Voluntary Disclosures in the Audit Committee Report

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Abstract

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In recent years, there has been an increasing interest in the voluntary disclosures in the audit committee report by different stakeholders such as corporate governance organizations and institutional investors. Based on the different requests for enhanced audit committee disclosures, the SEC issued a concept release during 2015 proposing several enhancements and requesting public comment (Securities and Exchange Commission (SEC), 2015).

In this dissertation, we investigate the voluntary disclosures in the audit committee report. The purpose of our study is twofold: 1) to analyze the comment letters to understand "investors' needs" in the context of the audit committee disclosures, 2) to investigate the association between voluntary disclosures in the audit committee report and earnings management, and the voluntary disclosures impact on the external environment. The first essay analyzes the comment letters by using a framing analysis. We aim to understand how each respondent category defines the current audit committee disclosure requirements in fulfilling "investors' needs." We compare and contrast the respondents' frames and analyze their discourse. The second essay is composed of two studies and considers the top US Bank Holding Companies (BHC). We study the association between the voluntary disclosures in the audit committee reports and banks' earnings quality. Also, in this study, we analyze the impact of the voluntary disclosures in the audit committee report on the implied cost of equity and financial analysts' forecasting properties.

The results reveal that there is a wide variation among respondents in defining "investors' needs" and how they argue to convince the SEC to adopt their point of view. Also, the discourse analysis reveals several issues at the corporate governance level that require the SEC attention. As for the second essay, the results show that there is a positive association between voluntary disclosures and earnings management. In our view, it implies that audit committees are engaged in impression management. Also, the results suggest that there is a positive relationship between the voluntary disclosures and cost of equity. It implies that the investors are able to know that the voluntary disclosures do not reveal strong performance by the audit committees and as a consequence, they will require a higher rate of return. Finally, for the financial analysts'

forecasting properties, it seems that they have learned that these voluntary disclosures are impression management. They are able to make better forecasting as the results suggest a negative relationship between voluntary disclosures and forecasting errors and forecasting dispersion.

Overall, our results have practical implications for the regulator and policy-makers. The framing analysis of the comment letters provides evidence about the need to have a common understanding of the "investors' needs" in the audit committee disclosure context. The qualitative study is focusing on "investors' needs" which is a critical concern for the SEC. Also, one of the regulator's goal is to ensure that investors maintain confidence in financial markets. Our results show that audit committees engage in impression management. This practice can have bad consequences on investors' confidence and require the SEC intervention.

Keywords: Audit Committee, Voluntary Disclosures, Framing Analysis, Earnings Management, Cost of Equity, Financial Analysts Forecasting Properties

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Chapter 1: Introduction

This dissertation studies the voluntary disclosures in the audit committee report. Since 2012, several corporate governance organizations and institutional investors pointed out that audit committees are not providing adequate information about the activities they perform during the year and call for more faithful reporting. For example, during the March 2013 Tapestry Networks' summit[1], one of the main discussed topics was: "regulators, policy-makers, and many investors would benefit from a more robust understanding of what the public audit committee does and how it oversees the external audit firm and performs its responsibilities". According to Michelle Edkins, managing director and global head of corporate governance and responsible investment at BlackRock, the world's largest asset manager: "The audit committee report is very dry – it is not informative" (Tapestry Networks, 2013). Another example is the Council of Institutional Investors who requested that: "the audit committee report should provide meaningful information to investors about how the committee carries out its responsibilities" (Tapestry Networks, 2014). In contrast, the audit committees argue that they have engaged in an upward trend in audit committee voluntary disclosure since 2012. Audit committees have disclosed information about their financial reporting oversight activities beyond the current mandatory requirements set by the SEC (Center for Audit Quality, 2015; Deloitte, 2017; EY Center for Board Matters, 2016). Following years of debate, the Securities and Exchange Commission (SEC) issued a concept release proposing several additions to the audit committee mandatory disclosures and encouraging further voluntary disclosures. The SEC's proposal ultimately aims to provide investors with more information about financial process oversight and additional background for audit committees' activities. (Securities and Exchange Commission (SEC), 2015).

There is scant evidence related to the audit committee voluntary disclosures. Hence, in order to narrow the gap, the dissertation will be producing evidence that addresses different aspects of the audit committee voluntary disclosures. More specifically, we will attempt to answer the following research questions: 1) How each stakeholder group perceives the

[1] "Tapestry brings leaders together to explore productive, new ways to address critical challenges in corporate governance, financial services, and healthcare. The annual audit committee leadership summit brings together audit committee chairs from leading North American and European companies for a rich sharing of perspectives on the most significant financial risk, reporting, auditing, and governance matters facing boards today." Source: www.tapestrynetworks.com

"investors' needs" in the context of the audit committee voluntary disclosures? 2) Do the voluntary disclosures in the audit committee report provide incremental information that shows strong performance by the audit committees, or it is an impression management practiced by the audit committees to hide their weak performance? 3) Do the voluntary disclosures in the audit committee report have an effect on the implied cost of equity and the financial analysts' forecasting properties?

The dissertation is motivated by the debate between the institutional investors and corporate governance organizations who are not satisfied by the current audit committee disclosures, and the audit committees who perceive that their disclosures provide useful information for the investors. The comment letters that were submitted in response to the SEC proposed revisions reveal that there is a big gap in the views among the different stakeholders. Our studies provide empirical evidence to several questions that were addressed in the SEC concept release. In our studies, two sources are considered. The first one is the comment letters that were drafted by the different respondents to the SEC in response to the proposed changes to the audit committee disclosures. These letters provide a rich content to understand how respondents perceive "investors' needs" in the context of audit committee disclosures. As for testing the second and third research questions, we consider a sample of top bank holding companies in the US.

The banking industry provides a unique setting for analyzing audit committees reporting. First, the banking industry plays an important role in the society as it is a major player in the financial system and the economy. Strong governance and oversight of banks are needed for the whole financial system stability (Adams, 2010). Second, the banking industry is characterized by having higher information asymmetry than other industries due to the complexity of banking operations (Billingsley & Schneller, 2009). This complexity in the banking business provides managers with significant flexibility to manipulate earnings (Kanagaretnam, Krishnan, & Lobo, 2010). Third, as an outcome of such complexity, banks' auditing is more difficult than auditing other industries (Billingsley & Schneller, 2009). Fourth, the banking industry is highly visible as it is heavily followed by investors, and is intensively regulated and monitored by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board. Consequently, any restatement of financial position or change in the bank performance can lead to major negative impact on the economy, investors, depositors, and the society (Ittonen, Tronnes, & Vähämaa,

2016). For all the above reasons, the audit committee function is critical within the banking context. The audit committee has an essential role in protecting the investors and the depositors by overseeing the financial reporting process and the external auditor. Thus, the audit committee report is an important communication tool that provides information about the activities of the audit committee during the year.

In this dissertation, first, we analyze the comment letters by using framing analysis. We attempt to understand how each respondent category defines the current audit committee disclosure requirements in fulfilling "investors' needs", proposes changes for improving the situation, and convinces the SEC to embrace their views. More specifically, we assess the respondent frames by comparing and contrasting them, and analyzing the respondents' discourse. Our findings reveal that there is a wide divergence in views. Investors agree with the SEC's plan to increase audit committees transparency. They urge the audit committees to improve the disclosures in order to understand the activities undertaken during the year and evaluate the oversight performance. By contrast, non-investors respondents – audit committees, management, legal advisers and auditors – are generally against the SEC proposed enhancements. They perceive that the current audit committee disclosure requirements provide adequate information for investors. Disclosing additional disclosure will harm the investors since they may not be able to evaluate the information and may become confused.

In the second part of the dissertation, we take a quantitative approach. We study the association between the voluntary disclosures in the audit committee report and earnings quality. The empirical results show that audit committees provide more voluntary disclosures whenever the earnings management is high. It implies audit committees engage in impression management since they disclose more about their oversight activities when managers manipulate the bank's earnings. In addition, we consider the effect of the disclosures on the external environment. More specifically, we analyze the effect of the voluntary disclosures on the implied cost of equity and the financial analysts' forecasting accuracy and forecasting dispersion. As the voluntary disclosures are impression management practices by audit committees, the cost of equity will be increasing when the audit committees increase the level of voluntary disclosures. However, the results suggest that the voluntary disclosures improve the financial analysts' forecasting accuracy and decrease forecasting dispersion.

Our dissertation contributes to the accounting literature in several ways. The first part, the qualitative study, analyzes the comment letters that are a unique set of data. The study is the first study that analyzes the different stakeholders understanding towards "investors' needs" in the context of audit committee disclosures. The results of the frame analysis and respondents discourse provide empirical results to the regulators and board of directors about the current governance issues that require to be addressed in order to increase investors' confidence in the US financial market.

Second, the quantitative part of the dissertation focuses on the voluntary disclosures in the audit committee report in top US bank holding companies. To the best of our knowledge, this is the first study that analyzes whether audit committees, sub-committees of the board, engage in impression management through additional voluntary disclosure. Prior research analyzes board of directors obfuscating excessive pay in compensation disclosure information (Hooghiemstra, Kuang, & Qin, 2017; Mangen & Magnan, 2012); however, it did not analyze the board of directors engagement in impression management. The empirical results suggest that audit committees engage in impression management. This knowledge is paramount for the SEC which is working on improving the audit committee disclosures.

Third, the quantitative part of the dissertation is not only limited to the internal environment of the firm, i.e., earning quality, but goes out to the external environment. The study extends to analyze the usefulness of the voluntary disclosures in the audit committee report on the cost of equity and financial analysts' forecasting properties. The second and third contributions of the dissertation provide a direct answer to the SEC following concern:

> "…there appears to be limited research as to why some companies provide voluntary disclosure regarding audit committee activities and whether and how such additional information impacts investors' investment or voting decisions" (Securities and Exchange Commission (SEC), 2015)

Thus, the dissertation investigates why some audit committees disclose more voluntary disclosures than others, the impact of the voluntary disclosures on the investors required rate of return, and on the financial analysts' forecasting properties.

Fourth, the quantitative part of the dissertation targets audit committees of banks which have been rarely studied in the accounting literature due to the peculiarity of the banking

industry (Ittonen et al., 2016). As mentioned above, the banking industry provides a unique setting for analyzing audit committees reporting; thus this study fills the gap in the literature.

The remainder of the dissertation is as follows. Chapter 2 reviews the prior literature related to audit committees disclosures. Chapter 3 presents the framing analysis tool and the frames of the comment letters respondents, and discusses the evidence drawn from the frames analysis. Chapter 4 develops hypotheses, presents methodologies, and discusses the results of the voluntary disclosures in the audit committee report association with the earnings management. Also, it discusses the impact of the voluntary disclosures on the implied cost of equity and financial analysts' forecasting properties. Chapter 5 concludes the dissertation and presents the conclusions.

Chapter 2: Literature Review

2.1 Background on the Audit Committee Report

Since 1999, and based on the Blue Ribbon Committees' recommendations, the Securities & Exchange Commission (SEC) requires all public firms' audit committees to issue an audit committee report on an annual basis. The SEC aimed to enhance disclosures related to the governance and performance of audit committees and to improve financial statements' reliability. It then argued that audit committees disclosing their work with external auditors and management would assist investors to understand the activities undertaken by audit committees which would allow them to assess audit committees effectiveness and increase their confidence in the financial reporting (Securities and Exchange Commission (SEC), 1999).

Audit committees are accountable to external stakeholders, including investors, via their report to the board of directors which is typically provided in the annual proxy statement. In the report, audit committee members provide the findings and recommendations concerning the effectiveness of internal controls over financial reporting, and the effectiveness of external and internal audit functions. The report is not a standardized report such as the auditor report. It should explain the activities undertaken by the audit committee during its meetings, describe the reviews conducted, and deliver its findings and recommendations to the board of directors (Braiotta Jr, Gazzaway, Colson, & Ramamoorti, 2010). The current disclosure requirements stipulate that the audit committee should state whether it performed the following activities: 1) reviewed and discussed financial reporting with management, 2) discussed with independent auditors about independence matters, 3) received disclosures from the independent auditor regarding its independence, 4) recommended to the board of directors that the audited financial statements be included in the annual report. Also, the audit committee has to disclose whether the board of directors approved a written charter for the audit committee, and whether the audit committee members are independent as per applicable standards. Audit committees of public companies have to comply with these requirements since January 2000 (Securities and Exchange Commission (SEC), 1999).

Concerns have been raised by several stakeholders that disclosures under these requirements do not meet investors' needs as they do not provide them with sufficiently useful information. For instance, it is often noted that audit committee disclosure requirements have not

changed since 1999 (Securities and Exchange Commission (SEC), 2015). In contrast, in other aspects of corporate governance and financial reporting, several rules have appeared since then requiring different corporate disclosures, the most well-known being the Sarbanes-Oxley Act of 2002. Therefore, it is argued that the situation needs to be fixed as investors and other stakeholders are demanding greater transparency and better communication (Tammy Whitehouse, 2015). Also, investors have been looking for more information on the processes the audit committees undertake in fulfilling their responsibilities. Investors want not only to know about the audit committees' responsibilities but how they are fulfilled (Steinberg, 2014).

In recent years, there has been increasing attention devoted to audit committee disclosures. In 2012, a partnership, Audit Committee Collaboration, was formed by US corporate governance organizations[2]. One of the outcomes of this partnership is a study called "Call to Action: Enhancing the audit committee report." In this study, the partnership urges companies of different sizes and industries to increase their audit committee disclosures to "more effectively convey to investors and others the critical aspects of the important work that they currently perform." Also, this partnership mentions that investors are interested in audit committees whose activities would enhance audit quality. For this reason, the audit committee disclosures would increase investors and regulators confidence in the financial markets (Audit Committee Collaboration, 2012).

In addition to the Audit Committee Collaboration, EY has been tracking voluntary audit committee disclosures since 2012 for the top 100 US companies. It notices that the trend of disclosing voluntary information about audit committees has been increasing since 2012 (EY Center for Board Matters, 2016). Similarly, Deloitte analyzes trends in audit committee reporting for S&P 100 companies and confirms the increasing trend of voluntary disclosure (Deloitte, 2017). Furthermore, the Center for audit quality (CAQ) and Audit analytics have conducted several studies called "Audit Committee Transparency Barometer." The last one issued in November 2017 analyzes the trend of voluntary disclosures for S&P 500, S&P MidCap, and S&P SmallCap for the years 2014, 2015, and 2016. They find an increasing trend of voluntary

[2] "The Audit Committee Collaboration is a partnership of nationally recognized U.S. corporate governance and policy organizations. The organizations came together in 2012 to collaborate on projects intended to leverage their individual efforts to expand audit committee member access to useful tools and material across the spectrum of public companies in order to strengthen audit committee performance and transparency." Source: http://auditcommitteecollaboration.org/about.html

disclosures that is remarkable for S&P 500, and smaller for S&P MidCap and S&P SmallCap (Center for Audit Quality, 2017).

Based on the investors' call for enhanced corporate governance, there is much pressure to increase audit committee voluntary disclosures. Hence, on July 1, 2015, the SEC issued a concept release in which it proposes possible revisions to the audit committee disclosures to increase mandatory disclosure requirements. The SEC aims to get an understanding from the different stakeholders whether a change in the current requirements of the audit committee disclosures is needed or not. Also, the SEC is interested to know whether additional disclosures would assist investors in improving their investment decisions and voting decisions. The concept release focuses on three areas to enhance the audit committee disclosures: 1) audit committee's oversight of the auditor, 2) audit committee's process for appointing or retaining the auditor, and 3) qualifications of the audit firm and certain members of the engagement team that the audit committee oversees. In addition to these three areas, the concept release has a fourth area that is titled additional request for comment regarding audit committee disclosures; it covers diverse topics. Overall, the concept release includes 74 questions related to audit committee disclosures. The public was invited to comment on the proposed changes during 60 days (Securities and Exchange Commission (SEC), 2015). As of today, the SEC has not mandated any of the audit committee requirements.

2.2 Prior Literature on the Audit Committee Report

In general, few studies analyze the audit committee report. During the early 1990s, the Treadway Commission highly recommended that audit committees chairmen issue an audit committee report. At that time, the SEC was not convinced of the usefulness of this report. Urbancic (1991) takes an experimental approach in investigating the usefulness of audit committee reports. His results suggest that participants do not perceive significant useful information in the audit committee report. The results confirm the SEC's approach at that time in not requiring listed firms to issue an audit committee report on an annual basis. In addition, Turpin and DeZoort (1998) analyze the characteristics of firms that issue an audit committee report on a voluntary basis as it was not mandatory before January 2000. They also survey firms that issue an audit committee report to collect information about their incentives to issue the report. Their results suggest that mainly larger firms include an audit committee report on a

voluntary basis. The survey results reveal that management decides whether or not to incorporate an audit committee report in the annual report.

Some papers investigate audit committee reports following the SEC regulation enacted in 2000. Rezaee, Olibe, & Minmier (2003) study the audit committee reports' content for Fortune 100 US companies. They find that all the companies comply with the SEC mandatory disclosure requirements. Also, they show that the reports focus more on the audit committee's roles and composition rather than the processes of fulfilling financial reporting oversight. Moreover, Pandit, Subrahmanyam, & Conway (2006) examine the voluntary disclosures in audit committee reports of one hundred companies listed on NYSE in 2004. Their research assesses whether such reports contain voluntary disclosures that show compliance with SEC and NYSE requirements. Results suggest that there is a wide variance in the audit committee reports content. Few companies provided voluntary disclosures, while the majority of firms provided just the minimum required disclosures. Finally, Pandit, Subrahmanyam, & Conway (2005) analyze the voluntary disclosures in the audit committee report of one hundred companies listed on NYSE before (2003) and after (2004), the implementation of SOX. The content analysis of the reports shows that the voluntary disclosures in the audit committee reports increased significantly in three areas: designated audit committee member as a financial expert, auditor independence, and pre-approval policy of non-audit services.

With the recent regulatory changes of the auditor report and audit committee report in the UK in 2013 and the proposed changes in the US, several studies have been conducted. Reid, Carcello, Li, & Neal (2016) investigate the impact of the UK regulatory changes. They find that the new reporting regime improves audit quality in addition to investors' reaction to announcements of unexpected earnings. Also, the study shows that the new reporting regime does not increase audit fees significantly and that audits are not delayed due to these changes. Overall, they find that the new auditor reporting and audit committee reporting significantly improve audit quality without a significant increase in audit fees. As for the studies related to the audit committees disclosures of US firms, two studies have been conducted after the SEC proposed the disclosures enhancements. Draeger, Lawson, & Schmidt (2018) analyze the audit committee report by conducting a large-scale textual analysis. They find that larger firms disclose more voluntary disclosures than small firms. They do not find an association between voluntary disclosures in the audit committee reports and restatements or material weaknesses in

internal controls. As for Ye (2018), the author investigates the usefulness of the disclosures in the audit committee report. His results suggest that there is a negative relationship between the voluntary disclosures level and votes withheld from incumbent audit committee members. Overall, he finds that the current audit committee voluntary disclosures are useful for the shareholders' decision making in electing auditing committee members and ratifying auditors.

2.3 Overview of Other Board of Directors' Reporting

In general, the board of directors reports to the shareholders are not numerous. Besides the audit committee reporting, the executive compensation committee, sub-committee of the board, reports to the shareholders about the executive compensation practices (Securities and Exchange Commission (SEC), 1992). On October 15, 1992, the SEC issued a new regulation requiring the boards to issue a report that discloses the executive compensation. The SEC requirement addresses the issue that shareholders lack information about executive compensation. The additional reporting improves their ability to ensure that the directors are acting in the best interests of shareholders.

The executive compensation report describes how the management performance is assessed and how their payment is aligned with the performance. The directors have to describe the set of actions undertaken in order to reach the executive compensation package. Also, the report explains to the shareholders how the CEO compensation is performance-related and the measures considered in setting the compensation level (Laksmana, 2008). The SEC rule does not specify the report format or the content details; it provides general guidance that needs to be followed by the board in drafting the report (Securities and Exchange Commission (SEC), 1992).

Several studies analyze the voluntary disclosures in the executive compensation report. Laksmana (2008) studies the determinants of voluntary disclosures in the executive compensation report. He finds that there is a positive association between the compensation committee voluntary disclosures and the firm size and the meeting frequency of the compensation committee. Chung, Judge, & Li (2015) analyze the effect of voluntary disclosures on pay-for-performance. They find that voluntary disclosures enhance the monitoring abilities of the board. Moreover, several studies have considered the clarity of executive compensation report. Hooghiemstra, Kuang, & Qin (2017) suggest that UK boards of directors practice obfuscation of information in case of CEO excessive pay by decreasing the readability of the

compensation report. Also, Mangen and Magnan (2012) examine the debate surrounding the adoption of “Say on Pay” and suggest that boards of directors that have an incentive to maintain inefficient pay plans can manipulate compensation disclosure reports. Board of directors can ensure that compensation disclosures be perceived in line with shareholders’ interest.

Overall, the board of directors reporting to the shareholders is minimal. Mainly, the board issue the audit committee report and the executive compensation report. Our study focuses on the audit committee report which is a main reporting activity of the board of directors.

Chapter 3: Framing "Investors' Needs" in the Context of Audit Committee Disclosures: Evidence from the Comment Letters

3.1 Introduction

In this chapter, we analyze how the comment letters' respondents to the SEC concept release interpret "investors' needs" in the context of audit committee disclosures. The aim is to provide insight as to how each respondent group attempts to define "investors' needs," and on the motivation underlying the proposed changes to audit committee disclosures they ultimately address at the SEC. The comment letters, total of 102 letters submitted to the SEC, are drafted by a cross-section of governance actors, with different roles with respect to audit committee disclosures: preparers (audit committees), users (investors), agents whose actions are judged and reported (external auditors, management, legal) or researchers (academics).

Even though growing attention has been given to the audit committee disclosures since 2012, the notion of "investors' needs" in the context of these disclosures is not similarly understood by investors and non-investors. It is clear from prior meetings among the different stakeholders that they have different views (Securities and Exchange Commission (SEC), 2015). On the one hand, investors have been very vocal in demanding more information and higher transparency from audit committees. Several institutional investors such as the United Brotherhood of Carpenters Pension Funds or governance organisations such as the Council of Institutional Investors are requesting enhanced disclosures (Deloitte, 2015). On the other hand, several participants in roundtables that discussed the audit committee enhancements did not perceive a need for the change and were concerned about "disclosures overload" that can affect the investors negatively. They were not sure whether investors are interested in additional disclosures and were concerned that enhancements could lead to "one-size-fits-all" approach that does not add value to the investors (Center for Audit Quality, 2013).

To analyze the comment letters and how the different respondents understand "investors' needs," we utilize the concept of frames that was studied initially in the social movement research. Goffman (1959) discusses frames as a tool used in the daily life to rationalize interactions, rituals, discourses, and other diverse social dealings. Accordingly, any ordinary activity can be analyzed by frames. Frames are constructed in a way to converse about current issues that require a change, point out to the individual or something to hold responsible, propose

a solution, and convince others to support your point of view and embrace your views (Benford & Snow, 2000; Snow & Benford, 1988). We document the different respondent categories' frames using the framing tool as an analytical tool. It assists us in addressing our research questions: how each respondent category defines current requirements in fulfilling "investors' needs", proposes changes for improving the situation, and convinces the SEC to embrace their views. More specifically, we assess if the framing tasks are similar or different between the respondents' categories.

This study contributes to the literature in several ways. First, several researchers have called for additional qualitative research on corporate governance as such an approach provides a deeper understanding of its underlying processes and the association between audit committee inputs and outcomes (McNulty, Zattoni, & Douglas, 2013; Turley & Zaman, 2004; Turley & Zaman, 2007). Archival studies are not sufficient to assess audit committees' performance and recognize whether their oversight is fulfilled diligently (Niamh M. Brennan & Kirwan, 2015). Our research approach is qualitative and relies on a unique data set, the comment letters submitted to the SEC by investors and a cross-section of governance actors, to understand "investors' needs" in the context of audit committee disclosures. Engaging in a granular analysis of comment letters, the study sheds some light on the nature of the interactions between governance actors who are trying to shape the new disclosure requirements. This information potentially reveals the impact of governance actors on firms' internal governance, an aspect which has not been studied extensively in previous research.

Second, as per our knowledge, this study is the first one that analyzes stakeholders' understanding towards "investors' needs" in the context of audit committee disclosures. The different frames of the respondents provide us with new knowledge. For example, investors' concerns related to audit committees power, and independence in appearance but not in fact are major issues that require deep understanding to resolve it.

Third, this research has significant practical implications for the regulators and board of directors. The study provides evidence that there is not a common understanding about "investors' needs" in the context of audit committee disclosures among investors and other governance actors. This is very important for the SEC and board of directors whose aim is to promote investors' confidence in the financial reporting process (Securities and Exchange Commission (SEC), 2015). In this context, a recent study suggests that audit committee

disclosures are not useful for investors and require improvement (Draeger et al., 2018). Furthermore, another study reveals that the new enhanced auditor report and audit committee report in the UK context have broad benefits for investors (Reid et al., 2016). Today three years after the concept release issuance, it seems that the SEC is not planning to modify the audit committee disclosures requirements (DeHaas, Debroah, Phillips, Henry, Hitchcock, & Deloitte LLP, 2017; Protiviti, 2017). This study corroborates evidence with other studies that there is a need for enhancing the audit committee disclosures. A starting point can be to properly define the "investors' needs" in the audit committee disclosures context among the different stakeholders.

