with risk reporting.	The computation of size effect was from several studies conducted in different contexts, over different periods, and using a wide range of econometric methodologies, including multiple regression analysis and non-parametric tests, which could introduce a bias in the overall results.
Nahar et al., (2016)	Bangladesh	The study found that risk disclosure lowers the cost of capital as investors attain better information about managing risk and have confidence in the business.	The study findings depended only on investigating relationships in financial firms; also studying these relationships in a different context may introduce different results.
Zeghal and El Acun, (2016)	UK	<p>The study finding showed that:</p> <ul style="list-style-type: none"> • The bank size has a positive and significant association with risk disclosure. • It also found a negative and significant association between leverage and risk disclosure during the period of the crisis. • The study measured risk disclosure by the natural logarithm of the number of sentences containing risk information. 	The study sample included only banks which in return affects the generalizability of study results on different types of firms, specially the non-financial firms.
Alkurdi et al., (2019)	Jordan	This study investigated the impact of corporate governance on risk	Although this study was performed in an Arabic and middle eastern country, it did not investigate the impact of any factor

		<p>disclosure and have reached the following findings:</p> <ul style="list-style-type: none"> • CG attributes (including board size, board independence, separation of duties and audit committee meetings) have a statistically positive impact on Voluntary Risk Disclosure (VRD). However, managerial ownership has a negative impact. • Firms' managers which exhibit greater compliance with mandatory regulations, have a greater propensity to publish RD. 	<p>beyond a limited number of corporate governance mechanisms. The study was also limited to examine the impact of these factors without further investigate the effect of risk disclosure on the cost of equity capital which falls within the scope of the current study.</p>
Kamaruzaman et al., (2019)	Malaysia	<p>This study aimed to identify the impact of ownership structure on both risk disclosure and firm value for public Malaysian firms. It found a positive association between institutional ownership on risk disclosure. While there is a negative relationship between risk disclosure and the firm value.</p>	<p>This study has introduced a strong evidence for the impact of some ownership structures on the firm's risk disclosure, however the study sample was limited to Malaysian firms which make it hard to generalize the findings. The study also did not investigate the impact of any other firm characteristics beyond the ownership structure.</p>
Afhanasakou et al., (2020)	UK	<p>This study found a negative relation between the cost of equity capital at low levels of disclosure, while there is a positive relation at higher levels of disclosure, implying the presence of an optimal level of disclosure.</p>	<p>This study has provided a very good starting point for other studies by providing a proposed shape of the relationship between firms' disclosure and the cost of equity capital, however it did not provide any evidence on factors that can influence this relationship. This study findings were also limited to the effect of annual report narratives on the cost of equity capital without identifying that effect in the case of risk disclosure.</p>
Vitolla et al., (2020)	Italy	<p>This study investigated the relation between the quality of financial and non-financial information included in firms' integrated reports on the cost of equity capital. The study concluded that there is a negative association between integrated reporting quality and the cost of equity capital. The study also stressed that information quantity is not enough as quantity itself is not a proxy for excellence and may not affect the cost of equity capital.</p>	<p>The study has two key limitations that call for further research on ways to decrease the cost of equity capital:</p> <ol style="list-style-type: none"> 1. The study sample only included Italian firms, which is not enough to generalize the study findings. 2. The study investigated the impact of integrated reporting which includes various types of information whether financial or non-financial on the cost of equity capital that maybe have a further effect than risk information.

Research Objectives

The current research main objective is to identify the determinants that shape the Egyptian firms' risk disclosure practices and to further examine the impact of risk disclosure on the firm's cost of equity capital.

From the research main objective, the following four sub-objectives are concluded:

- **The first objective:** investigating whether risk disclosure practices are related to firm's specific characteristics.
- **The second objective:** examining the effect of complying to corporate governance mechanisms on the level of risk disclosure of Egyptian firms.
- **The third objective:** determining the effects of ownership structures on the risk disclosure practices within the Egyptian context.
- **The fourth objective:** measuring the impact of risk disclosure level of Egyptian firms on their cost of equity capital.

