

Disclosure's impact on trading volume and value: Evidence from EGX

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ملخص البحث :

تتناول الدراسة اختبار أثر الإفصاح على كل من كميات وقيمة التداول، وقد استخدمت الدراسة منهجية تحليل البيانات المستعرضة من خلال عشرون سهم من الأسهم العادية المقيدة بالبورصة المصرية خلال الفترة ٢٠١٥-٢٠١٨. قد خلصت الدراسة إلى وجود تأثير طردي لإفصاح على كل من كميات وقيم التداول بالبورصة المصرية وذلك عند مستوى معنوية قدرة (١٪)، حيث يفسر الإفصاح (٣٧,٤٦٪) مقابل (٢٧,٣٣٪) من التغيير في كميات وقيم التداول على الترتيب، بصفة عامة، يجب على الشركات أن تقدم معلومات لتعظيم ثروة حملة الأسهم إلى جانب تدنية تكلفة المعاملات.

الكلمات الدالة: الإفصاح، حجم التداول، قيمة التداول، البورصة المصرية

Abstract

The study looked at the impact of disclosure on trading volume and value, and it used panel data with cross section analysis on twenty common stock data from the EGX from 2015 to 2018. found a positive impact of disclosure on trading volume and value at EGX, and it is significant at 0.01 level. The disclosure interprets (37.46%) and (27.33%), respectively, of trading volume and value, according to within R-squared. Therefore, corporations must maximize their disclosure to maximize the wealth of shareholders and minimize transaction costs.

Keywords : Disclosure; Trading Volume; Trading Value; Egyptian Exchange; EGX

1. Study Framework

1.1 Introduction

Numerous studies have been undertaken on disclosure and a variety of topics, including corporate disclosure practices with an emphasis on mandatory or optional products, or both; determinants of voluntary disclosure or compliance with regulation; the economic consequences of disclosure; and financial analysts' use of details. Although several disclosure reports focused on the private sector, some investigated the public sector and not-for-profit sector.

1.2 Literature Review

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The study conducted a survey of the literature, focusing on specific disclosure mechanisms such as the disclosure index and content analysis techniques (e.g., Marston and Shrivess, 1991; 1996; Jones and Shoemaker, 1994). Other researchers also attempted to examine all available disclosure measures (e.g., Healy and Palepu, 2001; Beattie, McInnes and Fearnley, 2004). Marston and Shrivess (1991) concentrated on quantifying disclosure solely by the disclosure index. Their 1996 article updates the 1991 article by using a greater number of disclosure index. Additionally, it delves further into hypotheses other than the ones used in the analyzed studies to justify disclosure. This research built on their previous analysis on the disclosure index and aims to preserve a detailed list of the most often used disclosure initiatives. This article addressed assessment issues associated with disclosure and the various approaches that can be used to assess the accuracy of inferences drawn from various disclosure steps.

Jones and Shoemaker (1994) conducted a review of 68 observational studies with the purpose of developing a material analysis tool for the study of accounting, economics, and taxation narratives. The content analysis of an edition can be conducted using two distinct but complementary approaches: thematic and syntactic. It demonstrates that the thematic analysis focused on five issues: management behaviors, the association between storey disclosures and financial statements, predicting key variables in tax court cases, the impact of comment letters in response to FASB exposure draughts, and measuring compliance with defined requirements. Accounting narratives are extreme or exceedingly difficult to interpret, according to readability studies. However, further research is required to update these results because content analysis software has improved rapidly and continuously since 1994, as has the financial reporting climate. The present article examined the literature from a different perspective, focused on whether a study's content review approach is manual, automatic, or a combination of the two; it also addresses alternative approaches for assessing disclosure.

Another related research is Healy and Palepu (2001) who examined three proxies for voluntary disclosure employed in previous studies: management forecasts, the Association for Investment Management and Research scores, and self-constructed measures (disclosure indices). Although, they border their sorting to voluntary disclosure only. This sorting deleted other potential measures of disclosure introduced in previous studies like the existence of American Depository Receipts and disclosure frequency studies. This review tries to search measures of disclosure without referring to types of information disclosure.