3.2 Conceptual Underpinning: Framing Theory

The concept of the frame analysis has been employed in social sciences such as psychology, linguistics, discourse analysis, communication, and political science and policy studies (Benford & Snow, 2000). The concept of frames was studied initially in the social movement research. Goffman (1959) discusses frames as a tool used in the daily life to rational interactions, rituals, discourses, and other diverse social dealings. Accordingly, any ordinary activity can be analyzed by frames. The frame sets the boundaries and lets the observers focus on specific events or texts, while limiting their views on other things that exist in our complex environment (Creed, Langstraat, & Scully, 2002).

In the social movement, actors are seen as representatives who work hard on creating and maintaining meaning for allies, opponents, and observers (Snow & Benford, 1988). The social movement perceives the concept of constructing when using the word "framing" as it entails arguments at the level of constructing reality (Benford & Snow, 2000; Gamson & Lasch, 1981; Snow & Benford, 1988). Framing gives meaning to the events by arranging experiences and planning for the next steps. It simplifies the complex outside world to activate supporters and observers, and demobilize opponents (Snow & Benford, 1988). In other words, framing is a way to describe and engage the different arguments and counter-arguments in a complex social setting (Gamson & Lasch, 1981).

Frames are constructed in a way to converse about current issues that require a change, point out to the individual or something to hold responsible, propose a solution, and mobilize others to support your point of view and embrace your beliefs. Accordingly, activists, intending

to stimulate observers, undergo framing activities that are decomposed into three parts: diagnosis, prognosis, and motivation (Benford & Snow, 2000; Snow & Benford, 1988). All these tasks are carried out to advance own views and impose own frame on a specific target audience (Brivot, Himick, & Martinez, 2017).

The diagnosis part deals mainly in defining a "problem." Its role is to identify the problematic situation and pinpoint to the sources of the issue. In this chapter, we employ the diagnosis part to discuss whether the current audit committee disclosures meet "investors' needs." The different respondents describe their understanding of the current situation and if it serves the "investors' needs." The respondents who perceive a problem will describe the problematic situation and identify the sources causing it. For the respondent who may not perceive a problem in the current audit committee disclosure requirements, their description of the current situation will be interpreted in light of the "investors' needs."

The prognosis part, second framing task, entails proposing a solution to the identified problem and a plan on how to tackle it. In this case, the respondents will be arguing about what needs to be done to ensure that the "investors' needs" are met in the audit committee disclosures. Besides proposing a solution in the prognosis part, the arguments raised can aim to refute the solutions advanced by the opponents. This is called "counter-framing" whose goal is to attack the arguments of the opponents (Benford, 1987). It causes the opponents to be on the defensive side and pushes them to propose better and clearer prognosis.

Finally, the motivation part, last framing task, deals in convincing the others to adopt their own frame instead of the opponents' ones. It provides rational and constructs adequate vocabulary to motivate the observers to embrace their frame. In our case, the respondents bring arguments to the SEC and the readers to follow them in their views.

Frames require "activists" such as experts and experienced actors who mobilize others to perceive things the way they see it (Kaplan, 2008). As we aim to understand how the different respondents perceive the current audit committee disclosures are fulfilling "investors' needs," propose solutions, and attempt to motivate the SEC to embrace their views, we use the framing theory to assist us in our task. Thus, we implement the framing theory as a tool to structure the respondents' arguments and proposed solutions for the current situation. It enables us to approach the respondents' comment letters by understanding how the different ideas are linked together to form a meaning that is intended to advocate and mobilize the SEC. As an analytical tool, the

frame analysis allows us to sort the different point of views and positions related to the "investors' needs" in the context of audit committee disclosures.

3.3 Methodology

3.3.1 Research Approach

Qualitative research is a very suitable method for studies that investigate a topic using a theoretical perspective that is different from the quantitative methods that are mostly used (Eisenhardt, 1989). For instance, what constitutes "Investors' needs" has been mostly analyzed using agency theory. In this chapter, we analyze the concept of "investors' needs" in the context of audit committee disclosures using framing theory. Framing theory is used as a tool to analyze the discourse of the respondents. The frames of the investors, academia, and corporate governance actors are analyzed to understand how each respondent category perceives "investors' needs" in the context of the audit committee disclosures. Focusing on the comment letters of the respondents gives us the opportunity to understand better how each group perceives "investors' needs" fulfilled with the current requirements and what needs to be done to improve the current situation.

3.3.2 Data

We downloaded the comment letters from the SEC website. Overall, 102 letters were received, out of which seven were requests for expanding the 60 days period as it was falling within the summer break of employees. Also, there were four letters that were disregarded from the analysis as their content was not specifically related to the concept release. So the overall number of letters that are analyzed is 91. Major US companies, audit firms, legal firms, institutional investors, and associations drafted the comment letters. Some of the respondents represent foreign investors or companies.

We classify the comment letters according to the signatory's title (i.e., Audit Committee Chairman, or Chief Financial Officer). We categorize the respondents as follows: Academia, Association (professional or regulatory bodies), Audit committee, External auditor, Investor, Legal, Management (an executive position). Table 1 shows the total number of letters analyzed in this chapter together with the respondent's categories.

[INSERT TABLE 1 ABOUT HERE]

We develop frames for each of the respondents' categories except for association respondents as such letters are drafted by different types of associations that represent views and positions that are not homogenous. However, while associations are not grouped within a frame, their views and comments were considered in the analysis and discussion. In contrast, the views of management and legal respondents were extremely similar; thus one frame was developed to represent their positions. Hence, we develop five frames for the following categories of respondents: investors, academia, management and legal, audit committees, and external auditors.

In addition to the comment letters submitted to the SEC, our analysis also relies on the concept release which initiated the request for the comments. The concept release is a significant data source since it provides the regulator's objectives together with seventy-four questions that are proposed as enhancements for the current disclosure requirements. Similarly, we refer to the first call in 2012 that was initiated by the audit committee collaboration partnership. Understanding their call to action is essential for understanding the perceptions and needs of the investors and corporate governance practitioners.

3.3.3 Data Analysis

Data analysis implies iterative reading and coding of the comment letters. In the first round, the comment letters are read to obtain a broad view of the different respondents' views. In the second round, the comment letters are read and coded in an inductive approach which allows themes to emerge out from the data. After the coding is done, the themes are grouped to differentiate between main and emerging themes versus those that are secondary in importance based on their occurrence frequency. Differentiating themes based on their occurrence frequency improves the robustness of qualitative research (Melanie Roussy & Brivot, 2016).

In the third round, the themes and trends are coded according to their relation to apparent framing activities. As the respondents are attempting to convince the SEC of their point of view by constructing their frames, we consider the framing tasks and separate the themes into the three different frame components: diagnosis, prognosis, and motivation. For the diagnosis part, we identify themes that raise the issue as to whether the current audit committee disclosures meet "investors' needs" or not. For the prognosis part, we look for themes that identify solutions for the articulated problem in the diagnosis part. In this particular case, the prognosis illustrates what

needs to be done to ensure that "investors' needs" are met in the context of audit committee disclosures. As for the motivation part, we look for arguments brought by respondents to convince the SEC about the merits of their position. Altogether, the three parts, diagnosis, prognosis, and motivation, form a frame. The outcome of the third round is the formation of the five frames. These five frames together with the SEC concept release constitute the data we use for our empirical analysis.

In our empirical analysis, we compare and contrast the different frames of the respondents to analyze how they perceive “investors' needs” and how they attempt to convince the SEC to consider their point of view. Also, we conduct a discourse analysis to study the respondents use of words in presenting their views.

3.4 Findings

Our analysis reveals that the notion of “investors' needs” in the context of audit committee disclosures differs according to a respondent's category. Each respondent category frames "investors' needs" differently and, relying on these frames, argues as to whether a change is needed or not. Table 2 summarizes the different frames that will be presented in this section.

[INSERT TABLE 2 ABOUT HERE]

3.4.1 Investors' Frame: Lack of Transparency…Change is in Great Need to Protect Us

3.4.1.1 Diagnosis

The investors' discussion in the comment letters reveals that a high information asymmetry exists between investors and the audit committees. Audit committees have a fiduciary duty to protect investors' interests; however, the investors do not know what the audit committees are doing during the year to fulfill their role in protecting them. The agency cost arising from the uncertainty faced by investors with respect to how audit committees acquit themselves of their monitoring obligations toward investors does not seem to be mitigated by the current audit committee disclosures.

Investors raise the following arguments to describe the lack of transparency by audit committees that does not allow them to fulfill their role as the company owners. First, they note that the current audit committee disclosure requirements have not changed since 1999 even though significant changes took place that affected the role and responsibilities of the audit committees: the advent of Sarbanes-Oxley, other regulatory and standard changes, evolution in industry, governance or business best practices.

Second, while describing the current lack of transparency, several investors' respondents mention the fact that the current audit committee report requirements are minimalist and do not provide information about the audit committee oversight role. For instance, the California State Teachers' Retirement System (CalSTRS)[3] points to the fact that audit committees do not disclose the process of selecting and reappointing the external auditor, a decision which is important for investors who have concerns about some auditors' long tenure:

> "The audit committees are not required to provide information regarding its process or reasons for the selection of a particular independent auditor. CalSTRS has concerns with companies having long-tenured auditors, so it is important for us to understand the audit committee's justifications or rationale for selecting or retaining the current auditor."

Also, investors compare between the audit committee disclosures and the disclosures provided by the compensation committee. They find a significant discrepancy between the two; the compensation committee disclosures are more elaborate, thus helping investors improve practices within the firm as they have more information related to say-on-pay disclosures. The limited available information about the audit committee prevents investors from rectifying some practices that are potentially not in the best interests of the firm.

Besides being relatively scant, investors point out that the information they receive is not useful to them to act upon. Calling it boilerplate language, the California Public Employees' Retirement System (CalPERS)[4] is not satisfied with the current situation as it does not receive useful information that meets its needs as an institutional investor:

> "The standard US company audit committee report is a boilerplate document that fails to provide specific company and industry information. It refers the investors to a charter and

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[3] Public pension fund with funds around $191 billion for 880,000 plan participants
[4] An institutional investor managing around $301 billion in global assets

> mentions that the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16 has been followed."

According to CalPERS, the current situation is making investors vulnerable as the information they are receiving does not reveal whether the audit committee is fulfilling its role in protecting investors' interest:

> "Currently an audit committee can easily meet the minimum regulatory requirement without revealing substantive gaps in oversight."

The lack of information is hindering investors' capability to vote appropriately for essential matters such as external auditor ratification or board elections. Hermes Investment Management[5] discusses the impact of the opaque environment on its voting decisions. The institutional investor is voting positively on essential matters even though it lacks information as it wants to support the board in its responsibilities:

> "It is false to conclude from the voting patterns that investors are content with the current situation: instead typically investors seek to support the board and do not normally have enough information to justify not doing so."

Finally, investors compare the current audit committee disclosures in the US to those of other parts of the world such as the UK and Europe and point out that the U.S. lags behind in this regard.

Overall, investors diagnose the current audit committee disclosures as a problem as they are provided with little information. Moreover, such information is not useful for their decision-making. They feel that they are in the dark and vulnerable, not knowing how audit committees are accomplishing their oversight duties and protecting their interest. With the current lack of transparency that investors face due to meaningless audit committee disclosures, we discuss in the next paragraphs how investors' respondents react to the proposed enhanced disclosures in the concept release.

3.4.1.2 Prognosis

Investors support all the changes proposed by the SEC as they see in them the means to improve their current situation. Their prognosis includes having disclosures mainly related to the oversight of the external auditor since most of the questions in the concept release are related to

[5] One of the largest asset managers in London with a portfolio of over $200 billion

this issue. They want to remedy the situation by having additional disclosures such as: processes in overseeing the external auditor, processes in selecting and reappointing the auditor, processes for negotiating audit fees, processes for evaluating the external auditors with long tenure, the name of the engagement audit partner, the number of meetings with the auditor, other activities related to the financial reporting process oversight.

Investor respondents do not object to any of the enhancements proposed by the SEC. They promote the need for all disclosures that will rectify the lack of transparency situation they face. Essentially, they are inviting the SEC to increase the number of mandatory disclosure requirements and, at the same time, encourage audit committees to disclose additional information on a voluntary basis. Investor respondents referred to other countries such as the UK which has improved their audit committee disclosures to meet investors needs. They underline the need for change that has been undertaken in other countries. For example, Hermes Investment Management states:

> "The International Auditing and Assurance Standards Board (the "IAASB") has also acknowledged the merits of enhanced disclosure around the activities of the audit committee."

Also, several investors' respondents provide the example of the Rolls Royce audit committee report which is in accordance with the UK Financial Reporting Council (FRC). They perceive it as a model for the US. In this regard, CalPERS states:

> "The United Kingdom's (UK) audit committee disclosure requirements provide a great example of disclosure requirements that lead to much better reporting. One need only read the Rolls Royce Audit Committee Report and compare it to the audit committee report of a US company to determine that US audit committees should provide better communications to investors."

They show the enhancements are possible to be undertaken, and already have been executed. Thus, these additional disclosures are feasible.

3.4.1.2 Motivation

Investors' respondents bring forward different arguments to justify their request for disclosures enhancements. Several respondents point to some prior cases that left the investors with significant losses. For example, Kermit Kubitz[6] states:

> "Such enhanced audit committee interaction and identification of issues might prevent or have prevented problems such as Enron's mark to market recognition of future sales, or Banking industry creation of off-book special purpose entities SPE's who's later recognition on parent books contributed to the financial crisis of 2008."

Investors are vulnerable to major scandals or crises as they do not know what the audit committees actually did during that period to protect their interestsThe suggested additional disclosures will enable investors to tell whether the audit committees are conducting their oversight properly and allow investors to interfere with corrective actions if needed.

Second, investors argue that getting information about the external auditor re-appointment process is critical as they need to know the audit committee involvement and the factors considered in reaching a final decision. Such information is very critical in cases of audit firms with long tenure, as emphasized by the Council for Institutional Investors[7]:

> "… disclosure about renewing the engagement of an audit firm can help build investor confidence by underscoring the thoroughness of the process that led to the audit committee's decision. We believe the benefits of such disclosure are heightened in the case of long auditor tenure."

Third, as investors perceive themselves as vulnerable, the additional disclosures will provide them with some protection. For example, Norges Bank[8] describes the proposed disclosures as:

> "… key to the audit committee's evaluation of the external auditor, enhance investor protection, and provide useful information to investors."

Essentially, investors are keen on having the enhanced disclosures as a means of protection.

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[6] An independent investor

[7] Non-profit, non-partisan, association of pension funds with combined assets that exceeds $3 trillion

[8] Investment management division of the Norwegian Central Bank with invested funds of around $184 billion

Fourth, investors are calling for additional disclosure since they believe it will increase accountability and transparency levels. Audit committees, external audit firms, and engagement audit partners will accomplish their duties at a higher professional level since investors and the public will know about the different activities that took place during a year.

Fifth, investors are eager for additional disclosure as it will raise their confidence in financial markets. Several investors recalled the prior cases of Enron, WorldCom, and the recent banking financial crisis, all of which caused huge losses for investors. This shows that their confidence level in financial markets is relatively low. The proposed disclosures will improve their confidence as described by James Edwards, an independent individual investor:

> "… enhancement that would result in an additional degree of investor confidence in the process of oversight of financial reporting for all audit committees."

Sixth, several investors stress that financial markets become integrated at the global level. In general, investors are investing in different markets; thus, it is vital for US firms to follow international trends as it will benefit investors in their decision-making. Institutional investors who invest globally emphasize the importance of audit committee disclosures alignment with the worldwide pattern. As described by Norges Bank Investment management:

> "We believe international alignment of audit and audit committee reporting would benefit investors in an environment where markets, companies, and investors have become increasingly global."

Finally, as the proposed disclosures will be increasing transparency and raising the confidence level of investors, they will be able to make better decisions in voting for the external auditor or board members. The institutional investor, American Federation of Labor and Congress of Industrial Organizations, considers that the improved voting practices by the investors will improve corporate governance accountability mechanisms.

As a summary, investors present the proposed disclosures as the solution for their current situation. They support the SEC's position by describing how these proposed additional disclosures will make them less vulnerable since they will know whether audit committees are performing their duties correctly or not, improve accountability and transparency, increase their confidence in financial markets, and allow them to vote appropriately at shareholders' meetings. The seven arguments presented above aim to convince the SEC to implement the proposed disclosures.

3.4.2 Academia Respondents' Frame: Woefully Inadequate with no Value for Investors…Update Disclosures to Become a Signaling Device

3.4.2.1 Diagnosis

The academic respondents diagnose the current audit committee disclosures as failing to communicate satisfactorily, thus causing investors to be in the dark about underlying processes and actions. The disclosures provide minimal information that does not meet investors' needs, as described by Professor Joseph Carcello[9]:

> "In my view, existing audit committee disclosures are generally woefully inadequate, and mandated disclosures are so minimal as to provide virtually no useful information."

Besides the minimal aspect of the disclosure requirements, the respondents believe that what is being disclosed is not readable, thus further contributing to investors' uncertainty. The disclosures are drafted in a way that reference to standards that are not clear to a regular investor. For example, Professor Dennis Beresford questions the following:

> "Do investors really understand or derive any value from: We discussed with the auditors all communications required by the PCAOB, including AS 16?"

Referring to specific standards does not convey to investors how the audit committee performed during the year to protect the interest of the shareholders.

Academic respondents also blame the legalistic approach that characterizes audit committee disclosures. The audit committees are so concerned about being sued that they draft the report in a legalistic way to minimize their legal exposure. This rationale is also contributing to obscuring the information environment for investors.

Finally, academic respondents argue that the current disclosures do not allow investors to differentiate between the audit committees that are good performers from those that are engaging in impression management. Even though some audit committees are providing voluntary information, investors are still not able to get appropriate information about the audit committees performance in protecting investors' interests. Matthew Reidenbach[10], whose thesis is related to

[9] Emeritus Professor at Haslam College of Business - University of Tennessee
[10] Assistant professor of accounting at Pace University

audit committee disclosures, did not notice a significant change in voluntary disclosures after Sarbanes-Oxley and describes the disclosures as:

> “Unfortunately, it is almost impossible for individuals outside the company to disentangle whether voluntary disclosure is truly a signal of the chosen effort level or is merely cheap talk.”

Overall, academic respondents and investors respondents share similar views. The current audit committee disclosures do not meet the needs of the investors who are left in the dark. Even the voluntary disclosures do not help the investors in assessing whether their interests are protected or not as they cannot differentiate between the good performers or mediocre performers.

3.4.2.2 Prognosis

To meet investors’ needs in the context of audit committee disclosures, academic respondents advise updating the current disclosure requirements. They argue that since the requirements did not change since 1999, any update and enhancement will better inform investors and go a long way in meeting their needs. Second, the respondents urge audit committees to focus on investors’ needs in their disclosures. Accordingly, the disclosure approach should change from "what" committees did to "how" audit committees discharge their responsibilities. Joseph Carcello explains that investors will receive a more informative disclosure when the disclosures approach changes from the “what” to “how” audit committees discharge their responsibilities:

> “…the value of the disclosure is not what the audit committee does but rather how the audit committee does it."

Investors will be in a better position to evaluate the audit committee performance with such an approach as will have higher information quality about the activities conducted during the year to oversee the financial reporting process.

3.4.2.3 Motivation

Academic respondents raise several arguments to induce the SEC further to change current requirements. For instance, updating the current audit committee disclosure requirements will solve the investors’ problem of being in the dark without relevant information. The enhanced disclosures will reduce the information asymmetry as the investors will have

significantly more information about the audit committee oversight activities that are intended to safeguard their interest. A comment letter drafted by several professors representing the American Accounting Association (AAA) highlights the advantage of disclosure enhancements:

> “We also believe that as long as disclosures are specific and readable, they would result in reduced information asymmetry between investors and the firm because we know from prior research that AC affect audit quality, and audit quality, in turn, affects the cost of equity and debt capital."

Reducing information asymmetry between investors and the firm is the primary goal of audit committee disclosures.

Also, respondents argue that the proposed disclosures will be useful to investors as they will have more knowledge about the audit committees’ oversight activities. Knowing more about the different activities, the investors will be in a better position to evaluate the performance of the audit committees and will have better ability to make investment decisions. This will increase the investors’ confidence. The proposed disclosures will assure investors as to how the audit committee acquitted itself of its fiduciary duty and about auditor independence, thus leading to higher confidence.

Finally, academic respondents emphasize that the additional disclosures requirement will provide audit committees with the ability to differentiate their disclosures. Investors will have the opportunity to observe differences across firms and will thus be able to benchmark them. Updating the current requirements and having additional disclosures on a voluntary basis will transform audit committee disclosure into a signaling device. The AAA comment letter discusses the importance of sending signals via credible disclosure as investors cannot observe the underlying quality of the audits. Signaling plays a vital role as it gives credibility and proper functioning of the audit market. Without such signals, there is a high risk that auditing becomes a market for lemons:

> “audit committee disclosures will vary – and it is such variation that offers information content, and that also serves as a signaling device."

3.4.3 Management Respondents and Legal Respondents Frame: Investors are Fully Aware of Audit Committees Work and how it Fulfills their Interests…Maintain the Current Status Quo

The management and legal respondents' views are presented below. We combine their positions in this section as they overlap to a large extent.

3.4.3.1 Diagnosis

Management and legal respondents diagnose the current setting as providing useful and relevant information for investors regarding audit committees oversight of the financial reporting process in general or external auditors in particular. In their view, it is more than sufficient information for investors. For example, the Vice President and Controller of Ball Corporation[11] argues that:

> "…in general, we believe the current information reported by audit committees is sufficiently useful for investors to understand the responsibilities and activities of the audit committees in regard to their responsibility to provide oversight of the auditor."

Respondents believe that investors are receiving the needed information. In case they do not get the required information, investors can ask for it as there is high engagement between audit committees and investors. Also, the Vice President and Controller of ConocoPhillips suggests that investors can take action against the audit committees or auditors in case of dissatisfaction:

> "Specifically, if there is an actual or perceived lack of transparency or decision-useful information, investors can and do communicate their concerns to the board and senior management. If the board disregards these concerns, the investor remedy is to withhold support from the members of the audit committee or to vote against the audit firm."

Accordingly, investors can use their voting power against the audit committee members or the external auditor; thus it is in the primary interest of audit committees to engage with the stakeholders and provide them with the appropriate disclosures.

Furthermore, management and legal respondents point to the fact that audit committees have recently enhanced their disclosures by providing voluntary disclosures beyond the current audit committee disclosure requirements. Thus, they do not perceive a market demand for additional information as the investors are already obtaining the required information.

[11] Multinational manufacturer of metal packaging products and of aerospace

Overall, management and legal respondents perceive that the current setting is idealistic as investors can, at any time, request any information and audit committees are responsive to their needs due to the voting power in the hands of investors who can take proper action in case of dissatisfaction.

3.4.3.2 Prognosis

Management and legal respondents prognose the proposed disclosures as harmful to investors and other stakeholders. They disagree with every single proposed enhancement. Brian Lebrecht[12] describes the concept release as follows:

> "The Commission's proposal goes too far, and is in effect a solution looking for a problem."

This view implies that investors are receiving perfect information about the audit committees' activities realized during the year to protect their interests. For management and legal respondents, there is no room for improvement. In their letter, Davis Polk & Wardwell LLP[13] mentions the investors' call for additional disclosures rests on the premise that it will foster greater transparency; however, they are still not convinced:

> "We are concerned that the proposed new disclosures do not appear to be based on any empirical evidence that the existing audit committee reporting model has been ineffective relative to the quality and utility of information available to investors."

Despite investors' request for additional disclosures to meet their needs, management and legal respondents are not persuaded of such a need. They prefer to keep the status quo as it better serves investors' needs.

Also, management and legal respondents believe that the improvement in audit committee disclosures already took place through voluntary disclosures in the past few years. For the time being, there is no need for changing the current requirements. In case audit committees perceive the need for additional disclosures, it should be at their discretion. As stated by the Senior Vice President General Counsel of Raymond James[14]:

[12] An attorney in private practice
[13] An international law firm
[14] A leading diversified financial services company

"audit committees would be able to provide the information which it believes is most important and relevant based upon each company's particular situation, instead of what most likely will become standard boilerplate disclosures."

Respondents want the audit committees to decide for themselves on the disclosures that are beneficial for investors; they do not want investors to mandate disclosures according to their investment needs or voting decisions.

As a summary, management and legal respondents take a position that is entirely against any change in the current audit committee disclosure requirements. They refuse every proposed change in the concept release and do not suggest any enhancement. According to them, investors are already fully aware of audit committees' activities and do not need any additional information.

3.4.3.3 Motivation

Management and legal respondents urge the SEC not to adopt the proposed enhancements in the final decision. First, to refute the need for enhancements, the respondents contradict investors who are urging for additional disclosures by claiming that investors are actually not interested in these disclosures. They advance the argument that all the details that the concept release is promoting are not the investors' main interest. For example, the President of Safeco Corporation states:

"Shareholders and investors are only concerned that the auditors are a reputable and known firm and that their audit committees are comprised with competent and independent directors who meet the requirements of the SEC regarding financial acumen etc. So any further disclosures referred to in the Concept Release would be of no interest to the shareholders and investors."

