

TABLE 1
Descriptive Statistics and Differences: Dependent and Independent Variables

Panel A: Continuous variables

	UK					Italy					Difference <i>t</i> -statistics
	N	Mean	Std. Dev.	Min	Max	N	Mean	Std. Dev.	Min	Max	
<i>Voluntary risk disclosure</i>	1395	2.34	0.16	2.07	2.58	426	2.04	0.18	1.72	2.33	32.37***
<i>Mandatory risk disclosure</i>	1395	1.45	0.24	1.04	1.79	428	1.86	0.15	1.62	2.12	-34.15***
<i>Board size</i>	1348	1.09	0.12	0.90	1.30	440	0.95	0.11	0.78	1.11	20.96***
<i>Non-executive directors</i>	1347	0.94	0.08	0.78	1.00	440	0.32	0.14	0.14	0.55	117.28***
<i>Independent non-executive directors</i>	1344	0.74	0.17	0.42	1.00	435	0.37	0.13	0.21	0.61	40.09***
<i>Dividend yield</i>	1203	2.81	1.23	0.71	4.57	362	1.78	1.45	0.00	4.26	11.67***
<i>Concentrated ownership structure</i>	1230	0.15	0.16	0.00	0.47	440	0.62	0.09	0.46	0.76	-56.37***
<i>Firm size</i>	1420	5.98	0.68	4.99	7.10	428	5.14	0.73	3.71	5.95	25.98***
<i>Firm growth</i>	1450	1.02	0.26	0.55	1.42	440	0.99	0.25	0.54	1.42	1.93***
<i>Firm profitability</i>	1286	1.20	0.30	0.81	1.67	429	0.02	0.05	0.08	0.08	81.49***
<i>Firm liquidity</i>	1429	0.36	0.10	0.21	0.55	420	0.37	0.09	0.25	0.53	-2.02***
<i>Firm risk</i>	1429	1.07	0.48	0.42	1.95	416	0.84	0.38	0.25	1.43	8.77***
<i>Firm capital structure</i>	1384	1.52	0.72	0.05	2.33	421	1.80	0.40	1.02	2.32	-7.61***
<i>Market liquidity</i>	1116	0.65	0.72	0.08	2.18	419	1.41	1.52	-0.13	4.39	-12.03***
<i>Book-to-market ratio</i>	1115	5.44	0.68	3.95	6.02	428	4.47	0.70	3.14	5.32	20.30***
<i>Share price volatility</i>	1116	0.33	0.11	0.19	0.552	414	0.32	0.103	0.00	0.49	1.78*
<i>Trading volume</i>	1116	1.43	1.57	0.161	22.92	419	0.94	1.74	0.00	17.72	5.16***

Panel B: Dichotomous variables

	UK		Italy		Difference <i>t</i> -statistics
	Yes (1)	No (0)	Yes (1)	No (0)	
<i>CEO duality</i>	45	1301	113	327	-15.218***
<i>Audit quality</i>	1171	279	375	65	-2.129**

Panel A of this table explains for each country the descriptive statistics of the continuous variables including the following: risk disclosure, corporate governance, other firm characteristics and market indicators. It further identifies the differences, by reporting the **t-statistics** for those variables between the British and Italian firms over the five-year period. *, ** and *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively. All continuous variables are winsorized at the 1st and 99th percentile.

Risk disclosure includes mandatory and voluntary risk disclosure. **Mandatory risk disclosure** is measured by the log of the number of sentences indicating risk, as part of the fulfilment of the regulatory requirements (IFRS, UK GAAP and Italian GAAP). These sentences are those that both belong to the set of aggregated risk disclosure sentences and contain at least one word (or a derivative of one) related to the final set of six mandated themes. **Voluntary risk disclosure** is measured by the log of the number of sentences that indicate risk but are not required under any regulatory requirements. These sentences are those remaining after the mandatory risk disclosure sentences have been subtracted from the set of aggregated risk disclosure sentences.