Beattie et al. (2004) grouped previously established proxies for disclosure consistency into arbitrary analyst rating and semi-objective methods. The semi-objective methods are as follows: disclosure index studies, which they define as a subset of content analysis, and textual

analysis. Thematic analysis, meaning-oriented content analysis (in which the whole text is analysed), readability tests, and linguistic analysis are all forms of textual analysis. Since this methodology eliminates a variety of other disclosure proxies that have been used in previous studies but cannot be classified as arbitrary analyst scores or semi-objective approaches, such as the nature of American Depositary Receipts (ADR), disclosure frequency, management estimates, and characteristics of analysts' forecasts, among others.

Numerous studies have examined the effect of disclosure on trading volume and value (Bamber, 1987; Madhavan, 1995; Kim and Verrecchia, 2001; Linsmeier et al., 2002; Etebari et al., 2004; Chiyachantana et al., 2004; Chae, 2005; Collver, 2007; Chen and Sami, 2008; Hope et al., 2009; Easley et al., 2014; Zhou and Owusu-Ansah, 2014; Cho and Kwon, 2014; Abudy and Shust, 2019; Rahadi and Rahmi, 2019), but there not find any study that dealt with the Egyptian Exchange.

1.3 Research gap and Study Problem

Current hiatus in the previous studies provided several stimuli for the current research. There is no inclusive study on disclosure assessment with trading volume and value at Egyptian exchange. That can move future researchers when they provide their own assessment of disclosure or when they adopt obtainable ones but current don't have evidence in EGX for the impact of disclosure on trading volume or value.

1.4 Study Hypotheses

According to Literature Review and research gap, hypotheses can be formulated as follows

(H₁) there isn't impact of disclosure on trading volume

(H₂) there isn't impact of disclosure on trading Value

1.5 Study Importance

Information is the basis for making decisions to invest in securities, so disclosure is considered. In the event that information is not provided, the risk premium increases. Therefore, corporations must maximize him disclosure to maximize the wealth of shareholders and the minimize transaction cost.

1.6 Data and Methodology of the Study

The study used the methodology of panel data with cross section analysis with the twenty of common stock data; it's listing at EGX during the period from 2015-2018. So; the Data sources is EGX; In addition to the data published on the financial information banks, which include: "Reuters"; "Bloomberg" and "Mubasher".

2. Disclosure

2.1 The Concept of disclosure

Gibbins, Richardson, and Waterhouse (1990) define financial disclosure as the deliberate emission of financial (and non-financial) information, whether quantitative or qualitative, required or optional, and through official or unofficial channels.

Institutions can publish details across a variety of channels, including fiscal budgets, conference calls, shareholder presentations, investor relations, interim reports, prospectuses, news releases, and websites.

Firm disclosure may be classified into two categories: obligatory and optional. Mandatory disclosure is material that is manifested by the fulfillment of legislative disclosure requests in the form of regulations, technical guidelines in the form of norms, and stock exchange coding regulations. Voluntary disclosure is any material that is not required to be disclosed.

Corporate disclosure is important because it serves as a means of coordination between senior management and external clients and industry investors in general. Corporate disclosure is essential due to the intelligence asymmetry and agency issues that exist between upper management and investors (Healy and Palepu, 2001). Additional corporate disclosure is intended to mitigate these issues (e.g., Healy and Palepu, 2001; Graham, Harvey and Rajgopal, 2005; Lambert, Leuz and Verrecchia, 2007).

Gibbins et al. refer to the disclosure status as the show of company communication or the pattern in how information disclosure is administered (1990). They distinguished between two foundations of disclosure: ritualism and opportunism. The distinction between these two pillars is whether management is actively or passively involved in disclosure management. Ritualism refers to an unquestioning adherence to predetermined disclosure requirements. It is derived from internal behavioral trends, and could be influenced by a critical style of corporate governance, rather than external disclosure laws. Additionally, labelling theory can demonstrate this type of behavior. Opportunism is the proclivity to demand firm-specific benefits in exchange for financial details disclosure (Graham et al., 2005).

2.2 Proxies for information disclosure

The first approach contains proxies for disclosure, which are not based on examining the original disclosure vehicle(s) in direct way. The second approach provides assessments of disclosure obtained by exploring the original disclosure vehicle(s).

2.2.1 First approach: proxies for information disclosure without reference to the original information disclosure vehicle:

This method includes disclosure proxies that have been conducted independently of the initial disclosure waggon. These proxies conveyed knowledge regarding corporate disclosure and the information climate more

broadly. They include disclosure polls, the prevalence of American Depositary Receipts (ADRs), the characteristics of analyst estimates, and the amount of investors who track the company.