This contradicts the investors' viewpoint that they are in the dark and need to know more information about the auditors' oversight and audit committee activities. Investors' comment letters show that they are not only concerned about the reputation and name of the audit firm; but also want to have further details about other relevant facts that are promoted in the concept release.

Second, management and legal respondents take a paternalistic approach towards investors. They are very concerned about investors who may be negatively affected by the proposed additional disclosures. The respondents claim that these disclosures will be creating

misunderstanding among investors, leading investors to draw the wrong conclusions and comparisons, confusing investors and, potentially harming them. The Vice President and Corporate Secretary Chief Governance Counsel of Pfizer Inc expresses her concerns towards the investors:

> "…these types of disclosures could harm a company's shareholders without providing any tangible benefit."

Third, management and legal respondents presented several unintended consequences that the proposed disclosures can bring to the different stakeholders. As the concept release focuses on disclosing the communication between the auditors and audit committees, the respondents are concerned that this will not benefit investors. On the contrary, it is argued that it will chill the communication between the auditors and audit committees since they will know the content of their communication will be disclosed to the public. Even though investors are eager to have additional disclosures that address the communication between auditors and audit committees in their meetings, the Corporate Controller of MasterCard Incorporated discuss the negative consequences:

> "Requiring the number of private sessions or the topics discussed at such sessions to be publicly disclosed would most likely have an adverse effect on the communication between an audit committee and its independent auditor."

These negative consequences will affect the communication which in turn will affect the quality of the audit committee oversight of the external auditor. Similarly, the limited communication will reduce the oversight capabilities of the audit committee. Instead of benefiting investors, these disclosures are going to expose them to a higher risk since audit committees are likely to get less information from their auditors.

Another unintended consequence that management and legal respondents raise is the higher litigation risk that will affect the auditors and audit committees. They argue that the additional disclosures will increase the information that may not be wholly understood by investors and lead to litigation issues. Edward Horahan, an attorney practicing in Washington, expresses such a view:

> "the more specific a required disclosure the more likely that the work of the audit committee and the auditor might be second-guessed in expensive litigation."

The higher litigation will impact investors negatively as audit committee members will refrain from serving on audit committees, as specified in the letter of Pfizer:

> "it is possible that in our litigious environment, audit committees could become subject to litigation for not disclosing something that an investor thought they should have, which could make it even more difficult to find quality members."

Having less qualified audit committee members will reduce its oversight quality, an outcome that is not beneficial for investors. Similarly, respondents are concerned about litigation that can affect the audit engagement partners since their names will be disclosed. With the apparent aim to protect investors from themselves, management and legal respondents are concerned about the potential harm that can affect audit committee members and engagement audit partners which in turn will negatively impact investors.

Furthermore, the respondents believe that the information provided with the new disclosures will obscure the environment for investors. The Executive Vice President and Chief Accounting Officer of Metlife Inc comments the following:

> "However, more required disclosures, mandated by a blanket rule, could inhibit, rather than assist, transparency. New requirements may lead to generic disclosures that do not reflect the proper context of relevant circumstances, and will not necessarily facilitate meaningful comparisons."

Investors who call the audit committees to provide more disclosures to increase transparency and reduce the information asymmetry will be faced with less transparency and higher information asymmetry due to the generic disclosures that do not provide useful information.

Respondents urge the SEC not to change the requirements as there is a cost involved with the additional disclosures. Even though investors and shareholders, the actual owners of the companies, are requesting these disclosures, respondents point to the costly process that will be incurred by the companies.

Finally, management and legal respondents do not envision that the additional disclosures will benefit investors as they lack context. The additional disclosures will be mainly increasing the boilerplate verbiage which will not improve investors' financial environment. The new information will not be relevant to investors voting which is one of the primary goals of the concept release. For instance, the Vice President and Controller of ConocoPhillips challenges the SEC:

> "We challenge whether additional audit committee disclosures regarding their relationship with the auditor or with management would provide useful information to inform investment or voting decisions, and it may lead to boilerplate disclosures."

This statement contradicts the SEC concept release that is proposing the enhancement for the sake of investors who are requesting these disclosures to improve their voting for investment decisions and board elections as well as for the ratification of the external auditor.

Overall, the management and legal respondents' frame shows that investors are receiving all the information they need. Investors are fully aware of audit committees' activities that fulfill their duties to protect investors interests. Investors' needs are completely met within the current audit committee disclosure requirements. Nothing needs to be made to improve the current situation; otherwise, there are a lot of unintended consequences that can affect the investors and other stakeholders negatively.

3.4.4 Audit Committees' Respondents Frame: Investors are Fully Aware of Audit Committees' Work that Fulfill their Interests… Maintain the Status Quo but Open to Some Changes

The audit committees' respondents share the management and legal respondents' viewpoint with some exceptions as they express an openness to adopt some of the proposed enhancements, albeit with some modifications. Some of the respondents even offer their own enhancement that they believe would benefit their shareholders or future investors.

3.4.4 .1 Diagnosis

In general, audit committees' respondents diagnose that the current set of audit committee disclosures meets investors' needs. Several arguments are raised in this regard. First, the respondents believe that investors are receiving useful and relevant information that allows them to know about the activities undertaken during the year to protect their interests. For example, the chair of the audit committee of Beleden Inc mentions that:

> "Our audit committee report provides sufficient information for the Company's investors and other stakeholders to gain an understanding of our responsibilities and our execution of them."

Second, audit committees' respondents express the view that investors' needs are satisfied as they can question the audit committees, which will then provide them with the requested information. Thus, investors are always informed and not left uninformed. Audit

committee respondents argue that whenever investors are in doubt or have some questions, they are directly provided with clarification through voluntary disclosures. As a result of the direct communication to investors in clarifying any ambiguities, audit committee respondents do not think that they need additional information since it has been already taken into account.

Third, respondents mention that voluntary disclosures by audit committees have been increasing in recent years. They cite reports by EY and KPMG that quantify the increase of these disclosures. The primary purpose of such voluntary information is to guide investors in their decisions. The audit committee chair of Comcast Corporation[15] discusses the importance of voluntary disclosures:

> "We provide voluntary disclosures not only regarding Audit Committee oversight of our independent auditor, but also regarding other Audit Committee oversight areas. While we have insufficient evidence to determine whether and/or how investors use this information to inform their investment or voting decisions, we believe it is important that this information be available."

The voluntary disclosures are enlightening the investors to meet their needs.

Furthermore, audit committee respondents raise the bar of their commitment to investors by focusing on their fiduciary duty. They stress their essential role in protecting investors' interests and describe themselves as accomplishing their role perfectly. The audit committee members of CNO Financial Group Inc stress the performance of audit committees:

> "We believe that audit committees in general are fulfilling their fiduciary responsibilities in an exemplary manner."

Overall audit committee respondents diagnose the current disclosures' setting as meeting investors' needs. Investors are getting useful and relevant information for their decision making.

3.4.4 .2 Prognosis

Similar to management and legal respondents, audit committee respondents prognose that a change is not required since the disclosures are meeting investors' needs. For instance, the chair of Autoliv Inc[16] supports the status quo:

> "Additional disclosure regarding the audit committee's oversight of the auditor should not be required by the Commission since sufficient information regarding the role of the

[15] A global media and technology company with $68 billion in sales.
[16] Supplier of automotive safety equipment with sales of around $9 billion.

audit committee in overseeing the auditor is already provided by existing disclosure requirements."

Also, respondents believe that for their decision making, investors can refer to the audit committee charters that contain ample of information.

Hence, overall, audit committee respondents concur with management and legal respondents in rejecting the proposed disclosures enhancement as they consider that investors already have all the information they need. However, several audit committee respondents offer alternatives. They encourage firms and their audit committees to engage with investors to understand what can be done to serve better their needs. For example, Edison International[17] chair of the audit committee is not entirely against the change:

> "Furthermore, companies should be encouraged to engage with shareholders to discuss their views on proxy disclosure, among other areas, and make improvements based on direct feedback from shareholders."

Several audit committee respondents agree with the idea to engage with the shareholders to ensure that they are getting all the needed information. Besides engaging with investors, the audit committee respondents also encourage the SEC to appoint a Blue Ribbon Committee whose purpose would be to get opinions from different stakeholders and assess the current situation. Even though the status quo was mainly offered as a prognosis, audit committee respondents do show some flexibility. The audit committee respondents are not against the change in case it serves investors' needs as long as it is not overly prescriptive. They want to meet investors' needs.

Finally, several audit committee respondents are not entirely against the change and put forward some additional disclosures that will meet investors' needs. For example, Northrop Grumman[18] audit committee chair shows openness in this regard:

> "Although we have only had limited inquiries from our investors about this topic, we believe certain financial statement users could benefit from additional insight into processes followed by audit committees as they oversee the independent auditor, depending on the circumstances."

[17] A large electric utility.
[18] A leading global security company with sales of $24 billion.

The audit committee chair is in accord with some, not all, of the additional disclosures. Even some of the respondents who are against the SEC concept release in general, they are considering to increase their voluntary disclosures in some areas.

Overall, the audit committee respondents prognose the status quo for the current situation. They believe it is the best solution since investors' needs are already met. However, they show flexibility in increasing voluntary disclosures. They focus on specific aspects of disclosures that can be useful for the investors.

3.4.4 .3 Motivation

Audit committee respondents seek to influence the SEC to adopt their point of view by raising arguments similar to those of the management and legal respondents. They argue that shareholders are not interested in these additional disclosures. Also, they present the unintended consequences of these additional disclosures that will affect the communication between the audit committees and the auditors, increase litigation risks, and reduce the extent of voluntary disclosures. They strive to influence the SEC by emphasizing the negative indirect impact of these disclosures. Within such a perspective, investors, audit committee members, and auditors will incur direct harm.

Also, audit committee respondents raise the argument that additional disclosures will provide redundant information. Calling it redundant information, respondents argue it is not advisable to expand mandated disclosure toward investors especially if it comes with several unintended consequences.

However, besides the same arguments that were raised by management and legal respondents to convince the SEC not to go forward with the proposed enhancements, audit committee respondents show flexibility in some of the proposed disclosures. They either agree with some of the disclosures proposed by the SEC or they suggest other disclosures. Several respondents agree with the disclosures as they recognize its importance for the investors in evaluating audit committees in the financial reporting oversight or in increasing transparency toward investors and giving them higher confidence. The audit committee chairman of Comcast Corporation, who has voluntarily disclosed additional information about its activities in the past, specifies the reason for this practice:

> "We believe that greater transparency regarding the Audit Committee's roles and responsibilities provides us an opportunity to communicate more clearly with

shareholders about Audit Committee-related activities and to increase investor confidence."

Other audit committee respondents support the SEC proposed disclosures as they want to enlighten investors with information related to specific processes. For example, Northrop Grumman audit committee chair supports the SEC in disclosing certain processes such as the selection of the auditor or the factors underlying a decision to request a shareholder vote. Several audit committee respondents are showing this flexibility towards certain additional disclosures as they consider it will increase their engagement with the investors and meet their needs.

Overall audit committee respondents encourage the SEC not to change the current requirements. According to them, investors are not interested; thus the additional disclosures will not contribute to serving investors' needs. On the contrary, additional disclosures will create several unintended consequences and will harm investors and other stakeholders. However, several respondents show flexibility to some of the proposed disclosures and argue that it will meet investors' needs by increasing transparency and investors' confidence.

3.4.5 External Auditors' Frame: Investors in the Dark…A Change is Needed to Serve Better Investors Needs

3.4.5.1 Diagnosis

The external audit respondents diagnose the current situation as not serving investors' needs. They recognize that investors are left in the dark as the current requirements are weak and inadequate. This is caused by information received that is not reflective of the audit committee activities and which does not assist the investors in their voting decisions. WeiserMazars[19] argues that the current requirements are not meeting investors' expectations:

> "We see there is a clear expectation gap in the current rules as they do not provide meaningful insight into how audit committees execute their critical responsibilities as overseers of the integrity of a company's accounting and financial reporting process."

Another point that is raised by external audit respondents is that the current audit committee disclosure requirements are outdated as they were promulgated in 1999 and significant changes happened since then. Grant Thornton LLP discusses the changes that took place and affected the audit committees role:

[19] Independent member audit firm of Mazars Group.

> "There have been significant changes to the role and responsibilities of audit committees related to oversight of the independent auditor, stemming from changes in the securities laws, including the Sarbanes-Oxley Act of 2002..."

Finally, external audit firms pinpoint the progress that took place through voluntary disclosures. Even though investors are currently left in the dark, respondents mention the voluntary disclosures as a vehicle that benefitted investors. According to Deloitte, market forces are already driving these disclosures towards the right direction to enlighten investors:

> "Some of these trends may be relevant to consideration of any regulatory action in this area."

Respondents argue that the trend of audit committee voluntary disclosures that started in the last couple of years is a sign of the need to change to meet the investors' needs.

Overall, external audit firms are aligned in stating that the current situation is not serving investors as it does not provide useful information for their voting and investment decisions.

3.4.5.2 Prognosis

In proposing a solution for the current situation, the external auditor respondents believe that audit committee disclosure requirements need to change. The status quo is not suitable as it does not serve investors. Piercy Bowler Taylor & Kern (PBTK), a CPA firm, applauds the SEC initiative and sees it is a step in the right direction:

> "Although we view the additional disclosure requirements under consideration in the Release, in general, as significant improvements over the status quo, we are compelled to observe that no matter how extensive they may be, enhanced disclosure requirements can only be a small step in the right direction."

PBTK sees the change as the only solution to solve the problem of investors who are not receiving useful information.

EY hosted several meetings with various stakeholders to collect insight into the current situation and reflect on solutions. The attendants suggested the following:

> "One key takeaway was that audit committees could be more effective in communicating to investors what they do and how they do it. At the core, we believe the issue is one of communication, and we commend the SEC for considering how to best address it."

The respondents do not agree with all the proposed enhancements in the concept release. They suggest that the SEC impose some additional disclosures but favor a principle-based approach. For example, McGladrey LLP supports the change:

> "We therefore believe a voluntary approach, rather than a prescriptive approach, to audit committee reporting would result in achieving the most appropriate level of transparency with the fewest unintended consequences."

External auditor respondents do not accept all the SEC proposed disclosures; however, they provide different approaches for new disclosures. For example, they suggest disclosing the qualifications of the internal audit directors and characteristics of the internal audit department. Also, some of the respondents recommend disclosing the inspection regime of the audit firm as it provides insight to investors. Others propose disclosing policies and procedures of the audit committee. All these proposals aim to fulfill investors' needs; thus they become better informed about the audit committees activities.

External auditors respondents object to several of the proposed disclosures that affect them directly; however, they are not radical in their objections. For example, a majority of respondents objects to the inclusion of the engagement partner name by mentioning that it is not useful or beneficial for investors; however, they do not present extreme unintended consequences in their analysis. PwC does not object to several proposals as it argues its role is to enhance transparency. The firm mentions that its action in the past demonstrates this role as on an annual basis, it voluntarily discloses "Transparency Data Points" that provide insights into audit practices and quality. Also, it supports disclosing the audit partner name and changing the auditor's report. All these activities aim to enhance transparency and meet investors' needs.

Overall, respondents do not believe in the status quo and encourage the SEC to undertake a change as it will be assisting investors to move from the current state to a situation in which they are better informed and can make better decisions. Respondents do not accept all the proposed disclosures; they reject several of them. However, they see a change is needed and accept some of the enhancements and suggest other ones.

3.4.5.3 Motivation

External auditor respondents attempt to motivate the SEC for not adopting some of the proposed disclosures. They raise several arguments similar to the management and legal respondents and the audit committee respondents. They argue that some suggestions are costly to

disclose; thus the SEC should consider the cost of raising disclosure requirements. In this line of arguments, Crowne Horwath[20] discusses that some of their clients, mainly middle market companies, will be more affected by the cost. The cost will be impacting investors in mid-market companies more than investors in firms with large stock market capitalization; thus the additional disclosures may not be beneficial for them.

Also, external audit respondents raise several arguments related to unintended consequences. Their concern is that the proposed changes may chill the communication between them and the audit committees since the discussions will be disclosed to the public. KPMG is concerned about this issue and about disclosing matters that are not appropriate for disclosure:

> "Required disclosure of such discussions may reveal proprietary information about the issuer or the audit methodology and would surely chill communications between the auditor and the audit committee."

Auditors do not have an interest in disclosing their audit methodology so that management does not know their different procedures. Disclosing such information will reduce the audit effectiveness and may undermine the audit quality which will impact investors negatively.

Moreover, some external audit respondents argue that the proposed disclosures will not be informative for investors as they lack context to understand these disclosures. BDO does not favor the disclosure of information related to audit committee oversight of the external auditor that investors will not be able to understand since they lack proper context:

> "These subjective areas require the proper context to understand how such decisions are made collectively between the auditor and the audit committee.

External auditor respondents point out several benefits that the proposed disclosures will bring to investors. Respondents argue that the disclosures will increase investors' confidence in the work of the audit committees. Investors will know more details about the audit committee activities and will be able to assess the committee's performance. Deloitte mentions some of the benefits to the investors:

> "…providing additional insight into the structure and key activities of the audit committee can help increase investor confidence both in the audit committee and the company as a whole.

[20] An audit firm with over 100 domestic registrants, most are middle market companies

Such confidence will improve the well-functioning of capital markets as investors' needs are being met. Similarly, the respondents argue that the additional disclosures will inform the investors about the audit committee activities and will give them evidence that they are acting in shareholders' best interests. EY perceives that the additional disclosures will explain to the investors how they are being protected through strong corporate governance practices:

> "Such disclosures would help investors assess whether the audit committee met its corporate governance obligations."

Moreover, the proposed disclosures will improve the functioning of audit committees as they will have benchmarks to navigate through to reduce criticism of not meeting investors needs. The investors will benefit as the audit committees will be able to set their goals and gauge their performance.

Overall, external audit respondents raise the issue that investors' needs are not met with the current disclosure requirements. They agree that investors are in the dark and that a change is needed. They present arguments to convince the SEC not to implement all the proposed disclosures as it will not benefit the investors. They take a protective approach towards the investors who will be affected negatively by the proposed disclosures. However, their approach is not radical as they suggest some changes to the SEC that can benefit investors and move them from the current dark situation.

3.5 Discussion

3.5.1 Frames' Comparison

Figure 1 portrays the respondents' frames. The horizontal axis measures whether the current audit committee disclosures meet the investors' needs. The vertical axis measures whether a change is needed.

[INSERT FIGURE 1 ABOUT HERE]

The frames' comparison reveals that investors, academia, and external auditor have a common point of view that the current audit committee disclosures do not meet the investors' needs. However, they disagree on the extent of the change needed to rectify the current

situations. The investors exaggerate the need for change in their requests as they perceive there is an urgency for all the SEC proposed disclosures. The academia respondents also prognoses for a major change in current disclosures, but, at a lesser scale. While external audit respondents do not agree with all the changes, they accept some of them and suggest other ones. In contrast, management, legal, and external audit respondents concur in arguing that "investors' needs" are met entirely within the current audit committee disclosure setting. However, they do not agree on the extent to which change is needed. Management and legal respondents are in favor of the status quo; they exaggerate in rejecting all the proposed enhancements. Audit committee respondents are also against the change, but they show some flexibility in accepting some of the disclosures as they perceive the usefulness to investors.

Analyzing the reasons for the different views among the respondents can be explained by some prior research. Within an agency perspective, investors request additional disclosures to reduce the level of information asymmetry between them and management (Diamond & Verrecchia, 1991; Healy & Palepu, 2001a; Shroff, Sun, White, & Zhang, 2013). Since the current requirements are not satisfactory to reduce information asymmetry, investors agree with every single proposed disclosure. In contrast, management has incentives to reduce disclosures as it can benefit from information asymmetry (Beyer, Cohen, Lys, & Walther, 2010; Fama & Jensen, 1983; Jensen & Meckling, 1976). Thus, they are satisfied with the current minimal requirements of the audit committee disclosures and oppose all the proposed disclosures. Similarly, legal respondents, who are presented within the same frame as management respondents, are against the change. Prior research suggests that less disclosure is safer as it will implicate a lower number of litigations (Baginski, Hassell, & Kimbrough, 2002; Beyer et al., 2010). Legal respondents prefer to keep the disclosure requirements minimal for lower litigation risk. External auditors are usually in line with their employers, the shareholders, on proposed accounting or regulatory changes (Saemann, 1999). Accordingly, they agree with investors that their needs are not served with the current disclosures. However, they do not agree with all the changes since most of the enhancements in the concept release are related to the auditor oversight. The proposed disclosures will be affecting the external auditors as the proposed changes require audit committees to disclose how they oversee the external auditors. External auditors reject most of the disclosures; however, as they are aligned with investors that the current setting is not serving investors' needs, they accept some of the enhancements and suggest

other ones that can be useful to the investors. Finally, the audit committees are usually aligned with the shareholders since they are a subset of the board that is responsible for overseeing the financial reporting process and protecting the investors' interests (Saemann, 1999). In this particular case, they are not aligned with the investors since they are the most affected by these enhancements as they have to adapt them by totally revamping their disclosure practices. Audit committee respondents diagnose that the current disclosure requirements are meeting investors' needs. Thus, on the core issue underlying the SEC concept release, they are at the opposite side of investors. However, they show flexibility in increasing disclosures on a voluntary basis focusing on some aspects that can be useful to investors. In this next section, we conduct a discourse analysis of the arguments that were raised in the respondents' frames.

3.5.2 Discourse Analysis

3.5.2.1 Financial Cost

A main topic that is covered in all the frames is the financial cost impact of the enhanced disclosures. On the one hand, the investors' respondents perceive that the enhanced disclosures come without additional expenses or relatively minimal cost as gathering the information and drafting it in a report is not costly. The academic respondents emphasize the consequences of the disclosures enhancement. They encourage the SEC to proceed with the disclosure enhancements as it will benefit the financial markets in reducing the cost of debt and cost of equity. Academic research encourages the enhancement of disclosures since it reduces the cost of debt and equity (Botosan, 1997; Botosan & Plumlee, 2002; Bravo Urquiza, Abad Navarro, & Trombetta, 2012; Dhaliwal, Li, Tsang, & Yang, 2011; Francis, Nanda, & Olsson, 2008). On the other hand, the opponents of the disclosures enhancements emphasize on financial cost as a major obstacle to proceed with the SEC suggested enhancements. In their discourse, they emphasize purely on the financial cost aspect that may be affecting auditors and audit committees. They disregard the investors who perceive great benefits that can be derived from these disclosures. The Corporate Controller of MasterCard Incorporated is mainly concerned about the auditors additional cost that may be incurred:

> "Audit firms may increase the level of testing or audit effort beyond what it needed to complete and sign an opinion under current professional standards…"

Even though investors would be happy that auditors are increasing their testing and audit efforts, the opponents of the disclosures enhancements are against it due to cost considerations.

Second, the opponents' discourse emphasizes the litigation aspect. According to them, the increased level of disclosures will increase the chances that firms will be sued as information can be misinterpreted. Thus, the litigation expenses will be higher, and consequently, the investors are in a worse situation.

Third, the opponents of the disclosures enhancements discuss that increasing the audit committee disclosures entails additional cost as companies need to hire more staff who will be involved in collecting information and drafting the disclosures. Thus, the additional cost will be incurred, and the investors have to pay for it.

3.5.2.2 Defining Roles

The discourse of the respondents attempts to define roles of the shareholders and audit committees. Among all the different respondents, only the investors' discourse reiterates on the fact that the shareholders are the "owners" of the firms and they aim to act as owners by overseeing the audit committee activities. Norges Bank investment management emphasize on:

> "Increased transparency may help investors act as considered owners, i.e., assessing company boards and management and the strategies for the longer term."

Only the investors' respondents define themselves as "owners" while the other respondents do not mention or describe them as "owners" of the firms.

As for the "fiduciary duty" role of the audit committee, it was revealed in the respondents' discourse. On the one hand, the audit committees' respondents diagnose that they are bound by their fiduciary duty to protect investors' interests. They describe themselves as carrying their duties in an "exemplary manner" on behalf of the investors. It is in line with prior research that suggests that reputable directors want to perform their fiduciary duties in the best way they can in order to preserve their reputation (Armstrong, Guay, & Weber, 2010; Bugeja, Fohn, & Matolcsy, 2016; Hahn & Lasfer, 2011). For audit committee's respondents, disclosures referring the investors to the audit committee charters are enough to provide confidence that their oversight role is accomplished.

On the other hand, in their frame, the investors respondents diagnose the current disclosures not meeting their needs as they cannot verify whether the audit committees accomplish their fiduciary duty role or not. For investors, they reject the "fiduciary duty" role

that provides a warranty that audit committees are acting on behalf of investors and protecting their interests. For investors, audit committee disclosures that refer to the charter is not a proof that audit committees accomplished all the listed duties and fulfilled their role. As stated by CalPERS:

> "Currently, the investor is referred to the charter, but there is no statement that the audit committee complied with all of the duties included in the charter."