Research Hypotheses

Based on the research aim and objectives, the research hypotheses are formulated as shown in table (1.2):

Table (2): Research hypotheses

Hypothesis (H ₁)	There is a significant relationship between firm characteristics (firm size, profitability, degree of leverage, liquidity) and the level of risk disclosure.
Hypothesis (H ₂)	There is a significant relationship between complying with corporate governance mechanisms (board size, board independence, CEO dual role, presence of risk management committee, audit committee effectiveness) and the level of risk disclosure.
Hypothesis (H ₃)	There is a significant relationship ownership structure and the level of risk disclosure.
Hypothesis (H ₄)	There is a significant relationship between the disclosure of compliance with IFRS and the level of risk disclosure.
Hypothesis (H ₅)	There is a significant relationship between the level of risk disclosure and the firm's cost of equity capital.

Note: The audit committee effectiveness (in the second hypothesis H₂) will be measured through an aggregate scale from 1 to 4 that includes the following points:

- 1 There is a significant relationship between the independence of audit committee and the level of risk disclosure.
- 2 There is a significant relationship between the audit committee size and the level of risk disclosure.
- 3 There is a significant relationship between the audit committee expertise and the level of risk disclosure.
- 4 There is a significant relationship between the frequency of the audit committee meetings and the level of risk disclosure.

Research Significance (originality)

The present research will contribute to the existing literature by identifying factors that determine risk reporting. The research will be useful both in assisting regulators and investors in identifying the type of risk information disclosed by different firms in different sectors and by identifying the characteristics of firms disclosing such information. Finally, the present research contributes to the existing literature by examining the usefulness of this information by empirically testing the association between risk disclosure and firm's cost of equity capital.

Research Methods

The present research is descriptive and empirical in scope. For data collection, the research approach will adopt content analysis to measure the level of risk disclosure in the annual report (Rubin and Babbie, 2016; Neuendorf, 2016). Content analysis is a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Rajab, 2009). The extent and nature of risk disclosure in financial reports shall be measured according to the number of sentences disclosed. Risk disclosure will be measured both in quantity and quality, quantity based on the number of sentences referring to risk and disclosed by the study sample while quality based on whether this disclosure covers financial and non-financial risks (strategic, operations, compliance, empowerment, and integrity risks).

The present research will attempt to directly measure the cost of equity using one of the best models used in this regard, which is the capital assets pricing model (CAPM). The analysis will be based on a sample of firms listed in the EGX 100-index. Information in annual financial reports for each firm for the period (2016-2018) will be sought and analyzed. More importantly, EGX-100 firms are Egypt's largest, audited by the biggest firms and tend to be well monitored; hence, the selection will ensure analysts' forecasts accuracy.

Research Limitations

- **The First limitation**, as in most empirical studies, the research results will be limited by the measures used. This research will use content analysis to measure the level of risk disclosure, which has certain limitations. It measures quantity but not quality of disclosure as information disclosed is counted volumetrically. Problems arise when there are repetitions of certain numbers and words in annual reports.
- **The second limitation** is the use of the firm financial reports that are considered one of the most important channels because of their availability to the public. However, there are other channels that firms use to communicate information about them, such as newspapers, webpages, conferences, and many other means which will not be considered in this research.
- **The third limitation** is that the research will only refer to the U.S. GAAP, the International Financial Reporting Standards (IFRS), the Egyptian accounting standards (EAS), some corporate governance mechanisms, and the Basel Committee decisions as examples of mandatory risk disclosure determinants without addressing other types of determinants.