Corporate governance includes the following variables: **board size** measured by the log of the total number of directors; **non-executive directors** measured by the proportion of non-executive directors on the board; **independent non-executive directors** measured by the proportion of independent non-executive directors on the board; **dividend yield** measured by the log of the ratio of dividends for the most recent full year to the current share price; **concentrated ownership structure** captured by closely held shares, proxied by the log of the percentage of shares owned by firm insiders (e.g., shares held by officers, directors and their families or any individual who holds 5% or more of the outstanding shares); **CEO duality**, a dummy variable taking the value 1 if the CEO is also the chairman of the board of directors and 0 otherwise; **audit quality**, a dummy taking the value 1 if the external auditor is one of the “big four” and 0 otherwise.

Other firm characteristics are as follows: **firm size** measured by the log of total assets; **firm growth** measured by the log of the ratio of the difference between earnings in years t_1 and t_0 to earnings in year t_0 ; **firm profitability** measured by the log of the return on equity (ROE); **firm liquidity** measured by the log of the ratio of total current assets to total current liabilities; **firm risk** measured by beta, which is the covariance of a firm’s market return relative to a market index, based on between 23 and 35 consecutive month-end prices relative to the market returns of the FTSE All Share in the UK and FTSE MIB in Italy; **firm capital structure** measured by the log of leverage, proxied by the ratio of total debt to total equity.

Market indicators include the following: **market liquidity** measured by the three-month mean of the relative spread, which is calculated by dividing the difference between the daily ask and bid prices by the average of the daily ask and bid prices; **book to market ratio** measured as the book value of equity divided by the market value of equity; **share price volatility** measured by the standard deviation of daily stock prices; **trading volume** measured by dividing the daily trading volume by the number of outstanding shares.

Panel B of this table gives the frequencies of the dichotomous variables, namely duality of chief executive and audit quality. It also shows, for those two variables, the differences between the UK and Italy firms over the five-year period.

TABLE 2
Correlation Analysis for Continuous Variables

Panel A: The UK																
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) <i>Voluntary risk disclosure</i>																
(2) <i>Mandatory risk disclosure</i>	0.680^a															
(3) <i>Market liquidity</i>	-0.413^a	-0.296^a														
(4) <i>Book-to-market ratio</i>	-0.002	0.014	-0.176^a													
(5) <i>Board size</i>	0.404^a	0.311^a	-0.367^a	0.068^b												
(6) <i>Non-executive directors</i>	0.019	-0.001	0.070^b	-0.056^b	-0.262^a											
(7) <i>Independent non-executive directors</i>	0.038	0.061^b	0.074^b	-0.064^b	-0.116^a	0.445^a										
(8) <i>Dividend yield</i>	0.070^b	0.115^a	-0.038	-0.014	0.138^a	-0.136^a	-0.028									
(9) <i>Concentrated ownership</i>	-0.071^b	-0.043	0.019^b	-0.025	-0.077^a	0.133^a	0.043	-0.101^a								
(10) <i>Size</i>	0.488^a	0.360^a	-0.036	0.005	0.455^a	0.007	0.061^b	0.136^a	-0.028							
(11) <i>Growth</i>	-0.114^a	-0.178^a	0.038	-0.044	-0.164^a	0.071^a	0.046	-0.353^a	0.047	-0.045						
(12) <i>Profitability</i>	-0.059^b	-0.049	-0.132^a	0.284^a	-0.009	-0.295^a	-0.234^a	0.030	-0.137^a	-0.176^a	0.002					
(13) <i>Liquidity</i>	-0.094^a	-0.100^a	0.035	0.019	-0.129^a	0.013	0.032	-0.103^a	-0.030^a	-0.184^a	0.041	-0.073^a				
(14) <i>Risk</i>	0.085^a	0.060^b	-0.059^c	-0.048^c	-0.033	0.075^a	0.008	-0.249^a	0.014	-0.015	-0.031	-0.098^a	0.097^a			
(15) <i>Capital structure</i>	0.270^a	0.252^a	-0.123^a	0.018	0.154^a	-0.074^a	-0.055^b	0.169^a	-0.048	0.226^a	-0.096^a	0.062^b	-0.433^a	-0.029		
(16) <i>Share price volatility</i>	-0.088^a	-0.142^a	0.328^a	-0.050	-0.139^a	0.074^b	0.052	-0.326^a	0.095^a	0.062^b	0.131^a	-0.247^a	0.055^c	0.436^a	-0.088^a	
(17) <i>Trading volume</i>	0.266^a	0.164^a	-0.574^a	0.119^a	0.283^a	-0.057^c	-0.042	-0.021	-0.013	0.094^a	-0.025	0.119	-0.094^a	0.081^a	0.154^a	-0.086^a