Prior research describes the audit committees as institutional ceremonies for legitimacy purposes that give comfort that corporate governance mechanisms are applied (Beasley, Carcello, Hermanson, & Neal, 2009a). Instead of having the proper oversight that protects the investors' interests, audit committee activities can be symbolic rituals (Beasley et al., 2009a; Spira, 1999). It then makes sense for investors to argue that their needs are not met with current disclosures that only refer them to audit committees' charters. Investors want assurance that the charter is not part of the ritual purposes and that audit committees accomplished in reality these activities.

3.5.2.3 Power

3.5.2.3.1 Investors Power

The power notion is present in the respondents discourse. The non-investor respondents refer to the voting power in the hands of investors. They claim that the investors can vote against the audit committee members if they are not satisfied with the current audit committee disclosures. As stated in the management respondents frame, the investors have a full power to remedy inappropriate audit committee disclosures by "withholding support" and voting against audit committee members or audit firms. This view of investors having strong power by exercising their voting power to improve audit committees performance is discussed in prior research. Gal-Or, Hoitash & Hoitash (2015) discuss that shareholders vote can influence audit committees financial reporting oversight in mainly non-staggered boards. Also, Cai, Garner & Walkling (2009) find that shareholders votes lead to improvements in companies performance, and strengthen corporate governance mechanisms. Moreover, the study of Fischer, Gramlich, Miller, & White (2009) suggests that whenever the shareholders withheld their votes, it increases the likelihood of turnover in the board of directors and CEO.

However, the investors diagnose the current situation as receiving non-informative audit committee disclosures. They describe themselves as lacking the power to rectify the current

situation. Even though the shareholders can vote against the audit committee members in case of dissatisfaction, they do not as they aim to collaborate. As expressed by Hermes investment management investors are not satisfied with the current situation; however, they aim to collaborate and assist the board with its regular functions.

3.5.2.3.2 Audit Committees' Power

On the one hand, the investors' respondents frame reveals that they have doubts about the audit committees' power. They motivate the SEC to enhance the disclosures as the audit committees will be empowered while performing their role. They put forward the argument that the proposed disclosures will empower audit committees as suggested by CalPERS:

"The additional disclosures will give the audit committee greater power."

Several studies analyze the power of audit committees in performing their role. Beck & Mauldin (2014) suggest that there is a struggle in power between the audit committees and CFOs. In the presence of powerful CFOs, the audit committees are weaker in accomplishing their duties. The study discusses the existence of a complex relationship between the CFO and audit committees that the current regulations do not recognize. Similarly, Gendron, Bedard, & Gosselin (2004) report how the audit committees have to keep reminding and re-emphasizing to the external auditor that audit committees and not the management are the main driver over the external auditing. The relation between management and audit committees has been illustrated in prior research showing how the management controls audit committees by setting the meeting agendas with the external auditor (Spira, 1999). Thus, the investors' concern in the comment letters about audit committees lacking power has been discussed in prior research.

On the other hand, the audit committees, management, and legal respondents believe that with Sarbanes-Oxley the audit committees have been empowered. Based on interviews conducted in 2006 with external auditors, they perceive that post-SOX era the audit committees have been significantly more active and powerful in certain aspects (Cohen, Krishnamoorthy, & Wright, 2010). Thus, they do not agree with the investors who show a need for empowering the audit committees in accomplishing their fiduciary duties.

3.5.2.4 Audit Committees Independence

In their comment letters, the investors are keen on having audit committees that are truly independent of management. Even though Sarbanes-Oxley Act requires audit committee

members to be independent of management, investors' respondents insinuate that audit committee members may not be totally independent. In addition to investors' respondents, Marcum LLP, an audit firm, has the same opinion:

> "Enhanced disclosure regarding whether directors are truly independent of management as a result of prior business or other relationships that are not a typical "related party" by definition."

It is not surprising that there are some doubts about the audit committee members' independence. Cohen et al., (2008) discusses the issue that the top management of firms chooses the directors who are their close friends to curb their oversight activities. Bruynseels and Cardinaels (2013) suggest that even though audit committee members are independent in appearance, having social ties to the CEO or being selected by the CEO will reduce their oversight effectiveness. Similarly, Carcello, Neal, Palmrose & Scholz (2011) find that that CEO participation in selecting the audit committee members eliminates the benefits of audit committee apparent independence and financial expertise. In the comment letters to the SEC, the investors' respondents are raising the same concern. Investors are requesting additional disclosures to ensure that the audit committee members are independent not only in appearance but also in fact. In addition to the literature, it is remarkable that several comment letters were drafted jointly by the audit committee and management. In light of the need for independence by governance stakeholders, it is surprising that six letters (representing 25% of audit committees' letters) were jointly written by audit committees and management respondents. Even one letter among those was drafted by the Chief Accounting Officer and Secretary to the Board on behalf of the firm's audit committee. This practice leads to question as to whether audit committees are truly independent of management. In response to the investors' concerns, management, legal, and audit committee respondents do not doubt the independence of the audit committee members. They refer to SOX regulation in having only independent audit committee members. As specified by ex-president of Safeco Corporation:

> "Shareholders and investors are only concerned that … audit committees are comprised with competent and independent directors who meet the requirements of the SEC regarding financial acumen etc."

3.5.2.5 Audit Committees' Effectiveness

The discourse analysis reveals a discrepancy in views among the respondents regarding the audit committees effectiveness in performing their oversight role. The management, legal, and audit committee respondents emphasize the high performance of the audit committees in overseeing the financial reporting process. They perceive that audit committees are already abiding to their fiduciary duty towards shareholders and are implementing best practices. CNO Financial Group audit committee members believe that:

> "audit committees in general are fulfilling their fiduciary responsibilities in an exemplary manner."

However, the investors have expressed several concerns in their comment letters. First, the investors' frame implies serious concerns regarding the quality of audit committees' oversight. Investors' respondents motivate the SEC to enhance the current audit committee disclosures as they need to get the assurance that the audit committees are conducting their work properly. Hermes Investment Management discusses that need:

> "We need to challenge audit committees to perform their role more fully and clearly on behalf of shareholders, and empower them to do so…"

The investors' position conforms to several studies that suggest that board members can be less inclined to challenge each other or the management. In periods of uncertainties, the audit committee may stress its ceremonial role (Beasley et al., 2009a; Cohen et al., 2008). Similarly, Brennan and Kirwan (2015) propose future research to assess the performance of audit committees to ensure they are genuinely protecting investors' interests or if their oversight is a mere corporate ritual. For this reason, Hermes Investment Management perceives that the additional disclosures will be solving that issue:

> "We believe that increased disclosure described will provide some degree of insight into how the audit committee and audit firm are performing their respective roles to the benefit of shareholders."

Second, investors' respondents in their comment letters reveal that they do not know if the audit committees are involved in critical judgments and significant unusual transactions that can have a material effect on financial reporting. As explained by Norges Bank, investors want to know how audit committees perform in unusual situations:

> "The audit committee reporting should sufficiently explain how the committee has discussed and considered significant accounting policies and practices, the interpretation of relevant financial reporting standards, critical accounting estimates, and significant unusual transactions."

Investors want to know if their interests are protected by having audit committees fully engaged in matters that can impact them significantly. Some studies suggest that the audit committees are not completely engaged in such matters. For example, audit committees are not engaged in 25% of the discussions related to audit issues and 35% of the discussions related to financial reporting issues (Beattie, Fearnley, & Hines, 2012). There is evidence that the audit committees are not engaged in matters that necessitate their involvement. Investors' respondents perceive that the enhanced audit committee disclosures would solve that issue since audit committees will be obliged to report their involvement in these matters. These disclosures will illuminate the investors and assure them that their interests are protected. Similarly, it is suggested in material issues the audit committees do not play an active role. Mainly, they play a mediating role and assist in resolving a dispute (Salleh & Stewart, 2012). The management and external audit firm frequently negotiate without the audit committee presence unless the case is very material and not resolved between the two parties. Investors are not satisfied in not having the audit committees involved in disagreements between auditor and management who work on solving the conflict behind closed doors (Gendron & Bédard, 2006). These practices put investors at high risk.

Third, investors' respondents and academic respondents' frames raise the issue of audit firms that may not be performing well and are not properly overseen by audit committees. The council of institutional investors describes its concern:

> "CII members generally expect the independent audit to serve a greater function than a compliance exercise and to add value to long-term shareowners. Yet some audit committees may not always exert the degree of scrutiny on independent audits that share owners expect."

The current disclosures allow such audit committees to hide their mediocre performance, while the enhanced disclosures will not allow such practices. This observation was analyzed in the Hollinger Inc. case. This company had an audit committee with an impressive background, three independent financially literate members with extensive corporate experience who met several

times during the year. After the company suffered material losses and went bankrupt, it was revealed that there were substantial deficiencies in the audit committee oversight process (Beasley, Carcello, Hermanson, & Neal, 2009b). The investors want to rectify the current situation of hiding the performance gap in the disclosures. Requiring audit committees to disclose "how" instead of "what" as proposed by the academia respondents frame will protect investors and make them less vulnerable to cases like Hollinger. Also, the investors respondents frame reveal their vulnerability as they are not sure whether the auditors are performing their work properly and if the audit committees are challenging them. The current disclosures do not require that audit committees describe how they oversee the external auditors and challenge them. The investors concern that audit committees do not challenge the external auditors to induce them to provide better audit quality is covered in prior literature. Turley & Zaman (2007) suggest that the audit committees do not challenge external auditors in their audit procedures and audit plans. They find that the external audit firms discuss their audit plans with the top management, then present it to the audit committee who usually do not request any adjustments. The audit committee questions are not challenging to the external audit and are not related to audit procedures. Mainly the questions are related to business issues. Similarly, when the external audit firms are finalizing the audit, the audit committee questions are not challenging and are very limited (Turley & Zaman, 2007). With the proposed enhancements, the investor and academic respondents expect that audit committees practices will change and start challenging the external audit firms.

3.5.2.6 Limits of Accountability

An important aspect in the frames of investors' respondents and management and legal respondents is the exaggeration approach in their prognosis. Both show exaggeration in either refusing all or accepting all of the enhancements.

Both sides' exaggeration leads us to think of the limits of accountability. Investors are pushing for greater accountability by the audit committees and for the disclosure of several details. For example, one of the proposed disclosures is to disclose "all" the communications between the auditor and audit committee. All of the audit committee respondents refuse this proposal and believe it is very cumbersome as expressed by the audit committee chair of CNO Financial Group:

> "maintaining necessary record keeping of each non-required or informal communication by the audit committee as well as the auditor in preparation for disclosure would add cost and administrative burden…"

There is a limit to accountability otherwise it can have negative consequences (Messner, 2009). Investors are requesting audit committees to keep a record of each of the activities performed during the year and to disclose in their annual disclosures; such as communication with auditors, evaluation of the auditor, etc. It is an obligation for the audit committees which may not be feasible. In her book, Butler (2005) asks: "Can we expect, however, that one's conduct can always be fairly represented and justified in narrative form?" This reveals the difficulty in recounting all the activities that took place during the year. It seems the investors are requesting too much disclosure from the audit committees who are faced with the limit of accountability. Audit committees are challenged with massive additional tasks leading them to be overloaded "to the point that the stool is no longer functional" as stated by the audit committee members of Home Depot.

3.6 Recommendations

The respondents' frames reveal that the different stakeholders do not have the same view of the "investors' needs" in the context of the audit committee disclosures. They have conflicting views regarding whether the current situation is fulfilling the investors' needs or not, and whether a change is required or not. After analyzing the respondents' frames and respondents' discourses, we come with several recommendations.

First, several respondents suggest to the SEC to reconsider its proposed enhancements and appoint a Blue Ribbon Committee to investigate the current situation and whether a change is needed or not. The audit committee members of Microsoft believes a Blue Ribbon Committee composed of investors, audit committee members, audit firms, management, and governance organizations to consider the enhancements. Having a Blue Ribbon committee composed of experts representing the different stakeholders is essential for having well-rounded regulation:

> "Best practice audit committee reporting studies are still in an early stage of development and a Blue Ribbon Committee can expedite that development as well as ensure the best practices holistically consider the many responsibilities of audit committees."

Even though the frames analysis reveal that the investors' needs are perceived differently by different stakeholders, and investors are kept in the dark and vulnerable, it seems the SEC did not proceed in changing the current requirements since August 2015. Its rational may be that the voluntary disclosures have increased in the previous years; thus, there is no need to update the current requirements. Based on a large-scale textual analysis of audit committee reports of US firms extending from 2004 to 2015, the results suggest that the disclosures are not useful and require improvement (Draeger et al., 2018). A Blue Ribbon Committee will be able to capture all the different views and come up with a better understanding of the investors' needs and ways to fulfill it in the context of audit committee disclosures.

Second, the SEC drafted the concept release as if it is encouraging the prescriptive approach. The comment letters respondents had this idea as the concept release is composed of 74 questions that gave the illusion the SEC is encouraging the mandatory disclosures. All of the respondents are against such an approach as it will dampen the ability of audit committees to provide useful information to the investors. The audit committee collaboration is the first partnership that raised the issue of audit committee disclosures enhancements in 2012. Its president is against the SEC concept release since it is taking a very detailed prescriptive approach.

Third, investors concerns and uncertainties are critical issues that have been discussed in the prior literature. It is a legitimate issue to raise whenever the investors feel the audit committees lack power, independence is jeopardized, or performance is not according to their expectations. It is time to consider these concerns seriously as it is coming from the investors who are not feeling protected in the US financial markets.

3.7 Conclusion, Limitation, and Future Research

The chapter presents a content analysis of the comment letters received by the SEC in response to its issuance of a concept release on enhancing audit committee disclosure. The positions taken in the comment letters are interesting. Investors agree with the SEC's plan to increase audit committees transparency. They urge the audit committees to improve the disclosures in order to understand the activities undertaken during the year and evaluate the oversight performance. By contrast, non-investors respondents – audit committees, management, legal advisers and auditors – are generally against the SEC proposed enhancements. They

perceive that the current audit committee disclosure requirements provide adequate information for investors. Disclosing additional disclosure will harm the investors since they may not be able to evaluate the information and become confused.

This study has several limitations. First, it relies on ninety-one comment letters drafted by investors and cross-section of governance actors. The number of comment letters is considered limited; thus it can be considered not representative of the different views. In qualitative research, the researcher stops collecting further information whenever feels there has been saturation of the different point of views. In this chapter, the saturation level may not have been reached. Second, the comment letters are drafted by different stakeholders; however they may have considered the public expectations, so the responses can be written in a way that is politically correct. Thus, the letters may be biased and not reflect the true intentions of the respondents.

The results of the study are interesting since they reveal the existence of major discrepancies by the respondents in viewing the "investors' needs" in the audit committee context. Also, several issues and concerns were mentioned by the investors that are related to the audit committees performance. Future research can be directed to understand the major challenges that the audit committees face by conducting interviews and surveys that tackle the different issues that were described in the comment letters.

Chapter 4: Voluntary Disclosures in the Audit Committee Report: Evidence from the US Bank Holding Companies

4.1 Introduction

Chapter 3 analyzes the comment letters of the different stakeholders in a qualitative way. The responses reveal that there are opposing opinions regarding the usefulness of the audit committee reports. Investors describe that the current audit committee disclosures do not provide useful information about the audit committee activities and that the voluntary disclosures did not increase significantly in the past years. In contrast, the audit committee, legal, and management respondents believe that the current situation is optimal for the investors. In this chapter, we analyze the voluntary disclosures in the audit committee report in a quantitative way. Our sample consists of the top US bank holding companies. The banking industry is selected as the audit committees play a critical role in the banking context due to its complexity and importance in the economy. This study is composed of two parts. First, we analyze the association between voluntary disclosures in the audit committee report and earnings quality. Our aim is to assess if such disclosures provide incremental information that show strong performance by the audit committees, or it is an impression management practiced by the audit committees to hide their weak performance. Second, we investigate the effect of the voluntary disclosures in the audit committee report on the external environment. Mainly we analyze the effect of the voluntary disclosures on the implied cost of equity and on the financial analysts' forecasting properties. The SEC concept release points to the lack of research that analyzes the motives of audit committees to disclose beyond the current disclosure requirements, and whether the voluntary disclosures are useful for investors (Securities and Exchange Commission (SEC), 2015). The first part of the study fills the gap in research by analyzing the motives of the audit committees to disclose voluntary information in their reports. The second part of the study analyzes the impact of the audit committee voluntary disclosures on the cost of equity and its usefulness on the financial analysts' information environment. The two parts of our study in this chapter aim to provide empirical evidence to the policy-makers about the current audit committees voluntary disclosures practices, audit committees motivation for disclosing voluntary information, and the effect of the voluntary disclosures on the financial analysts' forecasts.

4.2 Background

4.2.1 Disclosure: Incremental Information or Impression Management

In the corporate world, communication has an essential role in notifying external parties about a firm's performance and the different events and transactions taking place. Communication implies the management of relationships with external groups such as various stakeholders (e.g., shareholders, creditors, suppliers, etc.) and the general public (Niamh Brennan & Merkl-Davies, 2013; Merkl-Davies & Brennan, 2017). Accounting communication typically includes texts, numbers or other forms of disclosure (e.g., figures, graphs, etc.) (Davison, 2011; Hopwood, 1994; Merkl-Davies & Brennan, 2017). In a more specific way, accounting communication research encompasses studies related to communication between companies and shareholders for decision-making or accountability (Parker, 2007).

There is extensive research on corporate disclosure. Prior studies suggest that either the disclosures provide incremental useful information that improves investors' decision-making, or the disclosures are deployed to provide biased information that misleads investors in their decision-making (Henry, 2008; Merkl-Davies & Brennan, 2007). Using opportunistically the disclosures to impress the shareholders can cause incorrect capital misallocations and unfair gains by managers. Thus, the practice of impression management is a major issue affecting the governance of corporations (Huang, Teoh, & Zhang, 2013; Merkl-Davies, Brennan, & McLeay, 2011).

Impression management is a way to control and manipulate the impressions sent to accounting information users (Clatworthy & Jones, 2006; Hadro, Klimczak, & Pauka, 2017; Merkl-Davies & Brennan, 2007). It is exercised by managers who want to benefit from information asymmetry. One way to perform impression management is to manipulate the disclosures to mislead users' perceptions of corporate achievement by selectively selecting corporate narrative. Positive achievements are highlighted while negative performance is hidden (Cho, Roberts, & Patten, 2010; Merkl-Davies & Brennan, 2011). The notion of impression management is rooted in social psychology and is mainly related to analyzing how persons present themselves and how they want to be perceived by others (Hooghiemstra, 2000). This concept is studied in accounting research to determine how managers present financial information through discretionary narrative disclosures in an intentional manner to distort annual

report users' opinion about firm performance. So far, impression management has been analyzed mostly by researchers who viewed it from an economic perspective. They perceive narrative disclosures aiming for opportunistic economic gains (Leung, Parker, & Courtis, 2015; Merkl-Davies et al., 2011).

In contrast, the incremental information approach views market participants as being rational in a context based on market efficiency. Being rational, investors and analysts can anticipate future returns; thus, they are able to assess the bias in the narrative disclosures. Based on this assumption, impression management is not beneficial for managers who practice it, as it will lead to a higher cost of capital and diminish stock price due to the market rationale. Thus, impression management harms management who exercises it as their compensation is based on stock price performance. In other words, the promoters of the incremental information view do not believe that impression management exists. For them, the discretionary narrative disclosure is practiced to provide additional useful information (Baginski, Hassell, & Hillison, 2000; Baginski et al., 2002; Merkl-Davies & Brennan, 2011).

4.2.2 Voluntary Disclosures and Cost of Equity

The economic benefits of voluntary disclosures are not clear and there is a ongoing debate on this issue (Bravo Urquiza et al., 2012). Theoretically, investors will demand a higher return in case the firm disclosures are imperfect as they perceive a higher risk that needs to be compensated. However, if the firm is providing high-level disclosures leading to a lower level of information risk, the firm will incur lower cost of capital as investors will not require additional compensation (Healy & Palepu, 2001b). It is based on the economic theory that suggests that investors required return on their investment is lower whenever there is an improvement in voluntary disclosures.

The theory explains the inverse relationship between voluntary disclosures and cost of equity in several ways. First, the disclosures are essential for investors as it provides them with the tool to assess their investment. The voluntary disclosures reduce information asymmetries. Asymmetries exist as not all investors have the same access to information. Having investors with different levels of access to information will let them lose confidence in companies and consequently, they will require a higher return on their investment (Cormier, Ledoux, & Magnan, 2011; Cuadrado-Ballesteros, Garcia-Sanchez, & Martinez Ferrero, 2016). Increasing

the disclosure will create an environment that is more informative for all investors. Thus, disclosures reduce the information asymmetry that is a major element in the cost of capital (Healy, Hutton, & Palepu, 1999; Leuz & Verrecchia, 2000). Another view for the inverse relationship between disclosures and cost of equity is related to transaction costs. An environment characterized by low information implies higher transaction costs that lead to a decrease in market liquidity. Thus, investors will pay a lower price for shares which will increase a firm's cost of capital (Amihud & Mendelson, 1986; Cuadrado-Ballesteros et al., 2016). Additional information increases investors' interest in the firm and, consequently, reduces the cost of equity (Diamond & Verrecchia, 1991). The last view for the inverse relationship is the reduction of the investors' estimation risk. Investors' confidence is highly influenced by the disclosure level of the firms as investors utilize the disclosed information to estimate risk parameters (Poshakwale & Courtis, 2005).

Empirical evidence on voluntary disclosures' effect on the cost of equity is mixed. Some studies suggest a negative relationship between voluntary disclosures and cost of capital (Amihud & Mendelson, 1986; Bravo Urquiza et al., 2012; Diamond & Verrecchia, 1991; Francis et al., 2008; Hail, 2002; Leuz & Verrecchia, 2000). Other studies suggest a negative relationship only in specific situations. For example, voluntary disclosure decreases cost of equity for firms that are followed by high number of analysts (Botosan, 1997), or firms that implement aggressive accounting policies (Gietzmann & Ireland, 2005), or firms increasing voluntary disclosures just before the issuance of seasoned equity offering (Hemmings, Brennan, & Merkl-Davies, 2017).

However, several studies suggest that there is a positive association between voluntary disclosures and the cost of equity (Botosan & Plumlee, 2002; Bushee & Noe, 2000; Kim & Verrecchia, 1991; Richardson & Welker, 2001). This contradicts with the theoretical point of view. Several reasons may cause the conflict such as correlated omitted variables, small sample size, and endogeneity (Bravo Urquiza et al., 2012). In the case of Richardson and Welker (2001), the authors rationalize their contrary results as reflecting firms' legitimizing strategies in the social disclosure context. Accordingly, the less profitable companies disclose more social information to boost their reputation, which is a form of impression management.

4.2.3 Voluntary Disclosure Effect on Cost of Equity and Financial Analysts' Information Environment

Financial analysts play an important role in the capital markets as they collect public and private information to provide buy/sell recommendations to investors (Healy & Palepu, 2001a). Disclosures convey important information to financial analysts who can use it in their evaluations of the firms (Cormier & Magnan, 2015). Analysts prefer to evaluate firms that disclose better quality information which will reduce the cost of gathering information and improve analysts' abilities to evaluate firms and predict future earnings (Abed, Abdallah, & Ismail, 2012). Financial analysts utilize different sources of information to evaluate firms such as financial or non-financial information (Hope, 2003). Non-financial information that analysts can use in their evaluations includes firm strategy, social responsibility, corporate governance, and internal controls (Orens & Lybaert, 2013).

Economic theory postulates that firms benefit from improved transparency via voluntary disclosures. The improved transparency leads to higher confidence by the different stakeholders of the firm (Cormier & Magnan, 2014; Dhaliwal et al., 2011; Orens & Lybaert, 2013), reduces the uncertainty faced by financial analysts when forecasting future earnings or cash flows (Leuz & Verrecchia, 2000), and makes financial analysts more knowledgeable about the firm (Hope, Thomas, & Winterbotham, 2006). There is a growing literature that studies the association between disclosures and the different properties of analysts' forecasts.

The literature examines the association between disclosures and financial analysts' forecasts. In general, a negative relationship exists between voluntary disclosures and financial analyst earnings forecast error (Orens & Lybaert, 2013). For example, Lang and Lundholm (1996) show that the firms with additional disclosures enabled the financial analysts to have better forecast accuracy, less forecast dispersion, and less volatility in forecast revisions. Similarly, Hope (2003) investigate the disclosure level in the annual report using a cross-country sample. His results suggest that there is a positive relationship between the disclosures level and analyst forecast accuracy and less forecast dispersion. Moreover, the corporate governance disclosures effect on analyst forecast accuracy are analyzed. The study of Bhat, Hope & Kang (2006) finds that governance transparency is positively related to analyst forecast accuracy.

Even though the majority of the studies discuss a positive association between disclosures level and analyst forecast accuracy, other studies contradict with their results (Hao, Forgione,

Guo, & Zhang, 2017). For example, Chandra, Procassini & Waymire (1999) investigate voluntary disclosures by the industry trade association. Their results reveal an insignificant association between these voluntary non-financial disclosures and analysts forecast. They interpret these results as not reliable and not convincing for financial analyst since companies do not disclose critical information that competitors can take advantage of. Also, Simpson (2010) reveals that financial analysts underreact to non-financial disclosures related to firms' customers.