2.2.1.1 Disclosure survey

This method examines disclosure by examining financial analysts', investors', and other users' expectations of a company's disclosure practices through questionnaires or interviews.

2.2.1.2 The existence of ADR

In previous research (e.g., Lang et al., 2003; Doidge, Karolyi, and Stulz, 2004), the ADR was used as a metric for disclosure quality/quantity since non-US corporations coded on the US stock exchange are believed to be subject to an excessive amount of disclosure (Baek, Kang and Park, 2004)

2.2.1.3 Features of analysts' forecasts (AAF), and analysts following the company

Additionally, the AAF and the amount of observers who track a company are seen as indicators of the intelligence environment (Lang et al., 2003).

According to the literature, seeing a bigger analyst trailing an organization with more reliable forecasts indicates a business with a more favorable intelligence climate.

2.2.1.4 Other proxies

Some research employed alternative measures of disclosure that did not focus on an examination of the disclosure vehicle. The calculation standard varied from discrete to constant, which influences the ability of the various proxies to differentiate between various degrees of disclosure. Continuous tests seemed to be 'higher' than dummy variables on the surface. However, constraints on researcher time and difficulties in obtaining data should be considered when selecting a proxy.

2.2.2 Second approach: disclosure proxies depend on inspecting the original disclosure vehicle:

This methodology assesses disclosure by analyzing the initial vehicle(s) of disclosure, such as accounting accounts, company websites, and so on. The examination of disclosure vehicles may be accomplished by the use of content review and a disclosure database. A disclosure metric may be established by measuring the amount of statements made by and/or regarding the corporation, similar to the number of conference calls (disclosure frequency). Additionally, this strategy incorporates additional disclosure assessments that benefit from the use of a disclosure vehicle, such as management forecasts, the characteristics of management predictions, voluntary disclosure of positive (or bad) news, and organizational scale. Clarkson and Satterly (1997), as well as Dargenidou, Mcleay, and Raonic (2006), use the term "corporate scale"

2.2.2.1 Content analysis

Content analysis is a testing technique that enabled the connection of data to their context to be replicated and validated (Krippendorff, 1980). The sum of knowledge exposed can be quantified using the content review tool by measuring the data items, i.e. the number of terms, phrases, and websites (see, for example, Marston and Shrives, 1991; Hackston and Milne, 1996).

2.2.2.2 Disclosure index

Disclosure indexes are comprehensive collections of selected items that must be disclosed in a firm's annual report (Marston and Shrives, 1991). A disclosure index can include required and/or optional knowledge elements. It encompasses material disclosed by one or more disclosure vehicles, such as annual reports, interim reports, investor relationships, and so on. Additionally, it may restrict the details published by the company and/or third parties, such as financial analyst reviews. Then, a disclosure index is a study instrument used to estimate the maximum amount of details disclosed by a particular entity(s) using a particular disclosure vehicle(s).

2.2.2.3 Management forecasts

A management forecast is a category of forward-looking details that management may incorporate into annual reports, interim reports, and other documents. This potential expertise will be quantitative or qualitative. For example, predictions of management benefits found in the First Call database can be articulated as point, range, unidirectional, or confirming statements (Hutton and Stocken, 2007). They will then be checked using real profit expectations and used by analysts to build variables such as management forecast accuracy.

2.2.2.4 Disclosure of good and bad news

Benefit numbers were included in the literature to quantify voluntary disclosure of positive (or bad) news (e.g., Skinner, 1994; Clarkson, Kao, and Richardson, 1994; Ali et al., 2007). For instance, Skinner (1994) discovered that good news disclosures seemed to be a point or range measurement of annual results, prompted by a need to signal the firm's efficiency. Although bad news disclosures seemed to be qualitative in nature and linked to quarterly benefit advertising, they seemed to be motivated by a willingness to foreshadow large negative quarterly profit surprises in order to reduce reputational and legal risks if managers refused to disclose bad news promptly.

2.2.2.5 Disclosure frequency

Previous accounting research has employed a frequency-based approach to disclosure; for example, Lang and Lundholm (2000) employ a conclusive calculation of disclosure based on all publicly accessible information regarding or by each corporation. Schrand and Verrecchia (2004) define disclosure frequency as the amount of filings produced by the corporation

within the 90-day span preceding and following the initial public offering (IPO).