- **The fourth limitation** is that the research will only refer to firm's characteristics and some ownership structures as examples of voluntary risk disclosure determinants without addressing other types of determinants.
- **The fifth limitation** of this research is in its sample size and selection. The sample will be drawn from the EGX-100 index, and will, therefore, be limited to the largest firms with high trading activity. Hence, the results may not be generalized to smaller firms.
- **The sixth limitation** the research sample will only include firms listed in the Egyptian stock market, that have shares publicly trading in the market in the three years period of the empirical study (2016, 2017, 2018).
- **The seventh limitation** is the nature of the sample being the non-financial firms; consequently, results cannot be generalized on the financial firms because of their specific characteristics.

Research Structure

To accomplish the research objectives, this research is divided into five chapters.

Chapter 1: Introduction

The current chapter outlines issues arising around the research topic, and the motives for conducting the current research. The chapter presents the research background and problem statement, research gap, the aims and objectives of the research, the research hypotheses, the significance of both theoretical and practical perspectives, introduction to the research methodology and research limitations and finally, the research structure.

Chapter 2: Risk Disclosure Theories and Theoretical Discussions

This chapter provides a review of the accounting literature related to corporate disclosure, it also gives an overview of the concept of risk in general and risk disclosure in particular. The chapter also presents theories explaining disclosure

behaviors and the factors influencing these behaviors and finally the chapter shed the light on the benefits and costs associated with risk disclosure.

Chapter 3: Determinants of Mandatory and Voluntary Risk Disclosure

This chapter discuss the most important risk disclosure determinants whether mandatory or voluntary determinants beside presenting an in-depth investigation into the Egyptian business environment and the current risk disclosure practices situation, by having a thorough insight into the Egyptian accounting standards and regulations and their relation to their international counterparts. Additionally, the chapter will also review the theoretical explanation and empirical evidence that shape the level of risk disclosure and determinants affecting the firm's disclosure practices. review of existing literature on corporate disclosure.

Chapter 4: Risk Disclosure and the Cost of Equity Capital

This chapter presents a discussion and analysis of the impact of firms' disclosure practices on their cost of equity capital as well as any other consequences of the improvement of disclosure practices. The chapter achieves these goals by: First, introducing the concept of capital and the cost of capital main components as well as the most used models for measuring this cost. Second, the role of firm's risk disclosure practices on reducing the degree of information asymmetry as well as how this would affect the firm's image and reputation. Third, a discussion and presentation for the impact of various disclosure types on the cost of equity capital.

Chapter 5: The Empirical Study

This chapter is the final chapter of the current research, it consists of the empirical study design and implementation, analyzing the results of the empirical study and testing the hypotheses. Finally, an overall discussion of the findings of the research. The chapter also provides a discussion of the practical implications and the contributions of the present research. Furthermore, it discusses the limitations of the current research and provides directions for further research.

Conclusions

This research extends prior research scope around the topic of risk disclosure by investigating the impact of firm characteristics, complying to corporate governance best practices and ownership structure on the risk disclosure level through examining the annual reports and other available data sources (firm's website, Egyptian Stock Exchange website and relevant statistical analysis websites) for non-financial firms listed in the EGX 100 index during the period from 2016 to 2018. Further, the study examines empirically the impact of risk disclosure on firm's cost of equity capital. The descriptive results indicated that, all the EGX 100 Egyptian listed companies disclose risk-related information on their annual reports. On average the study sample firms disclosed 97 risk-related sentences were disclosed in the annual reports during the period of the study with total 15435 disclosed sentences which indicates that the level of risk reporting in the Egyptian environment is low comparable to the developed countries. Further it can be noticed that most Egyptian firms tend to disclose more qualitative and backward-looking risk information when referring to bad news, while they tend to disclose forward-looking and also qualitative information when referring to good news. Consequently, it could be concluded that there is a risk information gap in the annual reports of Egyptian firms and therefore both stockholders and stakeholders will not be able to evaluate the amount of risks and uncertainties that they will face when investing in such firms.