4.2.4 Banking Industry

The banking industry provides a unique setting for analyzing audit committees reporting. First, the banking industry plays an important role in society as it is a major player in the financial system and the economy. It is considered the backbone of the economy, and if not properly governed, it can severely disrupt society and the economy (Howells & Bain, 2008). Strong governance and oversight of banks are needed for the whole financial system (Adams, 2010). Not only investors are interested in the bank performance and its corporate governance, but also depositors and regulators have a direct interest (Adams & Mehran, 2003)

Second, the banking industry represents a major portion of the stock market (Mohammad Jizi & Nehme, 2018). It is characterized by having higher information asymmetry than other industries due to the complexity of banking operations (Billingsley & Schneller, 2009). In addition to the complexity attribute, banking industry assets are relatively opaque as loan quality is not easily measured or observable (Ferrarini, 2015). All this complexity in the banking business provides managers with a significant flexibility to manipulate earnings (Kanagaretnam et al., 2010).

Third, as an outcome of such complexity, banks' auditing is more difficult than auditing other industries (Billingsley & Schneller, 2009). The difficulty in banks' auditing is also confirmed by the AICPA which announced in 2006 that auditing the loan loss provision is among the most difficult task for auditors (Jin, Kanagaretnam, & Lobo, 2011). Moreover, a survey conducted in 2013 by the International Forum of Independent Audit Regulators concluded that the banks' audits are "persistently riddled with flaws." Even though the Big 6 audit firms audited these banks', these audits have deficiencies in auditing loan loss provisions, loan impairments, and assets valuations (Tepalagul & Lin, 2015).

Fourth, the banking industry is highly visible as it is heavily followed by investors and intensively regulated and monitored by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board. Consequently, any restatement of financial position or change in the bank performance can lead to major negative impact on the economy, investors, depositors, and the society (Ittonen et al., 2016). The financial statements are a major source for the regulatory bodies in detecting troubled banks or high-risk banks. Banks aim to have a proper financial reporting system in order not to be classified as troubled or high-risk bank, and avoid having on-site bank inspectors whose role is to scrutinize their activities (Jin, Kanagaretnam, Lobo, & Mathieu, 2013).

For all the above reasons, the audit committee function is critical within the banking context. The audit committee has an essential role in protecting the investors and the depositors by overseeing the financial reporting process and the external auditor. Thus, the audit committee report is an important communication tool that provides information about the activities of the audit committee during the year.

4.3 Hypothesis Development

4.3.1 Audit Committee Voluntary Disclosures, Incremental Information or Impression Management

4.3.1.1 Board of Directors, Disclosure, and Impression Management

Most prior research analyzes the monitoring role of the board of directors in mitigating impression management in disclosures by managers. These studies consider different characteristics such as the composition of the board (Mather & Ramsay, 2007; Osma & Guillamón-Saorín, 2011), CEO influence on the board or firm performance (Merkl-Davies & Brennan, 2007). On one hand, research shows that strong board of directors reduces the impression management in narrative disclosures as governance mechanisms monitor management disclosures (Osma & Guillamón-Saorín, 2011). It leads to an improvement in firm transparency and reduces overall impression management. This is in line with the incremental information approach that considers improvement in disclosures will reduces information asymmetry which in turn will reduce cost of equity and enhance share performance (Baginski et al., 2000; Merkl-Davies & Brennan, 2007).

On the other hand, the evidence as to whether the board of directors' practices impression management through disclosures is not as abundant as the ones related to management practicing impression management. For instance, some studies analyze whether the UK board of directors engage in impression management. In the UK, companies that do not comply with the UK corporate governance code have to provide explanation for the non-compliance. The boards of directors are responsible for drafting the explanations. The boards of directors engage in drafting misleading explanations instead of meaningful persuading explanations. Mainly, the directors strategize their rhetoric in a way that reduces the negative feelings and disguise the non-compliance act to make it appear that the end justifies the means (Shrives & Brennan, 2015; Shrives & Brennan, 2017).

Other studies discuss obfuscation practiced by the board of directors. With the introduction of the "remuneration report" in the UK which is the board of directors sole responsibility to draft, some studies investigate the writing style practices of the board of directors to assess if they intend to obscure information. Hooghiemstra, Kuang, & Qin (2017) suggest that UK boards of directors practice obfuscation of information in case of CEO excessive pay by decreasing the readability of the compensation report. In addition, Mangen and Magnan (2012) examine the debate surrounding the adoption of "Say on Pay" and suggest that boards of directors that have an incentive to maintain inefficient pay plans can manipulate compensation disclosure reports. Board of directors can ensure that compensation disclosures be perceived in line with shareholders' interest.

Furthermore, several research linked accountability report to impression management practices. These studies suggest that situations demanding accountability from a person or a group usually promote impression management practices. The person or the group will be rendering an account to the audience who will provide a verdict based on that account (Bozzolan, Cho, & Michelon, 2015; Merkl-Davies & Brennan, 2011; Mélanie Roussy & Rodrigue, 2016). In our study, the audit committee report is an accountability instrument since the audit committee is directly accountable towards the shareholders; thus, it communicates to the shareholders about its activities through that report. Audit committee members communicate their oversight activities by giving an accounting of their actions to the audience (shareholders) (Schlenker, 1997). Since there is an accountability context, the audit committee members will engage in impression management as they anticipate an evaluation by the shareholders for their conduct

during the year (Frink & Ferris, 1998; Merkl-Davies et al., 2011). This leads to the first hypothesis:

H1: Audit committees who are accountable to shareholders will use voluntary disclosure in the audit committee report as a vehicle for impression management

4.3.1.2 Banks' Earnings Management

The research on earnings management suggests that managers can use the accruals to manipulate income which will in return affect their bonuses (Healy, 1985). They can strategically smooth earnings by decreasing income through accruals in case the set target for their bonus is not reachable or has been already achieved. In the scenario where the income is lower than expected, the managers would manipulate accruals to increase earnings (Cornett, McNutt, & Tehranian, 2009). Earnings management can have an effect on stock prices which in turn will affect the wealth of management. Several studies suggest that the use of accruals to manage earnings is more dominant at companies whose managers compensation is more linked to stock market price (Bergstresser & Philippon, 2006; Cheng & Warfield, 2005). In the banking industry, the studies show that managers use primarily loan loss provisions as an earnings management tool (Cornett et al., 2009; Ryan, 2012).

Loan loss provisions are usually the largest accruals for banks (Bratten, Causholli, & Myers, 2017). They are used as an allowance for future losses on current loan portfolios. The loan loss provision signals the bank's credit losses estimation on current loans (Ryan, 2007). PCAOB stressed that "the allowance for loan losses is one of the most significant estimates made by many issuers in the financial service industry" (PCAOB 2010). The practice of adjusting the loan loss provision levels between periods allows managers the discretion to use it as a tool for managing earnings. It is an accrual adjustment that affects directly net income of the bank by managers upon their discretion (Moyer, 1990). Several studies confirm that loan loss provision is used considerably by banks managers to manipulate earnings (Bratten et al., 2017; Fonseca & Gonzalez, 2008; Kanagaretnam, Lobo, & Yang, 2004). In this study, loan loss provision is utilized as a proxy for banks' financial reporting quality such as in prior studies (Kanagaretnam et al., 2010; Krishnan & Zhang, 2014).

Osma & Guillamon-Saorin (2011) reveal that strong corporate governance limits impression management as monitoring would be stronger to reduce the self-interest disclosures of management. Similarly, other research suggests that impression management practiced by

management would be associated with a weak form of market efficiency and weak corporate governance (Courtis, 2004; Rutherford, 2003). Thus, we can conclude that impression management is a form of governance weakness.

On the other hand, as discussed in H1, audit committees can use voluntary disclosure in the audit committee report as a vehicle for impression management. This is considered a weakness in corporate governance as manipulating disclosures for self-interest by the audit committee has more negative implication than when it is done by management. A weak corporate governance by the audit committee signifies it has lower monitoring quality; thus managers would be inclined to engage in earnings management whether increasing or decreasing earnings based on their discretion (Archambeault, DeZoort, & Hermanson, 2008). Based on this, we hypothesize the following:

> H2: Higher voluntary disclosure in audit committee report is associated with more aggressive financial reporting practices (income-increasing or income-decreasing) by managers based on their discretion.

4.3.2 Audit Committee Voluntary Disclosures, Cost of Equity, and Financial Analysts Forecast Properties

4.3.2.1 Cost of Equity and Voluntary Disclosures in the Audit Committee Report

The empirical results are mixed regarding the association between the voluntary disclosures and the cost of equity. On one hand, the economic theory proposes that the investors' required rate of return will be lower for firms with improved voluntary disclosures (Diamond, 1985; Diamond & Verrecchia, 1991; Lundholm & Van Winkle, 2006). Voluntary disclosure is perceived as a response to the information asymmetry that exists between managers and investors; thus an inverse relationship exists between voluntary disclosures and cost of equity (Orens, Aerts, & Cormier, 2010). Mainly there are two explanations for the inverse relationship. First, an environment that is rich in information provides investors with better monitoring and forecasting capabilities (Clarkson, Guedes, & Thompson, 1996; Handa & Linn, 1993). Second, the enhanced quality of disclosures decreases transactions costs since trading by investors will be increased and liquidity of the company share will be enhanced (Diamond & Verrecchia, 1991; Easley & O'hara, 2004).

On the other hand, other studies perceive the voluntary disclosures in a different way. Some studies analyze the voluntary disclosures effect on cost of equity in contexts that are close to impression management. For example, Leuz and Wysocki (2016) attempt to explain the positive relationship between voluntary disclosure and cost of capital. They suggest that managers with low performance will increase disclosures in order to explain the poor performance. Even though the voluntary disclosures increased, the cost of equity will remain high due to the poor performance. Furthermore, Larcker and Rusticus (2010) consider the firms in high risk and uncertain business environment. They believe that firms that are struggling and are in high risk and uncertain environments increase their voluntary disclosures in an attempt to reduce their cost of capital. However, even if these firms are partially successful, this maneuver will still lead to a positive relationship between disclosure and cost of capital.

The different views regarding the association between voluntary disclosures and cost of equity let us consider the reason behind the additional voluntary disclosures in the audit committee report. In our case: is the audit committee voluntary disclosures related to higher performance by the audit committee or is it mainly impression management by the audit committee to hide low performance? In our previous hypothesis, we hypothesize it is mainly an impression management practice. As discussed by Urquiza et al. (2012), the mixed results are caused by the motives of voluntary information disclosed. Studies are not considering whether the voluntary disclosures depict reality. If disclosures do not depict reality, then even though disclosures are augmenting in size but it will not reduce the cost of capital, on the contrary it will increase it (Bravo Urquiza et al., 2012). In the context of the audit committees engaging in impression management in the audit committee report, this leads to the third hypothesis:

> H3: The voluntary disclosure in the audit committee report will increase the cost of capital.

4.3.2.2 Financial Analyst Forecast Accuracy and Voluntary Disclosures in the Audit Committee Report

The literature related to nonfinancial disclosures and analysts' forecast accuracy is scarce and mix (Hao et al., 2017). On one hand, nonfinancial disclosures provides additional information to the financial analysts who will be able to make better forecast. For example the study of Vanstraelen, Zarzeski, & Robb (2003) suggests that there is a positive relationship between forward looking nonfinancial disclosures and financial analysts' forecast accuracy and

less dispersion. On the other hand, some studies find that there is an insignificant relationship between nonfinancial disclosures and financial analysts' forecast accuracy. Chandra et al., (1999) analyzes the impact of book-to-bill ratio which is a forward-looking industry-wide indicator that is disclosed by trade association. They find that there is an insignificant relationship between that forward-looking disclosure and financial analysts forecast. An explanation for this insignificant association is that investors may perceive nonfinancial voluntary disclosures as not reliable. Similarly, nonfinancial disclosures in the wireless industry such as customer acquisition cost, average revenue per user, and number of subscribers are not considered in similar way to other disclosure categories. Simpson (2010) suggests that financial analysts underreact to such nonfinancial disclosures related to customers. Her explanation is that nonfinancial voluntary disclosures may not be persistent on the long run.

As for voluntary disclosures related to corporate governance, prior research discusses that strong corporate governance reduces information asymmetry and improves the accuracy of financial analysts' forecasts. Firms are transparent when they disclose about their governance practices which assist financial analysts' in forecasting more accurately as such disclosures improve the information environment (Bhat et al., 2006). Corporate governance disclosures provide financial analysts with essential information about the firms' organizations and governance. Such information enables the analysts' to assess the reliability of the financial statements (Yu, 2010).

Similarly, corporate governance disclosures are associated with better forecasts accuracy as the financial analysts will have supplemental information regarding the corporate governance policies and risks related that are essential for predicting future profitability (Durnev & Kim, 2005; Klapper & Love, 2004). Corporate governance disclosures have a major incremental value over financial information for the financial analysts in predicting future earnings (Vanstraelen et al., 2003). Since audit committee voluntary disclosures are mainly corporate governance disclosures, we come with the following hypothesis:

H4: The forecast error is negatively related to the extent of voluntary disclosures in the audit committee report

4.3.2.3 Financial Analyst Forecast Dispersion and Voluntary Disclosures in the Audit Committee Report

In our prior hypothesis, we suggest that audit committee voluntary disclosures reduces analysts' forecast error. As the forecast error will decrease, analysts forecast dispersion will decrease. The prior literature suggests that there is a negative association between voluntary disclosures and financial analyst forecast dispersion (Hope, 2003; Orens & Lybaert, 2013; Vanstraelen et al., 2003; Yu, 2010). This is due to the enrichment of the information environment that decreases information asymmetry and uncertainty and improves future earnings predictability; thus, the financial analysts will have less errors in their forecasts and less dispersion (Orens & Lybaert, 2013). Thus, we come with our last hypothesise:

H5: The forecast dispersion is negatively related to the extent of voluntary disclosures in the audit committee report

4.4 Research Design

4.4.1 Data: Sample and Coding of Voluntary Disclosure in Audit Committee Report

This study examines the voluntary disclosures in the audit committee report of the top listed US bank holding companies in 2005 by coding the voluntary disclosures in the audit committee report. The year 2005 is selected as the benchmark year as it falls three years after the implementation of SOX which greatly impacted audit committees' composition, duties, and activities, and three years before the financial crisis in 2008. As suggested by Botosan (1997) and Healy (1985), disclosures do not change greatly over time and seem constant from year to year. In the study of Botosan (1997) the sample was limited to one year for one industry only as disclosures are sticky from year to year and selecting different industries would reveal different disclosure practices. Similarly, coding of the voluntary disclosures in the audit committee report is not performed for each consecutive year starting in 2005 as it would not have changed greatly from year to year. However, since the industry, corporate governance organizations, and the SEC discuss enhancements in the audit committee reports, the study focuses on the reports for the years 2005, 2008, 2011, and 2014. This allows for observing changes in voluntary disclosures in the audit committee reports every three years for a total period of ten years extending from 2005

to 2014. The disclosure coding scores over the years confirm the notion that disclosures do not vary considerably from year to year.

Prior banking research which involves manual coding of corporate disclosures, such as Jizi, Salama, Dixon, & Stratling (2014); Jizi & Dixon (2017); Jizi & Nehme (2018), set a minimum threshold on banks' total assets to be included in the study sample. This selection criteria ensures that the sample is coherent, and the banks have in common the same regulations and similar interest by investors. Likewise, we select the top public traded bank holding companies which had a minimum of $2 billions in total assets in 2005. The final sample consists of 103 banks whose total assets ranged from $2 billion to $1.5 trillion in 2005.

Together these 103 banks hold a high percentage of total assets within the total banking industry (public and private banks) in the US: 56%, 83%, 72%, and 74% respectively for 2005, 2008, 2011, and 2014. In light of the sample banks' size and presence within financial markets, it is expected that investors would be very interested in any type of information which can shed light on banks' financial reporting, such as the audit committee report. Moreover, considering the complexity of these banks' activities, we can infer that audit committees' play a critical role in ensuring high-quality financial reporting.

A disclosure grid is developed to measure the level of voluntary disclosures in the audit committee reports. The grid is based on recommendations from ten industry and governance organizations that have analyzed audit committee disclosures and provided recommendations since 2012[21]. The disclosure scoring grid includes the following categories: 1) Internal controls and risk oversight, 2) Financial reporting oversight, 3) External auditor oversight, and 4) Internal auditor oversight. Appendix A presents the disclosure scoring grid that is used in this study. In order to assess the validity and consistency of scores generated by the disclosure grid, a sample of twenty audit committee reports were chosen randomly and were given to two independent coders. The two coders got the instructions on how to use the scoring grid and the scoring

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[21] US reports: Enhancing the Audit Committee Report: A call to Action (Audit Committee Collaboration, 2012), Audit committee bulletin (EY Building a better working world, 2013), Enhancing communication among investors, auditors, and audit committees (Tapestry Networks, 2014), A new era in audit committee reporting (Deloitte Audit Committee Brief, 2014) 2014), Audit committee transparency barometer (Center for Audit Quality, 2015), Enhancing audit quality transparency (EY Building a better working world, 2015), EY Center for Board Matters (EY Center for Board Matters, 2016). UK reports: Enhancing the value of the audit committee (ACCA, 2014), Enhancing confidence in audits (Financial Reporting Council, 2015). Global report: Audit Committee Reports: Global Disclosures Guidelines (The Enhanced Disclosure Working Group, 2011)

method. The results of the two coders were compared to ensure that the grid is not leading to different scores by different coders. The results led to minor modifications in the grid so that coding leads to similar scores.

Textual analysis of disclosures can be either performed by human or computer-aided (Beattie, McInnes, & Fearnley, 2004). Human coding presents several advantages since it can be customized for the specific study conducted. It can be more precise and focused toward the research design. However, it presents several disadvantages as it is very time consuming, expensive, and not easy to replicate. Computer-aided programs offer the advantage of being efficient and fast in coding and also more reliable since they are based on a rule-based approach (Melloni, Caglio, & Perego, 2017). For the purpose of this study, the coding is done manually as the aim is to look for the voluntary disclosures in the audit committee report and code based on its contextual informativeness and richness. The content of the voluntary disclosures in audit committee reports was analyzed in detail considering not only the audit committee stating that the activity was performed during the year but the extent of details provided about what and how the audit committee performed its activities. In our coding, we do not give consideration to the length of the text; we are mainly interested in the informativeness and richness of the voluntary disclosures. Our coding capture the voluntary disclosures that shareholders and corporate governance organizations considered useful and informative to the investors. Accordingly, a score was assigned to each statement in the grid using a scaling from zero to three depending on the informativeness and in-depth of the voluntary disclosures. The below extract provides an example of how scores were assigned depending on the depth of information provided by the voluntary disclosures.

Extracts from the audit committee reports of disclosures related to the external auditor evaluation process

Comerica Incorporated, 2015 proxy statement, score=1

The Audit Committee oversees the independent auditors' qualifications and independence and the performance of the independent auditors.

Bank of America Corporation, score=2

The Company annually evaluates PWC's qualifications, performance and independence. The

Committee also has discussed and confirmed with PWC its independence from our company. The committee has evaluated and concluded that the non-audit services provided by PWC to our company do not impair PWC's independence.

JPMorgan Chase & Co, 2015 proxy statement, score=3

In conducting our review we considered, among other things:

1) PWC's historical and recent performance on the Firm's audit, including the extent and quality of PWC's communications with the Audit Committee
2) An analysis of PWC known legal risks and significant proceedings
3) Data relating to audit quality and performance, including recent PCAOB reports on PWC and its global network of firms
4) The appropriateness of PWC fees, both on an absolute basis and as compared with its peer firms
5) PWC's tenure as the Firm's independent auditor and its depth of understanding of the Firm's global businesses
6) PWC capability and expertise in handling the breadth and complexity of the Firm's worldwide operations, including the expertise and capability of PWC's lead audit partner for the Firm

4.4.2 Empirical Models

4.4.2.1 Estimation of Discretionary Loan Loss Provision and Main Model Test

We empirically examine the relationship between discretionary loan loss provision that measures banks' earnings management and the extent of voluntary disclosure in the audit committee reports. This necessitates the use of a two-step approach. First, the non-discretionary loan loss provision is estimated using the model of Kanagaretnam et al., (2010). We regress LLP on beginning loan loss allowance, beginning non-performing loans, change in non-performing loans, net loan charge-offs, change in loans outstanding, total loans outstanding, loans categories, and year-control:

$$LLP_{i,t} = \beta_0 + \beta_1 BEGLLA_{i,t+1} + \beta_2 BEGNPL_{i,t} + \beta_3 CHNPL_{i,t} + \beta_4 LCO_{i,t-2} + \beta_5 CHLOANS_{i,t-1} + \beta_6 COMM_{i,t} + \beta_7 CON_{i,t} + \beta_8 RESTATE_{i,t} + \beta_9 AGRI_{i,t} + \beta_{10} FBG_{i,t} + \beta_{11} DEPINS_{i,t} + Years\ Fixed\ Effects + \varepsilon$$

Where:

LLP: loan loss provision as a percentage of beginning total loans
BEGLLA: Beginning loan loss allowance as a percentage of beginning total loans
BEGNPL: Beginning non-performing loans as a percentage of beginning total loans
CHNPL: Change in non-performing loans as a percentage of beginning total loans
LCO: Net loan charge-offs as a percentage of beginning total loans
CHLOANS: Change in loans as a percentage of beginning total loans
LOANS: Total Loans as a percentage of beginning total loans
COMM: Commercial loans as a percentage of beginning total loans
CON: Consumer loans as a percentage of beginning total loans
RESTATE: Real estate loans as a percentage of beginning total loans
AGRI: Agriculture loans as a percentage of beginning total loans
FBG: Loans to foreign banks and governments as a percentage of beginning total loans
DEPINS: Loans to depositry institutions as a percentage of beginning total loans
ε: error term

The discretionary component of loan loss provision is the ε (error term) which will be called DLLP. The DLLP will be measuring the earnings management of the banks.

Main model: DLLP and Audit Committee Voluntary Disclosures

As the objective of the study is to test whether there is an association between voluntary disclosure in the audit committee report and discretionary accruals (earnings management), the second step regression will estimate the following model:

$$Voluntary\ Disclosure_{i,t} = \beta_0 + \beta_1 DLLP_{i,t} + \beta_2 Big4_{i,t} + \beta_3 EBTP_{i,t} + \beta_4 Loss_{i,t} + + \beta_5 MtoB_{i,t} + \beta_6 LnTotalAssets_{i,t} + \beta_7 Tier1CommRatio_{i,t} + \beta_8 Tier1RiskRatio_{i,t} + \beta_9 Tier1RiskRatio_{i,t} + \beta_{10} Defensive_{i,t} + \beta_{11} ACSize_{i,t} + \beta_{12} ACMeeting_{i,t} + \beta_{13} ACFE\%_{i,t} + \beta_{14} ACFemale_{i,t} + \beta_{15} ACChairFemale_{i,t} + \beta_{16} Inst\ Investors_{i,t} + \beta_{17} BoardSize_{i,t} + \beta_{18} BoardFemale\% + \beta_{19} BoardIndep\%_{i,t} + \beta_{20} CEODuality_{i,t} + cluster\ by\ years + \varepsilon$$

The dependent variable is the score of the voluntary disclosures in the audit committee report. As for the independent variable of interest, it is the DLLP that is a proxy of the earnings quality of

the bank. A negative DLLP signifies management uses loan loss provision to increase earnings, while a positive DLLP signifies management uses loan loss provision to decrease earnings. Following prior research in banking that considered DLLP as a main variable, we run the regression separately for 1) absolute DLLP, 2) negative (income-increasing) DLLP and 3) positive (income-decreasing) DLLP (DeBoskey & Jiang, 2012; Kanagaretnam et al., 2010). The absolute DLLP will allow to analyze the extent of aggressiveness by the bank managers in increasing or decreasing the earnings of the banks at their discretion. Similarly, we have a specific interest with the negative DLLP since it has an increasing effect on reported earnings revealing aggressive accounting practices that were not curbed by audit committees.

A positive relation between absolute DLLP and voluntary disclosure score signifies that voluntary disclosures increases whenever audit committees are not curbing bank managers discretion in either increasing or decreasing the bank earnings. A negative relation between negative DLLP and voluntary disclosure score signifies that voluntary disclosure increases when the audit committee is not able to curb the aggressive use of loan loss provision by managers. This implies that the voluntary disclosure is impression management exercised by the audit committees. On the other hand, a positive relation between negative DLLP and disclosure score signifies the existence of aggressive financial reporting practices; however, the audit committee is not engaged in providing additional voluntary disclosure.