2.3. Reliability and validity assessment

In our discussion of multiple disclosure proxies, we discovered that the majority of prior research has relied on a single disclosure metric. Other publications use several disclosure measures to assess the strength of their analysis inferences. Clarkson and Satterly (1997) used three proxies for knowledge volume: company size as measured by overall assets in position prior to listing, the number of papers (entries) in the Australian Business Index, and the length in years of the firm's operational history prior to listing. Ali et al. (2007) provide another illustration, citing voluntary disclosure of bad news through management benefit forecasts and voluntary disclosure of company governance activities in organized filings as components of firm disclosures.

2.3.1 Reliability assessment

The term "reliability" refers to the degree to which an experiment, examination, or other gauging technique produces the same results on subsequent trials (Carmines and Zeller, 1991).

Additionally, reliability considers the assessment tool's internal consistency; that is, the degree to which all assessment tool components evaluate the same thing. Sometimes addressed are three categories of reliability: test-retest reliability, inter-coder reliability, and interior accuracy.

2.3.2 Validity assessment

Validity is described as 'the extent to which any evaluating instrument techniques what it is intended to gauge' (Carmines and Zeller, 1991). Validity is classified into three categories: criterion validity, material validity, and construct validity.

3. Hypotheses Testing

3.1 The sample Constituents

The use of basic data published on EGX. The study analyzed the effect of disclosure on trading volume from 2015 to 2018, using annual data. Additionally, to data published by financial information banks such as "Reuters," "Bloomberg," and "Mubasher." The analysis included twenty shares of common stock; the following table details these shares.

Table (1): The sample Constituents

No.	Common Stock	Reuters Code
1	Cairo Poultry	POUL.CA
2	Commercial International Bank -Egypt	COMI.CA

3	Eastern Company	EAST.CA
4	Egypt Aluminum	EGAL.CA
5	Egyptian Financial & Industrial	EFIC.CA
6	El Ezz Porcelain -Gemma	ECAP.CA
7	El Nasr Clothes & Textiles -Kabo	KABO.CA
8	Electro Cable Egypt	ELEC.CA
9	Extracted Oils	ZEOT.CA
10	GB AUTO	AUTO.CA
11	Housing & Development Bank	HDBK.CA
12	Medinet Nasr Housing	MNHD.CA
13	Orascom Construction PLC	ORAS.CA
14	Oriental Weavers	ORWE.CA
15	Qatar National Bank Alahly	QNBA.CA
16	Sidi Kerir Petrochemicals	SKPC.CA
17	Six of October Development & Investment -SODIC	OCDI.CA
18	T M G Holding	TMGH.CA
19	Telecom Egypt	ETEL.CA
20	United Arab Shipping	UASG.CA

3.2 Study variables

The independent and dependent variables as well as the intermediate variables as shown in the following table:

Table (2): Study variables

independent Variables	Proxies for disclosure	X1	The original disclosure vehicle (Total number of disclosure during an annual.)
		X2	the number of analysts following the company
Dependent Variables	Trading Volume	Y1	Total number of shares of a security that were traded during an annual.
	Trading	Y1	amount equal to the price per share multiplied by the

	value
	number of shares Traded

3.3 The original disclosure vehicle (Total number of disclosure during an annual) and trading volume

The following figure shows a positive relationship between the original disclosure vehicle (Total number of disclosure during an annual) and trading volume

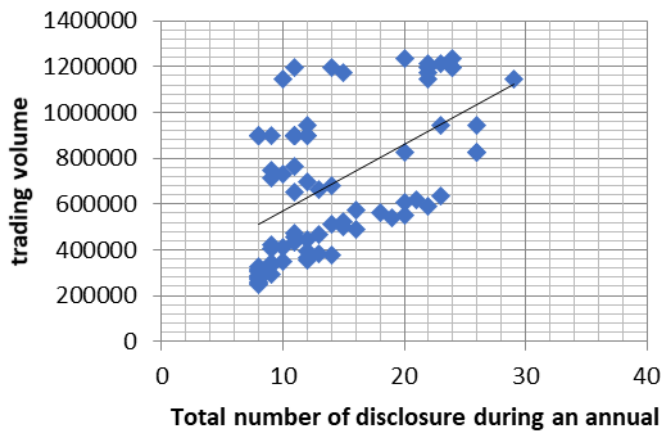


Fig. no.1: Relationship between the original disclosure vehicle and trading volume.