Panel B: Italy																
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) <i>Voluntary risk disclosure</i>																
(2) <i>Mandatory risk disclosure</i>	0.309^a															
(3) <i>Market liquidity</i>	0.136^a	0.232^a														
(4) <i>Book-to-market ratio</i>	-0.089^c	-0.185^a	-0.494^a													
(5) <i>Board size</i>	0.020	0.319^a	-0.140^a	-0.016												
(6) <i>Non-executive directors</i>	0.010	-0.022	-0.065	0.044	-0.117^b											
(7) <i>Independent non-executive directors</i>	-0.039	0.005	-0.209	0.030	-0.068	-0.239^a										
(8) <i>Dividend yield</i>	-0.046	0.225^a	-0.127^b	0.117^b	0.422^a	-0.003	-0.044									
(9) <i>Concentrated ownership</i>	-0.08^c	-0.003	0.163^a	-0.040	0.036	0.127^a	0.003	0.196^a								
(10) <i>Size</i>	0.061	0.087^c	-0.004	0.001	0.062	0.074	-0.052	0.104^b	0.035							
(11) <i>Growth</i>	0.079	-0.065	-0.025	0.036	0.068	0.052	-0.169^a	-0.082	0.057	0.087^c						
(12) <i>Profitability</i>	-0.131^a	-0.006	-0.269^a	0.274^a	0.212^a	0.122^b	-0.051	0.346^a	0.141^a	0.061	0.121^b					
(13) <i>Liquidity</i>	-0.089^c	-0.149^a	-0.189^a	0.149^a	-0.046	0.271^a	-0.191^a	0.045	-0.142^a	-0.077	0.016	0.191^a				
(14) <i>Risk</i>	0.057	0.030	0.009	-0.098^b	0.134^a	0.017	0.031	-0.207^a	-0.106^b	-0.005	0.026	-0.136^a	0.004			
(15) <i>Capital structure</i>	-0.014	0.320^a	0.072	-0.080^c	0.205^a	-0.226^a	0.081	0.071	0.062	0.149^a	0.036	-0.144^a	-0.502^a	0.079^c		
(16) <i>Share price volatility</i>	0.081^c	0.007	-0.115	0.013	-0.001	0.054	0.031	-0.024	-0.075	-0.007	0.025	0.012	0.044	0.126^b	-0.054	
(17) <i>Trading volume</i>	0.056	0.101^b	-0.273^a	0.188^a	0.032	0.094^b	-0.016	0.024	-0.341^a	0.022	0.050	0.004	0.068	0.192^a	0.024	0.047

Panel A and Panel B of this table give the Pearson correlations between the continuous variables for the UK and Italian firms, respectively. The variable definitions are the same as in Table 1. Significant coefficients are presented in bold; **a**, **b**, and **c** indicate significance, all for two-tailed t-tests, at 0.1, 0.05 and 0.01, respectively.