The following are the variables definition:

Voluntary disclosure: Score of the Voluntary Disclosure in the audit committee report
DLLP: Discretionary loan loss provision (residual in the first regression)
Big4: Dummy variable that is equal to 1 if the bank is audited by a Big4, 0 otherwise
EBTP: Earnings before taxes and provision divided by total loans at the beginning of the year
Loss: Dummy variable that is equal to 1 if the bank has a negative EBTP, 0 otherwise
LnAssets: Natural log of total assets
MtoB: Market to book ratio
Inst: Number of institutional investors that hold over 5% of the bank's shares
Tier1CommRatio: Tier 1 common share capital ratio
Tier1RiskRatio: Tier 1 risk-adjusted capital ratio
Defensive: Dummy variable that is equal to 1 if the audit committee report includes defensive language, 0 otherwise
MDAPages: Number of MD&A pages
ACSize: Number of audit committee members
ACMeeting: Number of meetings held by the audit committee
ACFE%: Number of audit committee financial experts divided by total number of audit committee members
ACFemale: Number of female directors on the audit committee

ACChairFemale: Dummy variable that is equal to 1 if the chair of audit committee is female, 0 otherwise
BoardSize: Number of board members
BoardFemale%: Number of female directors on the board divided by total number of board members
BoardIndep%: Number of independent board members divided by total number of board members
CEODuality: Dummy variable that is equal to 1 if the chair of the board is also CEO, 0 otherwise

In our model, we control for several factors similar to prior voluntary disclosure studies. We control for the audit quality whether the auditor is a Big4 or not. Previous studies discuss the superior audit quality of the Big4 when compared to non-Big4 (Eshleman & Guo, 2014; Reynolds & Francis, 2000). The audit quality can be considered a substitute for the audit committee oversight. Thus, a bank with high audit quality may have its audit committee less involved in financial reporting oversight or disclose less voluntary disclosures in their audit committee reports to shareholders. Also, we control for banks' performance and banks' distress as firms reporting low performance or negative earnings may necessitate additional monitoring by the audit committees which can affect the level of the voluntary disclosures. We control for size as Carcello et al., (2002) suggest that larger firms tend to disclose more voluntary disclosures. Another control measure we consider is the bank growth that is measured by the market-to-book. This measure is mainly used in the finance literature and banking studies (Cornett et al., 2009). The level of institutional investors can also impact the disclosures in the audit committee report. Prior literature discusses that firms with more institutional investors tend to provide less disclosures related to compensation practices (Laksmana, 2008). We predict that the higher the institutional investors, the lower the voluntary disclosures in the audit committee report. As the study is related to bank holding companies, we control for Tier 1 capital ratio and Tier 1 risk ratio similar to prior studies (Cornett et al., 2009; DeBoskey & Jiang, 2012; Kanagaretnam et al., 2010) . Some audit committee reports included a defensive language that informed the reader about the limited responsibility of the audit committee members and that their report does not constitute soliciting material to be filed or incorporated into any other company filing. We control for firms that used such a defensive language by having a dummy variable. Moreover, we control for the MD&A number of pages as disclosing voluntary disclosures can be firm specific.

In addition, we control for several audit committee characteristics that may affect the voluntary disclosures level in the audit committee report. Audit committee size can impact the level of the financial reporting process oversight (Abbott, Parker, & Peters, 2004). Similarly, we control for the audit committee financial experts who serve on the audit committee. Carcello et al., (2011) find a positive relation between the number of financial experts on the audit committee and financial reporting quality; thus, it is expected that the higher the number of financial experts will lead to more voluntary disclosures. Prior research reveal that female directors provide better financial reporting oversight (Aldamen, Hollindale, & Ziegelmayer, 2018; Lai, Srinidhi, Gul, & Tsui, 2017; Srinidhi, Gul, & Tsui, 2011). Having more female directors on the audit committee is expected to increase the level of financial reporting quality and voluntary disclosures in the audit committee report. Similarly, other studies analyzed the role of females as chairs of audit committees. Thus, we control for the number of female members on the audit committees and whether the chair of the audit committee is a female director. We also control for audit committee meetings frequency.

In addition to the audit committee characteristics control, we control for boards characteristics. We control for board size as the number of board members is an important factor in enhancing corporate transparency. Also, we control for the gender diversity, percentage of female directors on board, as prior studies suggest that female directors on board can affect the level of disclosures. A higher percentage of female directors on the board change the composition of boards which in turn affect the internal dynamics and functioning of the board (Nielsen & Huse, 2010). We control for board independence as prior studies suggest independent directors on the board have higher incentives to disclose voluntary disclosures (Fama & Jensen, 1983; Patelli & Prencipe, 2007). Finally, we control for CEO Duality that is considered a weakness in corporate governance (Fama & Jensen, 1983).

4.4.2.2 Estimation of Ex-Ante Cost of Equity Capital and Main Test Model

Similar to previous studies, we will use the following three models in order to estimate the ex ante cost of equity capital: 1) Easton (2004) model (R_{PEG}), 2) modified Easton (2004) model (R_{MPEG}), 3) Ohlson & Juettner-Nauroth (2005) model (R_{OJN}). As a fourth measure of ex ante cost of equity capital (R_{AVER}), we will use the average of these three models. We estimate the different models as follows:

$$R_{PEG} = \sqrt{\frac{eps_{t+2} - eps_{t+1}}{P_t}}$$

$$P_t = \left(\frac{eps_{t+2} + R_{MPEG} dps_0 - eps_{t+1}}{R_{MPEG}^2}\right)$$

$$R_{OJN} = a + \sqrt{a^2 + \left(\frac{eps_{t+1}}{P_t}\right)\left(g_2 - \left(r_f - 0.03\right)\right)}$$

Where:

Eps $_{t+1}$ = financial analysts earnings per share mean forecast in one year ahead
Eps $_{t+2}$ = financial analysts earnings per share mean forecast in two year ahead
P_t = price per share of common stock
$R_{f=}$ risk-free rate
Dpso=dividend per share paid during year t-1

$$a = 0.5\left(\left(r_f - 0.03\right) + \frac{dps_0}{P_t}\right)$$

$$g_2 = \frac{(eps_{t+2} - eps_{t+1})}{eps_{t+1}}$$

Model

We regress a measure of implied cost of equity capital on voluntary disclosures, and a set of control variables that are usually used in the cost of equity capital literature: size, leverage, book-to-market, CEO duality. Also, we include the Tier 1 Comm ratio since the study is related to bank holding companies.

$$R(cost\ of\ equity)_{i,t+1} = \beta_0 + \beta_1 Voluntary\ Disclosure_{i,t} + \beta_2 Leverage_{i,t} + \beta_3 Size_{i,t} + \beta_4 ROE_{i,t} + \beta_5 MtoB_{i,t} + \beta_6 InvPrice_{i,t} + \beta_7 CEO\ Duality_{i,t} + \beta_8 LnTier1\ Comm\ ratio_{i,t} + \beta_9 LNDispersion_{i,t} + \beta_{10} Loss_{i,t} + YearsControl$$

Where:

Voluntary Disclosure = Score of the voluntary disclosure in the audit committee report
Size = Natural logarithm of total assets
Leverage= Total Liabilities divided by total assets
ROE = Net income divided by total equity
MtoB = market value of equity divided by book value of equity
InvPrice = Inverse of stock price
Ln Tier 1 Comm ratio = natural logarithm of Tier 1 common ratio

CEO Duality = dummy variable equal to 1 if the CEO is also Chairman of the board; otherwise 0
LnDispersion = Natural logarithm of analysts forecast dispersion
Negative Earnings = Dummy variable that is equal to 1 if the bank has negative net income, 0 otherwise

The main coefficient of interest is β_1. A positive coefficient signifies an increase in cost of equity capital when voluntary disclosures increases. Regarding the control variables, size is included as prior literature suggests that whenever firms size increase, the cost of capital decreases ((Fama & French, 1992; Fama & French, 1993; Hail & Leuz, 2006). The investors perceive a higher risk for firms in high growth stages. Thus, the Market-to-Book is included similar to prior research (Fama & French, 1992; Fama & French, 1993; Gebhardt, Lee, & Swaminathan, 2001; Hail & Leuz, 2006). High leverage is expected to increase cost of capital (Fama & French, 1992; Fama & French, 1993; Modigliani & Miller, 1958). Analyst forecast dispersion is included as a control variable. Gebhardt et al., (2001) and Dhaliwal, Li, & Moser (2005) suggest that there is a positive association between analyst forecast dispersion and the implied cost of equity capital.

4.4.2.3 Financial Analysts Forecasting Properties and Voluntary Disclosures

We analyze the financial analysts' forecasting properties and voluntary disclosures in the audit committee report by considering the financial analysts' forecast accuracy, and financial analysts' forecast dispersion. In order to determine the effect of the voluntary disclosures in the audit committee report on the financial analysts' behavior, we run the following two regressions (Ali, Chen, & Radhakrishnan, 2007; Dhaliwal et al., 2011; Lang & Lundholm, 1996):

$$LnForecast\ error_{i,t+1} = \beta_0 + \beta_1 Voluntary\ Disclosure_{i,t} + \beta_2 Ln\ Coverage_{i,t} + \beta_3 Leverage_{i,t} + \beta_4 LnAssets_{i,t} + \beta_5 ROE_{i,t} + \beta_6 Inst\ Investors_{i,t} + \beta_7 CEO\ Duality_{i,t} + \beta_8 Tier1RiskRatio_{i,t} + \beta_9 Board\ Size_{i,t} + \beta_{10} Negative\ Earnings_{i,t} + \beta_{11} AC\ Size_{i,t} + \beta_{12} ACFE_{i,t} + years\ controls$$

$$LnDispersion\ error_{i,t+1} = \beta_0 + \beta_1 Voluntary\ Disclosure_{i,t} + \beta_2 Ln\ Coverage_{i,t} + \beta_3 Leverage_{i,t} + \beta_4 LnAssets_{i,t} + \beta_5 ROE_{i,t} + \beta_6 Inst\ Investors_{i,t} + \beta_7 CEO\ Duality_{i,t} + \beta_8 Tier1RiskRatio_{i,t} + \beta_9 Board\ Size_{i,t} + \beta_{10} Negative\ Earnings_{i,t} + \beta_{11} AC\ Size_{i,t} + \beta_{12} ACFE_{i,t} + years\ controls$$

Forecast error measures the absolute value of financial analysts' average error over a period of 12 months. Dispersion is the average standard error deviation of financial analyst divided by the stock price at the beginning of the period.

The models includes several control variables that were identified from prior literature. We control for the following factors: 1) Firms with high leverage are generally characterized in having higher fluctuation in earnings. It is expected to have a positive relationship with forecast error and dispersion (Hope, 2003). 2) Size as there is a negative relationship between size and forecast error (Hope, 2003; Lang & Lundholm, 1996; Lang, Lins, & Miller, 2004; Leuz, 2003). 3) Financial analysts are more likely to follow firms with higher ROE since it allows higher trading benefits (Bhushan, 1989); thus we include ROE as a control measure. 4) As for considering the strength of the bank, we include the Tier 1 Risk ratio (Magnan, Menini, & Parbonetti, 2015). 5) Financial analysts have difficulties in forecasting future earnings of firms that are making losses. Thus, a loss indicator is expected to be positively related to analysts forecast error and forecast dispersion (Hope, 2003). 6) Since our study is related to governance disclosure, we include several corporate governance measures related to board and audit committees, such as institutional investors, board size, CEO duality, audit committee size, and audit committee financial experts.

4.5 Empirical Results

4.5.1 Descriptive Statistics of Voluntary Disclosures Score

Table 3 presents the descriptive statistics of voluntary disclosures in the audit committee reports as measured based on the disclosure scoring grid. The total average of disclosures by year show that the voluntary disclosures did not increase significantly between 2005 and 2014. The average score increased from 3.94 in 2005 to 4.55 in 2014. The increase in the voluntary disclosures is very minimal over the period of 10 years. These scores confirm the investors' requests for more information about the audit committees' activities, and contradict the view that voluntary disclosures in audit committee reports increased significantly.

The scoring grid categorizes the voluntary disclosures into four categories. The highest category all over the years is category 3: External auditor oversight. The average score of the

voluntary disclosures related to external auditor oversight (category 3) increased from 2.34 to 2.79 from 2005 to 2014. In general, audit committee reports discussed more about their assessment of the external auditor independence and qualifications, and some reports started to mention the tenure of the external auditor. The second highest category of voluntary disclosures is category 1: Internal controls and risk management oversight. Overall, the average voluntary disclosures in this category increased from 0.76 in 2005 to 0.89 in 2014. The increase started during the crisis period and continued until 2014. The reason for the increase is that more banks' audit committees are disclosing information about their assessment of the internal controls process and the risk management process. The third highest category of voluntary disclosure is category 4: Internal auditor oversight. This category decreased during the crisis period and as of 2014 report did not reach its initial level. Its mean decreased from 0.83 in 2005 to 0.80 in 2014. The lowest category average is category 2: Financial reporting oversight. Considering that the sample comprises bank holding companies, it is surprising that audit committees are not disclosing information about their activities with respect to financial reporting oversight. Such activities can include valuation of assets and liabilities, examination of the loan loss provision, and review of the bank annual budget. In fact, audit committees disclosed minimal information about those activities that are critical for the financial reporting quality of banks. Considering the banks' complex business environment and opaqueness of its assets and liabilities valuation, audit committees are expected to engage in active oversight in this area. However, from 2005 to 2014, the average disclosure score for this category increased minimally from 0.04 to 0.06.

[INSERT TABLE 3 ABOUT HERE]

4.5.2 Voluntary Disclosures in Audit Committee Report and Earnings Management

4.5.2.1 Descriptive Statistics of First Regression to Estimate DLLP

Table 4 presents the descriptive statistics for the study's main variables and the related control variables. The mean LLPSc is 0.7% and median LLPSc is 0.36%. In other words, the LLP absolute value is $294.7 million since beginning total loans (deflator) mean is $42.1 billion. Hence, the loan loss provision is a large account. This is evident as the study analyzes the big bank holding companies. The mean of DLLP is -0.0000 which is by construction as the model is estimating the discretionary component of loan loss provision. 76% of the sample banks are

audited by Big 4 audit firms. It is a high percentage since these banks are large ones. Mean bank size, as per assets, is $95.7 Billion (natural log of total assets: 23.26). As for the loan categories, the descriptive statistics show that the real estate loans compose 73% of the total loans. As for the negative earnings before taxes and provisions, 3.8% of sample observations report a negative earnings before taxes and provisions. The deflated Earnings before taxes and provision (EBTP) mean is 0.0285, which is equivalent to $1.2 Billion (0.0285 x $42.1B). The market-to-book ratio mean is 1.2 that is relatively low as large banks have a lower growth rates than smaller banks and the period covered affected banks growth. The Tier1Capial ratio mean is 10.35 showing that the banks in the sample are well capitalized above the regulatory requirement of 5%. As for the banks on the sample that used defensive language in their audit committee report, they represent 8% of the total sample.

[INSERT TABLE 4 ABOUT HERE]

Correlations are presented in table 5 and table 6. Table 5 represents the correlation of the scaled variables for the first regression that estimates the DLLP. As per the model expectation there is a positive correlation between LLP and beginning non-performing loans (BegNPL), change in non-performing loans (CHNPL), and loan charge-off (LCO). LLP is negatively correlated to total change in loans (CHLOANS). Table 6 represents the correlations for the variables of the second step regression. For the other variables, while there are correlations with some significance, none warrants any concern.

[INSERT TABLE 5 AND 6 ABOUT HERE]

4.5.2.2 Estimation of Abnormal LLP (DLLP)

The estimation of abnormal LLP (DLLP) results of the first regression is in table 7. The results show that the coefficient signs of the main independent variables are as expected in the model of Kanagaretnam et al., (2010). The coefficient of Beginning loan loss allowance (BEGLLA), Beginning non-performing loans (BEGNPL), change in non-performing loans (CHNPL), and loan charge-off (LCO) are all significant at the 1% level. As for the loan categories, commercial loans are significant at the 1% level and agriculture loans significant at

the 10% level. The adjusted R^2 is 91.23% meaning that the model explains well the variations in the LLP. The residuals of this model are used as the discretionary component of loan loss provision (DLLP).

[INSERT TABLE 7 ABOUT HERE]

4.5.2.3 Multivariate Analysis: Voluntary Disclosures and Earnings Management

For analyzing the association between the voluntary disclosure in audit committee reports and banks' earnings management, the study follows Kanagaretnam et al. (2010) and DeBoskey and Jiang (2012) method in partitioning the bank years' data. First, we consider only the observations with a negative sign of DLLP that means income-increasing practices by the bank managers. Second, we consider only the observations with a positive sign of DLLP that means income-decreasing practices by the bank managers. Third, we consider all the observations in our sample by taking the absolute DLLP values. This allows us to study at the same time the aggressiveness of bank managers in increasing or decreasing the net income based on their discretion. Three regressions are run separately for each category in order to analyze the effect of banks' earnings management on the voluntary disclosures in the audit committee report.

Table 8 presents the results for negative DLLP (income-increasing). Since we are considering the negative DLLP (negative number), a negative coefficient signifies a positive relationship between the negative DLLP and voluntary disclosure score. The negative DLLP coefficient (-189.39, p-value<0.01) suggests that there is a positive relationship between voluntary disclosure score and negative DLLP. This means that the audit committee that is not constraining aggressive reporting is engaged in more voluntary disclosures about its activities that are supposed to enhance financial reporting quality. The result are consistent with hypotheses 1 and 2 that audit committees engage in impression management. For the control variables, the results suggest that voluntary disclosure decreases whenever the auditor is a Big4 firm (-2.21, p-value<0.10). The coefficient suggests that audit committees are disclosing more disclosures when the auditor is not a Big4 just to impress further the reader about the audit committee performance. The coefficient for Defensive language is 4.93 (p-value<0.05). It implies that when the financial reporting quality is low, audit committees use defensive language in their report to limit their responsibility. On average, they increase the extent of voluntary

disclosure score by 4.93. As for the control variables related to governance, two variables have significant coefficients. Board independence percentage coefficient (9.22, p-value<0.01) suggest that voluntary disclosures increase when board independence increases. This is in line with our expectations since higher independence level in the board will increase voluntary disclosures. As for the CEO Duality coefficient (-1.38, p-value<0.05), it implies that the CEO holding both positions decreases the level of voluntary disclosures in the audit committee report. The CEO duality is considered a governance weakness that is usually associated with less voluntary disclosures. The adjusted R^2 is 20.49% signifies the model explains well the variations in DLLP. The main independent variable, DLLP Negative, coefficient is very high; however, the mean is very small. Its economic significance is 100%, meaning that when the managers engage in income increasing by one standard deviation, the audit committee voluntary disclosure score increases by 100%.

[INSERT TABLE 8 ABOUT HERE]

Table 9 presents the results of the regression with positive DLLP (income-decreasing) as the dependent variable. The coefficient of DLLP Positive is 68.30; however, it is not significant. The coefficient of Loss (2.93, p-value<0.05) suggests that when the banks' managers are conservative in their accounting practices the audit committees disclose more voluntary information in their reports to compensate for the negative earnings. As the financial reporting quality is more conservative, the audit committees are safer to disclose more voluntary disclosures to compensate for the loss. The coefficient of the defensive language (3.92, p-value<0.05) means that the audit committees disclose more voluntary disclosures when they use protective language that may minimize their liability exposure. The board size coefficient (0.17, p-value<0.01) which signifies that the bigger the board size the higher the voluntary disclosure in the audit committee report. As expected, the bigger the board size the higher the voluntary disclosures; however, the coefficient is also minimal. For every additional director on the board, the voluntary score will increase by 0.16. Finally, the coefficient of the institutional investors (-0.47, p-value<0.05) shows that having more institutional investors with at least 5% ownership decreases the voluntary disclosures in the audit committee report. Even though the institutional investors in their comment letters (chapter 3) are urging audit committees to disclose more voluntary disclosures, the practice shows that the higher the number of institutional investors

who own more than 5% of the company, the less the voluntary disclosures score by 0.47. The adjusted R^2 is 13.33% signifies the model explains well the variations in DLLP. The main independent variable, DLLP Positive, coefficient is very high; however, the mean is very small. Its economic significance is 126%, meaning that when the managers engage in decreasing earnings by one standard deviation, the audit committee voluntary disclosure score increases by 126%.

[INSERT TABLE 9 ABOUT HERE]

Finally, we run the third regression that takes all the observations in our sample by considering the absolute DLLP. The absolute DLLP is a measure that considers banks' managers discretion in either increasing or decreasing net income.. Either excessive aggressiveness in increasing net income or excessive conservativism in decreasing net income based on managers' discretion is a weakness of audit committees who are not able to curb managers' discretion. Thus, the absolute DLLP is an important measure to consider in our study. The regression results are presented in table 10. The coefficient of absolute DLLP (106.79, p-value<0.01) suggests that when the banks managers' discretion to increase or decrease net income is higher, audit committees increase the level of voluntary disclosure in their audit committee report. It reconfirms the prior results when the regressions were run for DLLP Negative and DLLP Positive. As the audit committees are not able to reduce the discretion of bank managers, they tend to increase the voluntary disclosures as a way of compensating for the weakness in the financial reporting quality. The coefficient of Big4 (-1.82, p-value<0.01) signifies that the audit committees tend to compensate for the absence of a Big4 audit firm by increasing the voluntary disclosures in their audit committee report. The defensive language coefficient (4.78, p-value<0.01) signifies that audit committees increase the voluntary disclosures in their audit committee reports after using defensive language that may protects them in case there is an issue. The coefficient of institutional investors (-0.31, p-value<0.01) suggests that whenever the bank has an additional institutional investor who own more than 5% of the shares, the voluntary disclosures score is reduced by 0.31. Even though institutional investors', in their comment letters to the SEC, are arguing for an increase in voluntary disclosure in the audit committee report, the results shows that the effect of such investors on actual disclosure practices is the opposite. The adjusted R^2 is 17.81% signifies the model explains well the variations in DLLP.

The main independent variable, absolute DLLP, coefficient is very high; however, the mean is very small. Its economic significance is 112%, meaning that when the managers engage in earnings management by one standard deviation, the audit committee voluntary disclosure score increases by 112%.

[INSERT TABLE 10 ABOUT HERE]

4.5.2.4 Additional Analyses

In our sample, around 8% of the audit committee reports include "defensive language" disclosure that attempt to limit the audit committee members' responsibility. The disclosure mainly informs the readers that the report does not constitute soliciting material to be filed or incorporated into any other company filing. It is interesting that those audit committee reports limit the responsibility of its members whose main responsibility is to oversee the financial reporting process. We perform an additional test (logit regression) which considers the "defensive language" variable as the dependent variable. Our aim is to understand the determinants of the audit committees that use defensive language in their report. Table 11 presents the results of our analysis. The results suggest that audit committees that disclose more voluntary disclosures in their audit committee report tend to protect themselves with defensive language. Also, firms audited by Big4 firms have their audit committees use a defensive language. It may suggests that the audit committees rely more on the Big 4 audit firm performance and attempt to reduce their exposure. For firms with higher Market-to-Book, there is a positive association with the defensive language. Audit committees may be concerned about the additional risk that high growth can expose to the banks. Similarly, there is a positive association between the defensive language and bank size. This can be caused by the difficulty that the audit committees can face in overseeing big banks. Thus, they use defensive language to limit their exposure. As for the audit committees characteristics, the test suggests that the less the audit committee financial experts (ACFE) in the audit committee, the more the probability of using defensive language. As audit committee members will feel not well staffed with experts on board, they tend to protect themselves. Finally, the results suggest that there is a negative association between board independence and defensive language. It signifies that the audit committees may feel the corporate governance are weakened with less independent directors, and as a consequence will use defensive language.

[INSERT TABLE 11 ABOUT HERE]

In addition to the model of Kanagaretnam et al., (2010), the study employs Bushman and Williams' (2012) model to ensure that results are not model-specific. The results of the second step regression are similar to those found when using Kanagaretnam et al., (2010) and main coefficients significant at the level of 5% and 10% with the similar signs. This implies that the results were not driven by the model selection. The results are presented in tables 12, 13, and 14.

[INSERT TABLES 12, 13, 14 ABOUT HERE]

Furthermore, we conduct a robustness test to verify our results. In order to ensure that our manual coding is not affecting the results, a variable is created that segregates the voluntary disclosures score into low level (below the average of 4) and high level (above the average of 4). The regression coefficient signs of the main variables remain the same and are significant at the level of 5% and 10%. The results are presented in tables 15, 16, and 17.

[INSERT TABLES 15, 16, 17 ABOUT HERE]

4.5.3 Voluntary Disclosures in the Audit Committee Report and Cost of Equity

4.5.3.1 Descriptive Statistics

Table 18 presents the statistics of the regression variables related to cost of equity association with audit committee voluntary disclosures. The average ex-ante cost of equity (R_{aver}) show a mean (0.17) and a median (0.097) and a standard deviation (0.309). The ex-ante cost of equity measures the investors perception of risk. The study period extends over the financial crisis 2008-2009 that had a great impact on US banks. Thus, it is expected to perceive such high variation by the investors required rate of return on their investments. The natural log of total assets shows that the bank holding companies in the sample are large in size. The sample mean is 23.26 (total assets $95 Billions), median is 22.78 (total assets $7.8 Billions), and the standard deviation is 1.59 (total assets $347 Millions). The big variation is mainly related to the top four

bank holding companies (Bank of America, JP Morgan Chase, Citigroup, and Wells Fargo). All the other banks in the sample are very similar in size. The return on equity (ROE) mean is 0.06 and median is 0.08 and standard deviation is 0.16. There is a variation in ROE as the study sample covers crisis period and the recovery phase. The market-to-book has a mean of 1.21 and a median of 1.16 showing that banks have been growing. As for banks incurring losses (negative net income), the sample comprises on average 9% of the observations incurring losses.