Additionally, in line with the theoretical part of the study, the empirical study findings proved that factors such as firm size, profitability, degree of leverage, liquidity, board size, board independence, CEO dual role, presence of risk management committee, audit committee effectiveness and ownership structure are key determinants of risk reporting practices of Egyptian firms. The current research also examined one of the benefits that firms can gain from providing higher level of risk disclosure, which is decreasing the cost of equity capital. The results of the empirical study showed a statistically negative impact between firm's disclosure level and the cost of equity capital, this finding indicates that firms that have better risk disclosure practices are regarded by investors as safer places to invest their resources in and that they are willing to accept less return on their resources from the higher risk disclosure profile firms.

Overall, this research contributes to the existing research in several ways, first it contributes to filling the gap in the existing literature on the topic of risk disclosure

by providing a comprehensive and longitudinal study on one of the most important stock markets in the MENA region which is the Egyptian market. Second most of the empirical research on the consequences of risk disclosure and more specifically the cost of equity capital was performed in developed countries, thus this research in Egypt which is one of the developing countries represents an extension to the previous research in this concern. Third, this research enhances the understanding of many factors which are proved to be determinants to the risk disclosure level on Egypt by highlighting their effect on it. Finally, the examination of one of the consequences of risk disclosure which is the cost of equity capital increases the value of the results and adds more depth to the research as it encourage other researchers to recognize and examine other consequences of enhancing risk disclosure practices in the Egyptian context.

Despite the effort that was made on this research to extend the empirical knowledge and adds to prior research. The research however has some limitations to be considered when interpreting the results. First the content analysis that have been followed to thoroughly understand firms' annual reports suffers from inherent judgment limitations and subjectivity, which cannot be entirely eradicated. Another limitation is the sample size and selection which is drawn from the EGX-100 index, and will, therefore, be limited to the large firms. Hence, the results may not be generalized to smaller firms. Finally, the nature of the sample being the non-financial firms; consequently, results cannot be generalized on the financial firms because of their specific characteristics

Recommendations

Based on the findings of this research that were reached through both its theoretical and practical parts a number of recommendations can be suggested, these recommendations include:

1. Regulators and professional bodies are encouraged to promote and monitor the application of the Egyptian accounting standards and to impose penalties on firms violating these guidelines.
2. Egyptian accounting standards setters are encouraged to make use of the developments in the international financial reporting standards IFRS to better improve the requirements of the Egyptian Accounting Standards.
3. Promoting the benefits of higher risk disclosure practices and that risk disclosure is not meant to harm the firm's competitive position but rather

- decrease the degree of information asymmetry and increase the stakeholders trust in firm's reported disclosure.
4. Calling for a risk-independent standard that organizes the disclosure of risk disclosure and requiring firms to disclose risk information in specific formats and specific parts in the financial statements.
 5. Amending the rules of listing and delisting securities and the Egyptian Stock Exchange to include rules that delist firms which do not offer enough risk related information or that provide false information.
 6. Mandating firms to disclose quantitative as well as qualitative risk-related information within its annual financial reports.
 7. Encouraging firms to adopt the best corporate governance practices as adopting such practices increases firm's transparency and enhances the mutual trust between the firm and stakeholders which in return offers many benefits .

Suggestions for Future Research

The current research has investigated the effect of some factors on the level of risk disclosure and further the impact of risk disclosure on the cost of equity capital, thus further research is needed to enrich the knowledge in some related topics, some areas which are recommended for future research include:

1. Identifying other consequences that can motivate firms to improve their risk disclosure practices.
2. Measuring the impact of risk disclosure on the cost of capital within the financial firms.
3. Identifying other factors that can have an impact on the level of risk disclosure to increase the robustness of the evidence obtained in the current study.
4. Examining the impact of risk disclosure practices on the firms' value.
5. Examining whether the improvement of risk disclosure practices will have the same impact on the cost of capital among smaller firms.
6. Measuring the impact of disclosure practices in interim reports on the firm performance.

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