TABLE 3

Fixed and Random Effects Panel Regressions of Voluntary and Mandatory Risk Disclosure on Governance and Control Variables

Dependent variables	Expected sign (ES)	Voluntary disclosure		Mandatory disclosure	
		The UK (1)	Italy (2)	The UK (3)	Italy (4)
<i>Board size</i>	(+)	0.160*** (2.751)	0.107 (0.726)	0.104 (1.148)	0.378* (1.886)
<i>Non-executive directors</i>	(+)	0.353*** (4.301)	0.149 (1.606)	0.165 (1.303)	0.297*** (2.843)
<i>Independent non-executive directors</i>	(+)	-0.012 (-0.451)	-0.064 (-0.675)	0.045 (1.078)	0.064 (0.571)
<i>CEO duality</i>	(-)	-0.027 (-0.763)	0.008 (0.245)	0.040 (0.724)	0.126*** (3.289)
<i>Dividend yield</i>	(-)	-0.030*** (-2.792)	-0.015 (-1.414)	0.025 (1.505)	-0.020 (-1.454)
<i>Concentrated ownership structure</i>	(-)	-0.082 (-1.591)	-0.080 (-0.582)	0.003 (0.041)	-0.045 (-0.277)
<i>Audit quality</i>	(+)	-0.022 (-0.810)	-0.007 (-0.161)	-0.086** (-2.058)	-0.156*** (-2.827)
<i>Size</i>	(?)	0.042*** (3.938)	0.015 (0.884)	0.003 (0.160)	0.047** (2.313)
<i>Growth</i>	(?)	-0.008 (-0.329)	-0.006 (-0.166)	-0.071* (-1.780)	-0.030 (-0.860)
<i>Profitability</i>	(+)	-0.019 (-1.016)	-0.205 (-0.939)	-0.057* (-1.918)	-0.297 (-1.300)
<i>Liquidity</i>	(+)	-0.030 (-0.447)	-0.510*** (-3.273)	0.058 (0.556)	-0.572*** (-3.306)
<i>Risk</i>	(+)	0.009 (0.722)	0.036 (1.160)	-0.032* (-1.675)	0.060* (1.849)
<i>Capital structure</i>	(?)	0.007 (0.791)	-0.024 (-0.596)	0.004 (0.269)	-0.024 (-0.470)
<i>Intercept</i>	(?)	1.724*** (12.750)	2.130*** (10.130)	1.283*** (6.127)	1.558*** (5.652)
R-squared		11.65%	11.24%	5.04%	22.54%
F-value (Wald-chi ²)		6.88***	(27.02)**	2.23***	5.46***
Observations		804	333	807	335

This table shows the results of the fixed (Models 1, 3 and 4) and random (Model 2) effects panel regressions of mandatory and voluntary risk disclosure on the corporate governance variables and control variables. It reports the unstandardized coefficients on the explanatory variables. Variable definitions are the same as for the previous tables. R-squared describes the model's ability to explain the changes in voluntary and mandatory risk disclosure using the model's predictor variables. T-statistics for the T and F (Wald-chi²) values are given in parentheses for the fixed (random) effects estimates. *, ** and *** indicate significance at 0.1, 0.05 and 0.01, respectively.

TABLE 4
Fixed and Random Effects Panel Regressions of Voluntary and Mandatory Risk Disclosure for Strongly and Weakly Governed Firms in the UK and Italy