[INSERT TABLE 18 ABOUT HERE]

Table 19 presents the correlations of the variables. Voluntary disclosures in the audit committee report and cost of equity are positively correlated, as expected in our hypothesis. However, the coefficient correlation is not statistically significant at conventional levels. As for the control variables, the correlation between leverage and cost of equity are positively related and significant at the 5% level. LnDispersion is positively correlated to cost of equity and significant at 1% level. This positive relationship is expected in our hypothesis since higher dispersion in forecast by financial analysts increases the implied cost of equity. Finally, the correlation between losses and implied cost of equity is positive and significant at 1% level. This means that investors perceive higher risk by firms' with losses' thus, they require a higher return on their investments.

[INSERT TABLE 19 ABOUT HERE]

In addition to the correlation among the variables of the regression, table 20 presents the pair of correlation among the different measures used in calculating R_{aver}: R_{peg} (Easton, 2004) R_{ojn} (Ohlson & Juettner-Nauroth, 2005), R_{mpeg} (modified Easton, 2004). All these variables are positively highly correlated, above 0.928, at a 1% significance. Thus, the R_{aver} is a good proxy for all the three implied cost of equity measures.

[INSERT TABLE 20 ABOUT HERE]

4.5.3.2 Multivariate Analysis

In the multivariate analysis, we regress the cost of equity (4 different measures) on the score of the voluntary disclosures in the audit committee report and control variables. We control for different firm characteristics that are related to cost of equity similar to prior literature: leverage, size, return-on-equity, market-to-book, inverse price, CEO duality, reporting losses, and analyst forecast dispersion. Also, we control for Tier 1 Common ratio capital which is a control used in the prior literature for bank holding companies. Table 21 provides the regression results using four measures of cost of equity: R_{peg}, R_{ojn}, R_{mpeg}, and R_{aver}. The four regressions show that there is a positive relationship between cost of equity and voluntary disclosures score. The coefficients of the four regressions are as follows: R_{peg} (0.00316, p-value<0.05), R_{ojn} (0.00907, p-value<0.05), R_{mpeg} (0.00906, p-value<0.05), and R_{aver} (0.00708, p-value<0.05). The coefficients suggest that for every 1 (one) unit increase in voluntary disclosures score, the cost of equity increases by 0.3%, 0.9%, 0.9%, and 0.7% respectively. The adjusted R square for the four regressions is between 51.9% and 66.1%.

As for the control variables, the coefficient of the leverage variable is positively related to the cost of equity and is significant at the 5% level. The positive relationship is expected since banks with higher leverage presents higher risks for investors who will require a higher rate of return. Inverse price coefficient is positively related to cost of equity and significant at 1% level. The CEO duality is positively related to the cost of equity as holding these two positions by the same person is considered a weakness in governance. As for the coefficient of Tier 1 Common ratio, it is negative and significant at 5% level. This signifies that the better the bank is capitalized, the lower the cost of equity required by investors. The coefficient of the analyst forecast dispersion (natural log of dispersion) is positive as the more difficult for analyst to forecast future earnings, the higher the cost of equity required by investors. The coefficient is significant at the 1% level. Finally, the losses indicator coefficient is positive and significant at 1% level. Investors require a higher return for firms that are incurring losses in order to compensate for the risk.

[INSERT TABLE 21 ABOUT HERE]

4.5.4 Voluntary Disclosures in the Audit Committee Report and Financial Analysts' Forecast Properties

4.5.4.1 Descriptive Statistics

Table 22 presents the variables related to the financial analysts forecast properties. In this section we discuss the ones that were not discussed in prior sections. Forecast error measures the inaccuracy of the financial analysts in predicting future earnings. The mean (median) of forecast error is 0.06 (0.005) and a standard deviation of 0.24. As for the dispersion error, the mean (median) is -0.15 (-0.09) and a standard deviation of 0.3. Table 23 shows the forecast errors and dispersion variables per year. It is evident that the crisis period has significantly increased the inaccuracies of financial analysts in predicting future earnings. Similar to prior studies, we use the natural logarithm of forecast error and the natural logarithm of forecast dispersion to reduce the skewness of these two variables.

[INSERT TABLES 22 AND 23 ABOUT HERE]

Table 24 presents the correlation among the variables. The main variable, voluntary disclosure score, is negatively related to LnForecast error and LnDispersion. This means that the the voluntary disclosure in the audit committee reports are improving the financial analysts forecast abilities. The correlation coefficient is not significant except for Ln Forecast error at the 10% level.

[INSERT TABLE 24 ABOUT HERE]

4.5.4.2 Multivariate Analysis

For testing hypothesis H4, we regress Ln Forecast error on voluntary disclosure score and a set of control variables. The regression results are presented in table 25. The coefficient of voluntary disclosure score (-0.065; p-value<0.01) is negative and significant at the 1% level. It implies that the voluntary disclosures in the audit committee report are assisting financial analysts in making better earnings forecast in the future. For the control variables, size is positively related to forecast error. This implies that financial analysts' are less accurate in forecasting larger banks which is against our prediction. As for the performance of the bank measured by ROE, the

coefficient is negative and significant at 5%. Financial analysts make less forecast errors for better performing banks. Similarly, financial analysts have more difficulty in forecasting earnings for banks' with losses. The coefficient of banks having negative earnings is positive and significant at 1% level. Finally, we control for the number of financial experts on the audit committee. As expected, audit committee financial experts improve the oversight of audit committees; thus the financial analysts will be able to make better earnings forecast. The coefficient of audit committee financial experts is positive and significant at the 5% level. The adjusted R square is 36.4% meaning that the model is well explained.

[INSERT TABLE 25 ABOUT HERE]

Our next test, hypothesis H5, is to analyze the effect voluntary disclosures in the audit committee report on financial analysts' forecast dispersion. We regress Ln Dispersion on voluntary disclosure score and a set of control variables. The regression results are presented in table 26. The coefficient of voluntary disclosures score is negative implying that the higher the voluntary disclosures the less the financial analysts forecast dispersion. This is in line with hypothesis H5 testing that suggested that financial analysts make less forecast errors when voluntary disclosures is higher. As for the control variables, the bank size is negatively related to dispersion and significant at 1% level. It suggests that financial analysts' dispersion is less when banks are bigger in size. Finally, our model reveals that financial analysts' dispersion is higher whenever the bank is incurring losses. This is similar to financial analysts' forecast error which increases whenever banks are incurring losses. Banks in financial distress create a difficult environment for financial analysts to forecast future earnings. The adjusted R square is 21.7% meaning that the model is well explained.

[INSERT TABLE 26 ABOUT HERE]

The results of our testing in H4 and H5 infer that the financial analysts' are benefitting by using the voluntary disclosures in the audit committee report. Even though, the first part of the study suggest that that the voluntary disclosures are impression management by the audit committees, the financial analysts are still learning something about these firms and

incorporating this information in their forecasts. The financial analysts' know that there is a positive association between the voluntary disclosures in the audit committee report and earnings management. This information is incorporated in their forecast; thus they are able to make less forecasting error and forecasting dispersion.

4.6 Conclusion

In this chapter we analyze quantitatively the voluntary disclosures in the audit committee reports of the top US bank holding companies. The chapter is composed of two parts: The first part investigates the association between the extent of voluntary disclosures in the audit committee report and earnings management; and, the second part analyses the association between voluntary disclosures and the cost of equity, and the financial analyst forecasting properties. On the one hand, the descriptive results show that the voluntary disclosures did not significantly increase over 10 years. The average voluntary disclosures was 3.94 in 2004 and increased to 4.55 in 2014. The increase over a period of 10 years is very minimal which is in line with the investors comment letters arguing that the voluntary disclosures did not increase significantly. On the other hand, the multivariate analysis suggest that audit committees provide more voluntary disclosures whenever the earnings management are high. These results imply that audit committees are engaged in impression management since they disclose more about their oversight activities when managers manipulate the bank's earnings. The second part's results of our study suggests that there is an association between cost of equity and voluntary disclosures in the audit committee report. As the voluntary disclosures are impression management practices by audit committees, the cost of equity will be increasing when audit committees increase the level of voluntary disclosures. However, the results suggest that the voluntary disclosures improve the financial analysts forecasting accuracy and forecasting dispersion. The study results suggest that the financial analysts recognize the voluntary disclosures as impression management practices by the audit committees. Thus, the implied cost of equity is higher for firms' with higher voluntary disclosures in their audit committee reports. Since the financial analysts know that the voluntary disclosures are impression management, they incorporate this information in their forecasting leading to less forecasting errors and less dispersion. Even though, the voluntary disclosures are impression management practice by audit committees there is an economic impact on the external environment. The cost of equity is

higher since the financial analysts know it is associated with higher earnings management. However such information is still benefiting the financial analysts who are incorporating it in their forecasts and are able to make better forecasts.

In 2015, the SEC issued the concept release proposing enhancements in the current audit committee requirements. Our results have public policy implications, they provide empirical evidence to the SEC to show the benefit of updating the audit committee disclosure requirements.

Chapter 5: Conclusion

In this dissertation, we investigate the voluntary disclosures in the audit committee report. In recent years, there has been an increasing interest in the voluntary disclosures in the audit committee report by different stakeholders such as corporate governance organizations and institutional investors. Based on the different requests for enhanced audit committee disclosures, the SEC issued a concept release proposing several enhancements and requesting public comment. As stated in the concept release document, the SEC main interest in requesting public comment is to understand "investors' needs" in the context of audit committee disclosures. Also, the SEC concept release discussed the scarcity of research around that topic which is limiting its knowledge as to why some firms disclose additional voluntary disclosures in their audit committee report and whether these disclosures are useful for investors' decisions (Securities and Exchange Commission (SEC), 2015). Thus, we consider that the dissertation is addressing a timely topic that has not been fully analyzed in the previous literature and providing some answers to the SEC and interested stakeholders. We assess "investors' needs" in the context of audit committee disclosures by reviewing and analyzing the comment letters that were submitted by different stakeholders. Also, we investigate the motives of audit committees to disclose voluntary disclosures in their report: is it incremental information that shows strong performance by the audit committees? Or, it is impression management practiced by the audit committees to hide their weak performance? Finally, we study the consequences of the voluntary disclosures on external stakeholders, as captured by the implied cost of equity and the financial analysts' forecasting properties.

In Chapter 2, we provide a background on the audit committee report that all public firms' audit committees are required to issue on annual basis since 1999 (Securities and Exchange Commission (SEC), 1999). Then, we present the debate between the different stakeholders. On the one hand, investors and corporate governance organizations are not satisfied with the current audit committee disclosures as they do not provide useful information to investors (Audit Committee Collaboration, 2012). On the other hand, audit committees and audit firms argue that audit committees voluntary disclosures have significantly increased since 2012 (Center for Audit Quality, 2017; EY Center for Board Matters, 2016). The debate between the different stakeholders which has been taking place since 2012 together with the SEC action raise

concerns regarding what exactly are "investors' needs" in the context of audit committee disclosures and thus motivate our study.

In the third chapter, we analyze the content of the comment letters submitted by the different respondents following the SEC concept release. Our main objective is to understand "investors' needs" in the context of the audit committee disclosures. For that purpose, we utilize the concept of frames that was studied previously in discourse analysis (Benford & Snow, 2000; Goffman, 1959; Snow & Benford, 1988). We use framing as an analytical tool to analyze how each respondent category defines "investors' needs" and how they attempt to convince the SEC to embrace their views. Our results show that there is a wide variation among respondents in defining "investors' needs" and how they argue to convince the SEC to adopt their point of view. Also, the discourse analysis reveals several issues at the corporate governance level. For example, audit committees' power, independence, and effectiveness are topics that are discussed by the different respondents. Investors express high concerns about these corporate governance issues that require the SEC attention.

In the fourth chapter, we adopt a quantitative approach by analyzing audit committee reports released by the top US bank holding companies. The chapter is divided to two parts: 1) we investigate the association between voluntary disclosures in the audit committee reports and earnings management, 2) we analyze the impact of voluntary disclosures on the external environment. These two research questions attempt to provide empirical results in response to the SEC questions that were raised in the concept release. For the first part of the chapter, results indicate that there is a positive association between the voluntary disclosures and banks' earnings management. The higher the banks' managers engage in earnings management, the higher the voluntary disclosures in the audit committee reports. In our view, it implies that audit committees are engaged in impression management. As for the results of the second part of the chapter, results suggest that there is a positive relationship between voluntary disclosures and implied cost of equity. The higher the voluntary disclosures level, the higher the investors' required rate of return. It implies that the investors are able to know that the voluntary disclosures do not reveal strong performance by the audit committees and as a consequence, they will require a higher rate of return. As for financial analysts' forecasting properties, it seems that they have learned that these voluntary disclosures are impression management. They are able to make better forecasting as the results suggest a negative relationship between voluntary disclosures and

forecasting errors and forecasting dispersion. Even though voluntary disclosures are consistent with impression management, they still have economic value since they are benefiting financial analysts in making better forecasts.

In addition to the academic literature contribution, the dissertation provides several practical implications. On February 24, 2017, the SEC announced its plan to modernize corporate disclosures by facilitating the investors' tasks in locating and using the information. Michael Piwowar, the acting SEC chairman, focused on the need to "provide meaningful disclosure improvements for the forgotten investor" (Reuters, 2017). For the regulator, the framing analysis of the comment letters provides evidence about the need to have a common understanding of the "investors' needs" in the audit committee disclosure context. The qualitative study is focusing on "investors' needs" which is a critical concern for the SEC. Second, one of the regulator's goal is to ensure that investors maintain confidence in financial markets. The quantitative study analyzes impression management by audit committees. Having a sub-committee of the board, audit committees, engage in impression management can have bad consequences on investors' confidence. The empirical results of our study are very important for the SEC and boards of directors whose aim is to ensure that investors have confidence in the US financial markets. As stated by the SEC former Chair, Mary Jo White: "markets depend on investors, who must have confidence in relying on the information in the marketplace" (Securities and Exchange Commission (SEC), 2017).

Our dissertation is subject to several limitations. First, the qualitative study relies on ninety-one comment letters drafted by investors and cross-section of governance actors. The number of comment letters is considered limited; thus it can be considered not representative of the different views. In qualitative research, the researcher stops collecting further information whenever feels there has been saturation of the different point of views (Malsch & Salterio, 2015). In this paper, the saturation level may not have been reached. Second, the comment letters are drafted by different stakeholders; however they may have considered the public expectations, so the responses can be written in a way that is politically correct. Thus, the letters may be biased and not reflect the true intentions of the respondents. Third, the quantitative study considers the top US bank holding companies as the audit committee reports are manually coded. Our sample may not be representative of all the US bank holding companies; however, we do not believe our results may be affected in case the sample is larger.

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Appendix

Table 1 Comment Letters Submitted to SEC

Total number of comment letters submitted to SEC		102
Less:		
Letters requesting deadline extension		-7
Letters content unrelated to concept release		-4
Total number of comment letters analyzed		**91**

Respondents category	**Number of letters**	**%**
Audit committee	24	26%
Association	19	21%
Investor	14	15%
Management	12	13%
Audit firm	12	13%
Academia	5	5%
Legal	5	5%
TOTAL	**91**	**100%**

Table 2 Frames summary

Frame	Diagnosis	Prognosis	Motivation
Investors	Lack of transparency	Change the current requirements	Change is in great need to protect investors
Academia	Woefully inadequate with no value for investors	Change the current requirements	Disclosures to become a signaling device
Management & Legal	Investors fully informed	Keep status quo	Change will bring negative consequences
Audit committees	Investors fully informed	Keep status quo	Some changes may be beneficial for investors
External auditors	Investors not adequately informed	Change is needed	Serve better the investors needs

Table 3 Descriptive Statistics of Voluntary Disclosures in the Audit Committee Report

Year	Voluntary disclosures categories	N	Mean	Std Dev	Min	25th percentile	Median	75th percentile	Max
20051231	Internal controls and risk management oversight	102	0.764706	0.869465	0	0	1	1	5
	Financial reporting oversight	102	0.039216	0.240526	0	0	0	0	2
	External auditor oversight	102	2.343137	2.310094	0	1	2	3	12
	Internal auditor oversight	102	0.833333	1.282659	0	0	0	1	6
	Total	103	3.941748	3.621356	0	1	3	5	17
20081231	Internal controls and risk management oversight	103	0.796117	0.922053	0	0	1	1	6
	Financial reporting oversight	103	0.048544	0.324752	0	0	0	0	3
	External auditor oversight	103	2.368932	2.169261	0	0	2	4	9
	Internal auditor oversight	103	0.76699	1.254044	0	0	0	1	6
	Total	103	3.980583	3.629888	0	1	3	6	19
20111231	Internal controls and risk management oversight	103	0.854369	0.922569	0	0	1	1	6
	Financial reporting oversight	103	0.058252	0.337965	0	0	0	0	3
	External auditor oversight	103	2.524272	2.711069	0	1	2	4	19
	Internal auditor oversight	103	0.796117	1.247423	0	0	0	1	6
	Total	103	4.23301	3.913786	0	1	3	6	20
20141231	Internal controls and risk management oversight	103	0.893204	0.917292	0	0	1	1	6
	Financial reporting oversight	103	0.067961	0.426158	0	0	0	0	4
	External auditor oversight	103	2.786408	2.959367	0	1	2	4	18
	Internal auditor oversight	103	0.805825	1.188658	0	0	0	1	6
	Total	103	4.553398	4.009127	0	1	4	7	20
Total	Internal controls and risk management oversight	411	0.827251	0.906258	0	0	1	1	6
	Financial reporting oversight	411	0.053528	0.337936	0	0	0	0	4
	External auditor oversight	411	2.506083	2.554162	0	1	2	4	19
	Internal auditor oversight	411	0.800487	1.239236	0	0	0	1	6
	Total	412	4.177184	3.791419	0	1	3	6	20

Table 4 Descriptive Statistics of the Main Variables for First Part of the Study

variable	N	mean	sd	min	p25	p50	p75	max
LLPSc	412	0.007189	0.009649	-0.01817	0.001573	0.003609	0.009773	0.055043
BEGLLASc	412	0.016482	0.008947	0.001153	0.011611	0.013874	0.01779	0.086127
BEGNPLSc	412	0.01855	0.022129	0	0.005944	0.011079	0.022715	0.17792
CHNPLSc	412	0.00072	0.012764	-0.05354	-0.00397	-0.00024	0.004045	0.062088
LCOSc	412	0.006809	0.008652	-0.00115	0.001637	0.003641	0.008797	0.066103
CHLOANSSc	412	0.11037	0.228646	-0.42221	0.022834	0.070135	0.145247	2.48056
LOANSSc	412	1.11037	0.228646	0.577785	1.022834	1.070135	1.145247	3.48056
COMMSc	412	0.209712	0.149103	4.03E-06	0.115044	0.176972	0.248476	1.006653
CONSc	412	0.057139	0.0656	0.000401	0.013357	0.031658	0.07809	0.627105
RESTATESc	412	0.73027	0.257542	0	0.584501	0.742465	0.845396	2.742302
AGRISc	412	0.009404	0.0173	0	5.81E-05	0.001661	0.011255	0.138441
FBGSc	412	0.000198	0.001313	0	0	0	0	0.021948
DEPINSSc	412	0.002778	0.013975	0	0	0	0.000534	0.168994
DLLP	412	-1.7E-05	0.003116	-0.01101	-0.00141	-3.7E-05	0.001224	0.014622
Big4	412	0.764563	0.424787	0	1	1	1	1
Leverage	412	9.05435	2.208979	4.786924	7.420092	8.725506	10.23434	15.62796
EBTPSc	412	0.028558	0.019061	-0.04239	0.020709	0.026656	0.035554	0.111417
Loss	412	0.038835	0.193436	0	0	0	0	1
MtoB	409	1.209724	0.286428	0.760139	1.009454	1.162812	1.350687	2.176249
LnTotalAssets	412	23.26418	1.591327	21.42755	22.08615	22.78257	23.8394	28.37512
Tier1CommRatio	412	10.35608	3.255288	3.19	8.04	10.09	12.2	22.11
Tier1RiskRatio	412	12.67126	3.019966	7.56	10.72	12.33	13.955	25.48
Defensive	412	0.080097	0.271774	0	0	0	0	1
MDAPages	412	36.32767	19.2162	9	23.5	32	44	106
ACSize	412	4.61165	1.156663	3	4	4	5	8
ACMeeting	412	9.635922	3.885023	4	6	10	12	20
ACFEPerc	412	0.433393	0.270051	0	0.25	0.333333	0.6	1
ACFemale	412	0.606796	0.680455	0	0	0	1	2
ACChairFem~e	412	0.126214	0.332494	0	0	0	0	1
Institutional investors	410	1.834146	1.374517	0	1	2	3	8
BoardSize	412	12.53155	3.017625	7	10	12	14	21
BoardFemale%	412	0.122833	0.081211	0	0.074176	0.111111	0.166667	0.428571
BoardIndependence%	412	0.873659	0.064236	0.625	0.846154	0.888889	0.916667	0.944444
CEODuality	412	0.507282	0.500555	0	0	1	1	1

Table 5 Correlation Matrix of Scaled Variables for the First Regression

	LLP	BEGLLA	BEGNPL	CHNPL	LCO	CHLOANS	LOANS	COMM	CON	RESTATE	AGRI	FBG	DEPINS
LLP	1												
BEGLLA	0.108*	1											
BEGNPL	0.171***	0.669***	1										
CHNPL	0.339***	-0.474***	-0.428***	1									
LCO	0.837***	0.495***	0.436***	-0.077	1								
CHLOANS	-0.072	-0.207***	-0.203***	0.327***	-0.209***	1							
LOANS	-0.072	-0.207***	-0.203***	0.327***	-0.209***	1.000***	1						
COMM	-0.0245	-0.0329	-0.106*	0.134**	-0.100*	0.414***	0.414***	1					
CON	0.182***	-0.0295	-0.172***	0.188***	0.0856	0.0955	0.0955	-0.00121	1				
RESTATE	-0.0771	-0.168***	-0.0822	0.206***	-0.159**	0.568***	0.568***	-0.234***	-0.177***	1			
AGRI	-0.119*	-0.0422	-0.0554	-0.0115	-0.132**	0.0952	0.0952	-0.0088	0.0542	0.0769	1		
FBG	-0.0177	-0.0029	-0.00235	-0.0308	0.00336	-0.0557	-0.0557	-0.0152	-0.0237	-0.216***	-0.0742	1	
DEPINS	-0.0133	0.0672	0.0431	-0.0565	0.039	0.0248	0.0248	-0.0178	-0.0118	-0.245***	-0.077	0.348***	1

Table 6 Correlation Matrix of the Second Step Regression

	Voluntary disclosure score	Abs DLLP	Big 4	EBTP	Loss	MtoB	Ln Total Assets	Tier1 Comm Ratio	Tier1 Risk Ratio	Defensive
Voluntary disclosure score	1									
Abs DLLP	0.0332	1								
Big4	-0.165***	-0.0384	1							
EBTP	-0.00586	-0.0162	0.0680	1						
Loss	-0.00969	0.0916	0.0149	-0.466***	1					
MtoB	0.0563	-0.0992*	-0.00111	0.265***	-0.140**	1				
Ln Total Assets	-0.0345	0.0382	0.342***	0.238***	-0.0505	-0.232***	1			
Tier1 Comm Ratio	0.0810	-0.0415	-0.0808	0.217***	-0.144**	0.0869	0.163***	1		
Tier1RiskRatio	-0.0119	0.103*	-0.142**	0.102*	0.00865	-0.150**	-0.188***	0.835***	1	
Defensive	0.300***	0.0271	0.0141	-0.0300	0.0377	0.0234	0.145**	-0.0837	-0.0607	1
MD&A Pages	-0.0587	0.0339	0.288***	0.108*	-0.0465	-0.300***	0.646***	-0.0197	0.0182	-0.0157
AC Size	-0.0768	-0.0640	0.100*	-0.0245	0.0187	-0.0415	0.177***	0.00838	-0.0221	-0.0781
AC Meeting	-0.0457	0.0811	-0.00915	0.0829	0.0471	-0.208***	0.246***	-0.0426	0.0204	0.136**
ACFEPerc	-0.0658	-0.0178	0.283***	0.105*	-0.000821	-0.0858	0.287***	-0.0626	-0.0706	-0.0152
AC Female	0.0431	0.0292	0.159**	-0.0166	0.0139	-0.0465	0.269***	-0.00585	-0.0836	-0.0168
AC Chair Female	-0.0189	0.000757	0.140**	0.00588	-0.0745	-0.0545	0.180***	-0.0781	-0.144**	-0.113*
Institutional investors	-0.0651	-0.00108	0.0704	-0.0313	-0.0150	-0.0828	-0.136**	0.289***	0.268***	-0.0502
Board Size	0.0308	-0.135**	0.115*	0.0548	-0.0765	0.0726	0.262***	-0.184***	-0.293***	-0.0722
Board Female Perc	0.0143	-0.0185	0.0919	0.0619	0.00708	-0.0774	0.344***	0.0718	0.0171	0.00362
Board Independent Perc	0.0280	-0.0399	0.320***	0.00461	0.0377	-0.0990*	0.238***	-0.0759	-0.115*	-0.0501
CEO Duality	-0.141**	-0.0461	0.168***	0.153**	-0.0433	0.0894	0.261***	-0.0386	-0.0697	0.0384