3.4 The analysts following the company and trading volume

The following graph illustrates a strong correlation between the number of analysts who cover a stock and its trading volume.

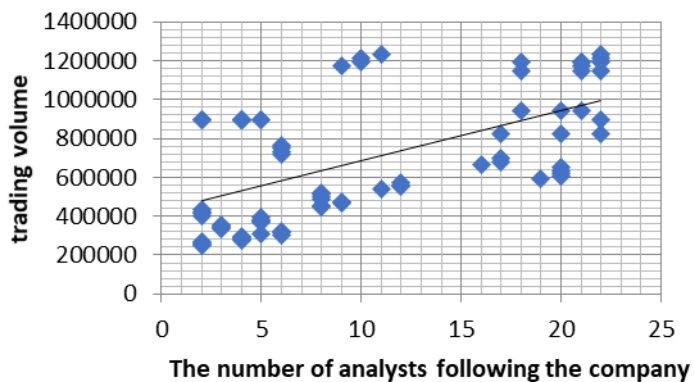


Fig. no.2: Relationship between the analysts following the company and trading volume

3.5 The original disclosure vehicle and trading value

The following figure shows a positive relationship between the original disclosure vehicle (Total number of disclosure during an annual) and trading value

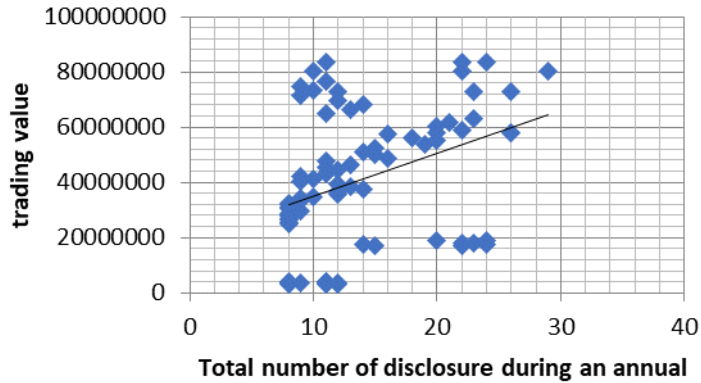


Fig. no.3: Relationship between the original disclosure vehicle and trading value

3.6 The number of analysts following the company and trading value

The following figure shows a positive relationship between the number of analysts following the company and trading value

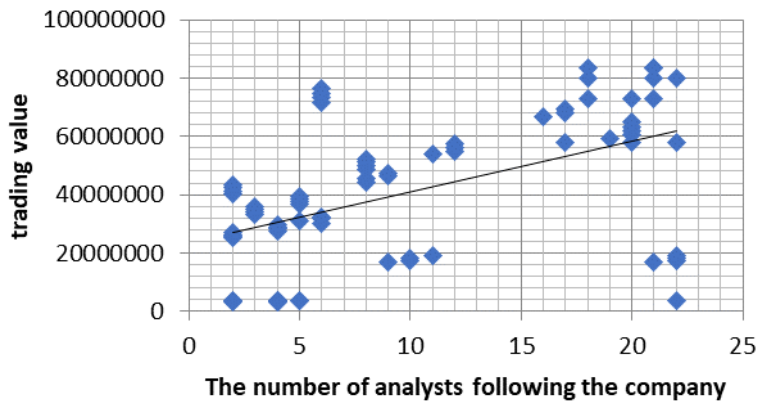


Fig. no.4: Relationship between the number of analysts following the company and trading value.

3.7 The study examines the impact of disclosure on trading volume

The study used the methodology of panel data with cross section analysis to examines the impact of disclosure on trading volume; the following figure show the output of this test

Model 1: Fixed-effects, using 80 observations

Included 4 cross-sectional units

Time-series length = 20

Dependent variable: Y1

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	324902	76283.0	4.259	<0.0001	***
X1	13035.7	7242.37	1.800	0.0759	*
X2	17981.5	5871.64	3.062	0.0031	***
Mean dependent var	686952.3	S.D. dependent var		315550.0	
Sum squared resid	4.88e+12	S.E. of regression		256757.0	
LSDV R-squared	0.379827	Within R-squared		0.374689	
LSDV F(5, 74)	9.064311	P-value(F)		9.34e-07	
Log-likelihood	-1106.867	Akaike criterion		2225.735	
Schwarz criterion	2240.027	Hannan-Quinn		2231.465	
rho	0.396832	Durbin-Watson		1.031961	

Joint test on named regressors -

Test statistic: $F(2, 74) = 22.1706$

with p-value = $P(F(2, 74) > 22.1706) = 2.85463e-008$

Test for differing group intercepts -

Null hypothesis: The groups have a common intercept

Test statistic: $F(3, 74) = 0.520906$

with p-value = $P(F(3, 74) > 0.520906) = 0.66922$

Fig. No.5: The output of the first hypothesis.