	MDAPages	ACSize	ACMeeting	ACFEPerc	ACFemale	ACChairFemale	Institutional investors	BoardSize	BoardFemalePerc	BoardIndependentPerc	CEODuality
MDAPages	1										
ACSize	0.0149	1									
ACMeeting	0.289***	-0.0418	1								
ACFEPerc	0.159**	-0.113*	0.0364	1							
ACFemale	0.148**	0.331***	-0.0602	0.0979*	1						
ACChairFemale	0.146**	0.0909	-0.0762	0.0471	0.382***	1					
Institutional investors	0.0195	0.0295	-0.0354	0.0583	0.0719	0.0289	1				
BoardSize	0.0428	0.268***	-0.00463	0.0134	0.132**	0.149**	-0.153**	1			
BoardFemalePerc	0.280***	0.0599	0.00106	0.195***	0.506***	0.156**	0.0743	-0.00427	1		
BoardIndependentPerc	0.218***	0.253***	-0.0217	0.0328	0.242***	0.106*	0.228***	0.153**	0.182***	1	
CEODuality	0.222***	0.00701	-0.0161	0.122*	0.00156	0.0650	-0.0901	-0.00384	0.0519	-0.0435	1

Table 7 Results of Regression of LLP on Determinants of Normal LLP

Independent variables	LLPSc	
	Coef.	t
BEGLLASc	-0.24454***	16.78
BEGNPLSc	0.03662***	6.54
CHNPLSc	0.1001319***	15.03
LCOSc	1.032982***	83.05
CHLOANSSc	-0.0010901	-1.52
COMMSc	0.0024367***	2.89
CONSc	0.0007856	0.56
RESTATESc	0.0006592	1.06
AGRISc	0.0066528*	1.82
FBGSc	-0.0798909	-1.22
DEPINSSc	-0.008353	-1.32
Years-Control	Yes	
Observations	1,586	
Adjusted R^2	0.912	

Table 8 Results of Regression of Voluntary Disclosure Score on DLLP Negative

Independent variables	Voluntary disclosure score	
	Coef.	**t**
DLLPNegative	-189.3928***	-6.83
Big4	-2.218581*	-3.16
EBTPSc	2.528141	0.14
Loss	-1.208333	-1.26
MtoB	-1.067889	-1.45
LnTotalAssets	-0.0083025	-0.02
Tier1CommRatio	0.4269226	2.06
Tier1RiskRatio	-0.3531682	-1.48
Defensive	4.934976**	4.25
MDAPages	0.0039765	0.26
ACSize	-0.2898708	-1.29
ACMeeting	-0.0587354	-0.86
ACFEPerc	-0.3387997	-0.35
ACFemale	0.1371755	0.32
ACChairFemale	-0.4914125	-0.37
Institutional investors	-0.1635009	-1.42
BoardSize	0.0084158	0.12
BoardFemalePerc	0.0608505	0.01
BoardIndependentPerc	9.22445***	6.69
CEODuality	-1.384993**	-3.5
Constant	1.35118	0.14
Years-Control	Yes	
Observations	213	
Adjusted R^2	0.204978	

Table 9 Results of Regression of Voluntary Disclosure Score on DLLP Positive

Independent variables	Voluntary disclosure score	
	Coef.	t
DLLPPositive	68.30268	0.79
Big4	-1.513822*	-3.05
EBTPSc	6.17268	0.49
Loss	2.926004**	4.55
MtoB	0.405713	0.78
LnTotalAssets	-0.2800833*	-2.87
Tier1CommRatio	0.4778265**	5.17
Tier1RiskRatio	-0.3986083**	-4.19
Defensive	3.923597**	5.21
MDAPages	0.0288857	1.83
ACSize	-0.3495911	-1.64
ACMeeting	-0.1184384**	-3.2
ACFEPerc	0.4408486	0.65
ACFemale	0.7435221*	2.79
ACChairFemale	0.447322	0.73
Institutional investors	-0.4721907**	-4.22
BoardSize	0.1749702***	9.36
BoardFemalePerc	-3.566659	-1.35
BoardIndependentPerc	8.566477	1.93
CEODuality	-0.4073674	-1.05
Constant	3.638864	0.72
Years-Control	Yes	
Observations	196	
Adjusted R^2	0.133341	

Table 10 Results of Regression of Voluntary Disclosure Score on Absolute DLLP

Independent variables	Voluntary disclosure score	
	Coef.	**t**
AbsDLLP	106.7992***	6.07
Big4	-1.822895***	-6.59
EBTPSc	4.781732	0.53
Loss	0.8609114	1.74
MtoB	-0.6295369	-1.56
LnTotalAssets	-0.1858615	-1.49
Tier1CommRatio	0.491684**	4.73
Tier1RiskRatio	-0.4215591*	-3.01
Defensive	4.788344***	9.06
MDAPages	0.0148714	1.15
ACSize	-0.3214301*	-2.42
ACMeeting	-0.0898345**	-3.87
ACFEPerc	0.1654752	0.42
ACFemale	0.4363106	1.93
ACChairFemale	-0.0104104	-0.02
Institutional investors	-0.307827***	-12.89
BoardSize	0.0864625*	2.42
BoardFemalePerc	-1.57959	-0.54
BoardIndependentPerc	7.612437**	4.54
CEODuality	-0.9262575	-2.9
Constant	5.121599	1.61
Years-Control	Yes	
Observations	409	
Adjusted R^2	0.178079	

Table 11 Results of Logit Regression of "Defensive Language" Variable

Independent variables	Defensive language	
	Coef.	**t**
Voluntary disclosure score	0.3100901***	10.75
Big4	1.10622**	2.15
EBTPSc	-49.96168**	-2.23
Loss	-1.536783	-1.18
MtoB	3.253194***	3.04
LnTotalAssets	1.174993***	3.8
Tier1CommRatio	-0.3102221***	-2.52
Tier1RiskRatio	0.2805949*	1.71
MDAPages	-0.0558915	-1.55
ACSize	-0.321088	-1.29
ACMeeting	0.1582641***	3.11
ACFEPerc	-1.880938***	-3.9
ACFemale	-0.3233174	-1.19
Institutional investors	0.2215228***	2.63
BoardSize	-0.2631347***	-4.37
BoardFemalePerc	-1.186798	-0.99
BoardIndependentPerc	-8.014633***	-3.09
CEODuality	0.6319839	0.81
Constant	-23.40818***	-3.09
Years-Control	Yes	
Observations	409	
Adjusted R^2	0.3703	

Table 12 Results of Regression of Voluntary Disclosure Score on DLLP Negative

Independent variables	Voluntary disclosure score	
	Coef.	**t**
DLLPNegative	-104.8002**	-4.43
Big4	-1.975681**	-3.27
Leverage	-5.549829	-1.13
EBTPSc	5.687504	0.51
Loss	-0.0320902	-0.02
BtoM	0.7065856	0.35
LnTotalAssets	-0.3515938	-2.07
Tier1CommRatio	0.4442415	1.77
Tier1RiskRatio	-0.4181417	-1.38
Defensive	3.742708**	5.2
MDAPages	0.0437188	1.7
ACSize	-0.2835559	-1.22
ACMeeting	-0.1173965***	-7.73
ACFEPerc	-0.5559921	-0.46
ACFemale	0.4997148	1.88
ACChairFemale	-0.149029	-0.18
Institutional investors	-0.5041022	-0.33
BoardSize	0.0378419	0.88
BoardFemalePerc	0.7024653	0.37
BoardIndependentPerc	3.523327	1.09
CEODuality	-1.246637**	-3.65
Constant	16.17793	3.71
Years-Control	Yes	
Observations	250	
Adjusted R^2	0.113044	

Table 13 Results of Regression of Voluntary Disclosure Score on DLLP Positive

Independent variables	Voluntary disclosure score	
	Coef.	**t**
DLLPPositive	42.85792	1.96
Big4	-1.25807	-1.59
Leverage	-35.64436*	-2.71
EBTPSc	16.44654	0.81
Loss	2.13551	1.45
BtoM	-2.417619	-1.24
LnTotalAssets	0.0943962	0.96
Tier1CommRatio	0.4058599**	4.99
Tier1RiskRatio	-0.4476981**	-4.78
Defensive	6.487969**	4.04
MDAPages	-0.0008113	-0.03
ACSize	-0.4692992**	-3.47
ACMeeting	-0.068235	-1.18
ACFEPerc	0.4625271	0.57
ACFemale	0.2506412	0.38
ACChairFemale	-0.1360048	-0.09
Institutional investors	-1.402863	-0.82
BoardSize	0.1423945	2.24
BoardFemalePerc	-7.15548	-1.57
BoardIndependentPerc	8.580838**	3.28
CEODuality	-0.5153941	-0.84
Constant	32.61233*	2.72
Years-Control	Yes	
Observations	150	
Adjusted R^2	0.269197	

Table 14 Results of Regression of Voluntary Disclosure Score on Absolute DLLP

Independent variables	Voluntary disclosure score	
	Coef.	**t**
AbsDLLP	66.4128**	2.24
Big4	-1.936196***	-3.28
Leverage	-11.15028	-1.2
EBTPSc	3.147537	0.33
Loss	0.9216998	1.05
BtoM	-0.8978305	-0.76
LnTotalAssets	-0.0359407	-0.18
Tier1CommRatio	0.4381569***	3.84
Tier1RiskRatio	-0.4265596***	-3.71
Defensive	4.585454***	5.63
MDAPages	0.0163299	1.24
ACSize	-0.345717*	-1.9
ACMeeting	-0.0852185*	-1.87
ACFEPerc	0.0409854	0.06
ACFemale	0.414543	1.13
ACChairFemale	0.1331274	0.21
Institutional investors	-0.9213998	-0.92
BoardSize	0.0700623	1.08
BoardFemalePerc	-2.014447	-0.77
BoardIndependentPerc	6.115694**	1.96
CEODuality	-0.9603444***	-2.57
Constant	13.93552	1.24
Years-Control	Yes	
Observations	400	
Adjusted R^2	0.168432	

Table 15 Results of Regression of Voluntary Disclosure category on DLLP Negative

Independent variables	Voluntary disclosure category	
	Coef.	**t**
DLLPNegative	-34.47779**	-4.11
Big4	-0.0996229	-1.2
EBTPSc	-1.873661	-2.11
Loss	-0.1042647	-0.88
MtoB	-0.081186	-0.59
LnTotalAssets	-0.0622934	-1.99
Tier1CommRatio	0.0691101**	4.75
Tier1RiskRatio	-0.0760647**	-3.91
Defensive	0.4723321**	3.33
MDAPages	0.0053553*	2.93
ACSize	0.0213723	0.6
ACMeeting	-0.0025663	-0.29
ACFEPerc	-0.1336014	-0.76
ACFemale	-0.0291715	-0.44
ACChairFemale	-0.1126615	-0.56
Institutional investors	-0.0523438**	-4.4
BoardSize	0.0019762	0.12
BoardFemalePerc	-0.1518522	-0.24
BoardIndependentPerc	0.615647	1.58
CEODuality	-0.2366047**	-4
Constant	1.79156	2.01
Years-Control	Yes	
Observations	213	
Adjusted R^2	0.16913	

Table 16 Results of Regression of Voluntary Disclosure category on DLLP Positive

Independent variables	Voluntary disclosure category	
	Coef.	t
DLLPPositive	8.267741	0.62
Big4	-0.0188388	-0.17
EBTPSc	2.531667	1.87
Loss	0.7783369***	8.03
MtoB	-0.0469675	-0.81
LnTotalAssets	-0.0965149**	-5.27
Tier1CommRatio	0.0635042**	4.17
Tier1RiskRatio	-0.0462847*	-2.75
Defensive	0.3281477	2.22
MDAPages	0.005446**	4.35
ACSize	0.020042	1.31
ACMeeting	-0.0163238*	-2.72
ACFEPerc	0.1714588	1
ACFemale	0.0926579*	2.55
ACChairFemale	-0.0100657	-0.13
Institutional investors	-0.0694504***	-7.05
BoardSize	0.0325574**	3.97
BoardFemalePerc	-0.9852857	-2.18
BoardIndependentPerc	0.7741697	1.33
CEODuality	-0.1136865	-2.01
Constant	1.582915	2.23
Years-Control	Yes	
Observations	196	
Adjusted R^2	0.1477984	

Table 17 Results of Regression of Voluntary Disclosure category on Absolute DLLP

Independent variables	Voluntary disclosure category	
	Coef.	**t**
AbsDLLP	16.8566*	2.83
Big4	-0.0488547	-1.49
EBTPSc	0.2036203	0.21
Loss	0.2940657**	3.74
MtoB	-0.1125626	-2.2
LnTotalAssets	-0.0807817***	-6.62
Tier1CommRatio	0.0744324**	4.59
Tier1RiskRatio	-0.0703311**	-3.83
Defensive	0.4454917***	8.93
MDAPages	0.0051685***	23.55
ACSize	0.0252566	2.02
ACMeeting	-0.0113004**	-3.62
ACFEPerc	0.0396221	0.35
ACFemale	0.0438517	0.81
ACChairFemale	-0.0768345	-0.83
Institutional investors	-0.0546141***	-9.86
BoardSize	0.0165935*	2.94
BoardFemalePerc	-0.5547814	-1.44
BoardIndependentPerc	0.3370869	1.8
CEODuality	-0.1783097**	-3.94
Constant	2.110503***	10.91
Years-Control	Yes	
Observations	409	
Adjusted R^2	0.14216723	

Table 18 Descriptive Statistics of the Variables Related to Cost of Equity Study

	N	Mean	Std Dev	Min	25th percentile	Median	75th percentile	Max
RAverage	392	0.1713058	0.3090755	0.0239199	0.0796928	0.0976126	0.1354968	4.080155
Voluntary disclosure score	412	4.167476	3.794427	0	1	3	6	20
Leverage	412	9.106113	2.47838	3.630703	7.420092	8.725506	10.23434	25.23467
LnTotalAssets	412	23.26419	1.594764	21.2478	22.08615	22.78257	23.8394	28.57581
ROE	412	0.0635275	0.1621645	-1.937755	0.0554737	0.0877517	0.1154802	0.2655377
MtoB	409	1.211151	0.2949756	0.6791379	1.009454	1.162812	1.350687	2.720968
InvPrice	410	0.0671101	0.1082429	0.0039559	0.0266383	0.0381607	0.0691085	1.030928
CEODuality	412	0.5072816	0.5005548	0	0	1	1	1
LnTier1Commonratio	411	2.288678	0.3335598	0.5306283	2.084429	2.313525	2.501436	3.291754
LnDispersion	384	-5.49479	1.432311	-8.213382	-6.46787	-5.710713	-4.760032	0.7130666
NegativeEarnings	412	0.092233	0.2897064	0	0	0	0	1

Table 19 Correlation of the Variables Related to Cost of Equity Study

	RAverage	Voluntary disclosure score	Leverage	Ln Total Assets	ROE	MtoB	Inv Price	CEO Duality	Ln Tier1 Common ratio	Ln Dispersion
RAverage	1									
Voluntary Disclosure score	0.0191	1								
Leverage	0.164**	-0.0532	1							
Ln Total Assets	0.0605	-0.0368	-0.0273	1						
ROE	-0.397***	0.0141	0.00984	0.0201	1					
MtoB	-0.233***	0.0532	0.220***	-0.252***	0.324***	1				
Inv Price	0.465***	-0.0742	-0.00963	-0.102*	-0.236***	-0.269***	1			
CEO Duality	0.00547	-0.141**	0.0776	0.271***	0.069	0.0851	-0.101*	1		
Ln Tier1 Common ratio	-0.391***	0.105*	-0.375***	-0.213***	0.215***	0.127*	-0.107*	-0.0329	1	
Ln Dispersion	0.671***	-0.0568	0.00769	0.131*	-0.490***	-0.510***	0.467***	-0.0627	-0.399***	1
Negative Earnings	0.523***	-0.0224	0.0768	0.033	-0.657***	-0.268***	0.295***	-0.0439	-0.303***	0.573***

Table 20 Correlation of the Four Measures Used in Calculating Cost of Equity

	Rpeg	Rojn	Rmpeg1	RAver
Rpeg	1			
Rojn	0.928***	1		
Rmpeg1	0.929***	1.000***	1	
RAver	0.954***	0.997***	0.997***	1

Table 21 Results of Regression of Cost of Equity

Independent variable	Rpeg		Rojn		Rojn		Raver	
	Coef.	t	Coef.	t	Coef.	t	Coef.	t
Voluntary disclosure score	0.0031604**	2.05	0.0090723**	2.51	0.0090629**	2.51	0.0070882**	2.48
Leverage	0.0074582**	2.39	0.0169812**	2.33	0.0171923**	2.36	0.0138288**	2.39
LnTotalAssets	-0.0029539	-0.71	-0.0025517	-0.26	-0.0026741	-0.28	-0.0027972	-0.36
ROE	-0.0061965	-0.11	-0.0775262	-0.59	-0.0784694	-0.6	-0.0541289	-0.52
MtoB	0.0231695	0.88	0.1167766*	1.89	0.1166693*	1.9	0.0850424*	1.74
InvPrice	0.4900326***	6.76	0.6941078***	4.1	0.6900383***	4.07	0.624308***	4.65
CEODuality	0.0299057**	2.4	0.0477972	1.64	0.048665*	1.67	0.0419931*	1.82
LnTier1CommRation	-0.0537475**	-2.11	-0.1358907**	-2.28	-0.1362936**	-2.29	-0.108473**	-2.29
LnDispersion	0.0818355***	11.52	0.1543165***	9.28	0.1541425***	9.28	0.1302133***	9.87
NegativeEarnings	0.1250578***	4.13	0.190226***	2.68	0.1950877***	2.76	0.1694616***	3.01
Years-Control	Yes		Yes		Yes		Yes	
Observations	376		375		376		375	
Adjusted R^2	0.6614		0.5118		0.5194		0.5584	

Table 22 Descriptive Statistics of Financial Analysts Forecast Properties

	N	Mean	Std Dev	Min	25th percentile	Median	75th percentile	Max
Voluntary disclosure score	412	4.167476	3.794427	0	1	3	6	20
ForecastError	402	0.0635594	0.2406058	0	0.0021471	0.0056781	0.0169051	2.261628
LnForecastError	396	-4.905374	1.837157	-9.270894	-6.11281	-5.12845	-4.053662	0.8160849
Dispersion	384	-0.1517673	0.3003401	-3.318429	-0.1621826	-0.0944839	-0.0497807	0.3940693
LnDispersion	384	-2.362468	0.9984628	-7.651789	-2.887107	-2.31761	-1.806707	1.199491
Leverage	412	9.106113	2.47838	3.630703	7.420092	8.725506	10.23434	25.23467
LnTotalAssets	412	23.26419	1.594764	21.2478	22.08615	22.78257	23.8394	28.57581
ROE	412	0.0635275	0.1621645	-1.937755	0.0554737	0.0877517	0.1154802	0.2655377
Institutional ownership	410	0.5538537	0.2087283	0.08	0.4	0.56	0.7	1
CEODuality	412	0.5072816	0.5005548	0	0	1	1	1
Tier1RiskRatio	412	12.74391	3.474724	6.21	10.72	12.33	13.955	40.57
BoardSize	412	12.54369	3.068644	6	10	12	14	24
Negative Earnings	412	0.092233	0.2897064	0	0	0	0	1
ACSize	412	4.621359	1.195014	3	4	4	5	11
ACFE	412	1.966019	1.319445	0	1	2	3	8

Table 23 Descriptive Statistics of Financial Analysts Forecast Properties

Years	variable	N	Mean	Std Dev	Min	25th percentile	Median	75th percentile	Max
20051231	Forecast Error	100	0.027579	0.120643	0	0.0011941	0.003422	0.0077737	1.073328
	LnForecastError	98	-5.52665	1.589622	-9.27089	-6.672982	-5.64452	-4.8519	0.070764
	Dispersion	94	-0.13368	0.336567	-3.31843	-0.1355316	-0.09418	-0.0599642	0.005087
	LnDispersion	94	-2.47829	0.908311	-7.65179	-2.814008	-2.36258	-1.99855	1.199491
20081231	Forecast Error	100	0.176073	0.42679	0.000169	0.0060005	0.017902	0.0918965	2.261628
	LnForecastError	100	-3.77425	2.134608	-8.68744	-5.115939	-4.023	-2.389669	0.816085
	Dispersion	91	-0.05161	0.118495	-0.3429	-0.102236	-0.05635	-0.0215084	0.394069
	LnDispersion	91	-2.75729	0.960957	-5.7222	-3.395467	-2.75529	-2.006417	-0.93123
20111231	Forecast Error	101	0.043941	0.139592	0	0.0039913	0.007642	0.0218579	1.27686
	LnForecastError	100	-4.58542	1.602233	-7.93021	-5.510989	-4.82817	-3.823192	0.244404
	Dispersion	98	-0.27611	0.437922	-2.69735	-0.2718518	-0.13228	-0.0821808	-0.00735
	LnDispersion	98	-1.92428	1.090108	-4.91338	-2.498834	-2.0231	-1.302498	0.992271
20141231	Forecast Error	101	0.007402	0.019803	0	0.00123	0.003181	0.0058908	0.142144
	LnForecastError	98	-5.76478	1.177276	-8.24617	-6.630244	-5.66109	-5.130145	-1.95092
	Dispersion	101	-0.13819	0.129234	-0.85757	-0.1862933	-0.1019	-0.0567569	-0.00929
	LnDispersion	101	-2.32412	0.850328	-4.67834	-2.868979	-2.28378	-1.680433	-0.15365
Total	Forecast Error	402	0.063559	0.240606	0	0.0021471	0.005678	0.0169051	2.261628
	LnForecastError	396	-4.90537	1.837157	-9.27089	-6.11281	-5.12845	-4.053662	0.816085
	Dispersion	384	-0.15177	0.30034	-3.31843	-0.1621826	-0.09448	-0.0497807	0.394069
	LnDispersion	384	-2.36247	0.998463	-7.65179	-2.887107	-2.31761	-1.806707	1.199491

Table 24 Correlation Matrix - Financial Analysts Forecast Properties

	Voluntary disclosure score	Ln Forecast Error	Ln Dispersion	Ln Coverage	Leverage	Ln Total Assets	ROE	Institutional investors	CEO Duality	Tier1 Risk Ratio	Board Size	Negative Earnings	AC Size
Voluntary disclosure score	1												
Ln Forecast Error	-0.128*	1											
Ln Dispersion	-0.1	0.108*	1										
Ln Coverage	-0.0688	-0.0874	-0.201***	1									
Leverage	-0.0788	0.104*	0.0258	-0.150**	1								
Ln Total Assets	-0.017	-0.00821	-0.290***	0.752***	-0.0527	1							
ROE	0.0211	-0.392***	-0.0811	0.0566	-0.0102	0.00906	1						
Institutional investors	-0.0306	0.00622	-0.128*	0.469***	-0.281***	0.343***	-0.0431	1					
CEO Duality	-0.140**	-0.130*	-0.158**	0.248***	0.107*	0.259***	0.0587	0.0479	1				
Tier1Risk Ratio	-0.0162	-0.0154	0.188***	-0.204***	-0.263***	-0.186***	-0.00938	0.0963	-0.0917	1			
Board Size	0.0494	-0.137**	-0.201***	0.241***	-0.0426	0.258***	0.0427	-0.0607	-0.00969	-0.308***	1		
Negative Earnings	-0.0304	0.469***	0.122*	-0.0765	0.120*	0.0248	-0.651***	-0.0466	-0.0387	0.034	-0.0881	1	
ACSize	-0.0517	-0.0858	-0.00598	0.0967	-0.0747	0.156**	-0.0549	0.0292	-0.0251	-0.00157	0.254***	-0.0215	1
ACFE	-0.0877	-0.0966	-0.0429	0.255***	-0.00425	0.352***	-0.0379	0.235***	0.0926	-0.0658	0.123*	-0.0137	0.280*

Table 25 Results of Regression of Financial Analysts' Forecast Error

Independent variables	LnForecastError	
	Coef.	t
Voluntary disclosure score	-0.0656978***	-3.31
LnCoverage	-0.2264889	-1.44
Leverage	0.0315925	0.92
LnTotalAssets	0.1473835**	2.02
ROE	-1.408208**	-2.35
Institutional investors	0.4947197	1.07
CEODuality	-0.4715408***	-3.01
Tier1RiskRatio	-0.037843	-1.51
BoardSize	-0.065783**	-2.36
NegativeEarnings	1.768411***	5.21
ACSize	-0.0692454	-1.03
ACFE	-0.1336083**	-2.09
Constant	-6.483646***	-4.13
Years-Control	Yes	
Observations	396	
Adjusted R^2	0.3644	

Table 26 Results of Regression of Financial Analysts' Forecast Dispersion

Independent variables	LnForecastDispersion	
	Coef.	t
Voluntary disclosure score	-0.0270897**	-2.23
LnCoverage	0.0454581	0.44
Leverage	0.0262969	1.22
LnTotalAssets	-0.1848128***	-3.98
ROE	-0.0115797	-0.03
CEODuality	-0.1709749*	-1.77
Tier1RiskRatio	0.0032987	0.22
BoardSize	-0.0276392	-1.63
NegativeEarnings	0.6600796***	3.02
ACSize	0.0328915	0.8
ACFE	0.0219715	0.56
Constant	1.751243*	1.82
Years-Control	Yes	
Observations	384	
Adjusted R^2	0.2173	

Figure 1