The previous statistical shown that transparency has an effect on trading activity at EGX, and it is statistically relevant at the 0.01 mark. Within R-squared, the disclosure equates to (37.46 percent) of EGX trading volume.

Now, the study rejects the Null hypothesis and accepts the following alternative hypothesis

(H₁) there is impact of disclosure on trading volume

3.8 The study examines the impact of disclosure on trading value

The study used the methodology of panel data with cross section analysis to examines the impact of disclosure on trading value; the following figure show the output of this test.

Model 2: Fixed-effects, using 80 observations
Included 4 cross-sectional units
Time-series length = 20
Dependent variable: Y2

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	2.37972e+07	6.37623e+06	3.732	0.0004	***
X1	-48028.2	605364	-0.07934	0.9370	
X2	1.79634e+06	490790	3.660	0.0005	***
Mean dependent var	41112378	S.D. dependent var		24455825	
Sum squared resid	3.41e+16	S.E. of regression		21461415	
LSDV R-squared	0.278632	Within R-squared		0.273351	
LSDV F(5, 74)	5.716581	P-value(F)		0.000163	
Log-likelihood	-1460.938	Akaike criterion		2933.876	
Schwarz criterion	2948.168	Hannan-Quinn		2939.606	
rho	-0.391700	Durbin-Watson		2.406730	

Joint test on named regressors -
Test statistic: $F(2, 74) = 13.9187$
with p-value = $P(F(2, 74) > 13.9187) = 7.39621e-006$

Test for differing group intercepts -
Null hypothesis: The groups have a common intercept
Test statistic: $F(3, 74) = 0.412737$
with p-value = $P(F(3, 74) > 0.412737) = 0.744335$

Fig. No.6: The output of the second hypothesis.

The previous statistical results highlighted that there the impact of disclosure on trading value at EGX, and it is significant at 0.01 level. According to within R-squared; the disclosure interprets (27.33%) of trading value at EGX.

Now, the study rejects the Null hypothesis and accepts the following alternative hypothesis

(H₂) there is impact of disclosure on trading Value

4. Discussion and recommendations

4.1 Discussion

- 4.1.1 Information is the basis for making decisions to invest in securities, so disclosure is considered. In the event that information is not provided, the risk premium increases. Therefore, corporations must maximize their disclosure to maximize the wealth of shareholders and minimize transaction cost.
- 4.1.2 The study explored the meaning of transparency, various proxies for disclosure that have been effectively constructed in previous academic finance and accounting studies, and how to measure a disclosure gauge's success. Now, we show how prospective studies can need to resolve numerous assessment concerns linked to disclosure and hiatuses in the stream literature.
- 4.1.3 In addition, transparency is considered an intangible variable due to the fact that it is not clearly measurable or quantifiable. Following that, we must implicitly observe it through the values of a predetermined element (s). Thus, transparency interventions can be divided into two approaches: the first method aims to measure disclosure by reducing it to quantifiable characteristics; the second method attempts to quantify disclosure by reducing it to quantifiable characteristics. The second approach is to measure transparency by determining those quantifiable variables that are presumptively associated with disclosure. (Hail, 2020)

4.2 Conclusion

- 4.2.1 There is a positive impact of disclosure on trading volume at EGX, and it is significant at 0.01 level. According to within R-squared; the disclosure interprets (37.46%) of trading volume at EGX.
- 4.2.2 There is a positive impact of disclosure on trading value at EGX, and it is significant at 0.01 level. According to within R-squared; the disclosure interprets (27.33%) of trading value at EGX.

4.3 recommendations for future research

According to the discussion and conclusion, we recommend studying the effect of the following factors on the value and volume of traded:

- 4.3.1 Size of corporation
4.3.2 Age of corporation
4.3.3 Free float from ownership structure of corporation

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