Dependent variables	ES	<i>Strongly governed firms</i>				<i>Weakly governed firms</i>			
		<i>Voluntary disclosure</i>		<i>Mandatory disclosure</i>		<i>Voluntary disclosure</i>		<i>Mandatory disclosure</i>	
		<i>The UK</i>	<i>Italy</i>	<i>The UK</i>	<i>Italy</i>	<i>The UK</i>	<i>Italy</i>	<i>The UK</i>	<i>Italy</i>
Independent variables		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Board size</i>	(+)	0.132 (1.600)	0.148 (0.721)	0.122 (0.928)	0.578* (1.843)	0.108 (0.874)	0.074 (0.317)	0.133 (0.694)	0.209 (0.449)
<i>Non-executive directors</i>	(+)	0.453*** (2.891)	0.193 (1.601)	-0.174 (-0.698)	0.226 (1.633)	0.178 (1.195)	0.016 (0.102)	-0.019 (-0.081)	0.226 (1.059)
<i>Independent non-executive directors</i>	(+)	-0.016 (-0.199)	-0.058 (-0.343)	-0.041 (-0.330)	-0.071 (-0.337)	-0.007 (-0.087)	0.074 (0.119)	-0.004 (-0.035)	1.082 (1.092)
<i>CEO duality</i>	(-)	-0.008 (-0.133)	0.020 (0.425)	0.090 (0.905)	0.174** (2.408)	-0.021 (-0.349)	-0.024 (-0.559)	0.051 (0.549)	0.083 (1.532)
<i>Dividend yield</i>	(-)	-0.057*** (-3.443)	0.010 (0.636)	0.035 (1.346)	0.002 (0.105)	-0.028 (-1.544)	-0.044*** (-2.739)	0.014 (0.483)	-0.033 (-1.289)
<i>Concentrated ownership</i>	(-)	-0.079 (-0.992)	-0.211 (-1.139)	-0.004 (-0.028)	-0.056 (-0.244)	-0.097 (-1.011)	0.133 (0.592)	-0.099 (-0.665)	0.288 (0.874)
<i>Audit quality</i>	(+)	0.020 (0.535)	-0.075 (-1.201)	-0.090 (-1.542)	-0.253*** (-2.854)	-0.099* (-1.744)	-0.026 (-0.413)	-0.111 (-1.263)	-0.132 (-1.079)
<i>Size</i>	(?)	0.046*** (3.430)	0.023 (0.994)	0.013 (0.615)	0.015 (0.529)	0.118*** (3.470)	0.003 (0.104)	0.039 (0.767)	0.067* (1.707)
<i>Growth</i>	(?)	-0.058 (-1.599)	0.044 (0.921)	-0.109* (-1.886)	0.006 (0.133)	-0.041 (-0.845)	-0.104* (-1.777)	-0.130* (-1.720)	-0.040 (-0.587)
<i>Profitability</i>	(+)	-0.061** (-2.225)	0.093 (0.301)	-0.082* (-1.883)	0.109 (0.300)	0.002 (0.062)	-0.289 (-0.892)	-0.051 (-0.872)	-0.547 (-1.504)
<i>Liquidity</i>	(+)	-0.097 (-1.041)	-0.652*** (-2.971)	0.040 (0.272)	-0.819*** (-3.078)	0.025 (0.205)	-0.190 (-0.834)	0.260 (1.360)	-0.483 (-1.642)
<i>Risk</i>	(+)	0.008 (0.454)	0.020 (0.460)	-0.005 (-0.168)	0.068 (1.363)	0.000 (0.002)	0.056 (1.159)	-0.072* (-1.758)	0.073 (1.267)
<i>Capital structure</i>	(?)	0.011 (0.787)	-0.078 (-1.313)	0.011 (0.488)	-0.078 (-0.929)	0.008 (0.475)	0.007 (0.120)	0.007 (0.282)	0.008 (0.091)
<i>Intercept</i>	(?)	1.791*** (8.011)	2.235*** (7.470)	1.613*** (4.537)	1.800*** (4.173)	1.538*** (5.024)	2.120*** (5.835)	1.299*** (2.732)	1.122 (1.590)
R-squared		22.09%	9.73%	7.27%	26.4%	15.16%	24.63%	8.03%	24.3%
F-value (Wald-chi ²)		5.15***	(17.24)	1.44***	3.36***	2.16**	(21.33)**	1.06	2.10**
Observations		456	189	458	191	348	144	349	144

This table explains the extent to which corporate governance mechanisms influence voluntary and mandatory risk disclosure, with a distinction made between strongly and weakly governed firms in the UK and Italy. It reports the unstandardized coefficients on the explanatory variables. All model estimations are based on fixed effects panel regressions except for Models 2 and 6 that are based on random effects panel regressions. All variable definitions are the same as in Table 1. *, ** and *** indicate significance at 0.1, 0.05 and 0.01, respectively.

TABLE 5
OLS Regressions of the Impact of Voluntary and Mandatory Risk Disclosure on Market Liquidity for All, Strongly Governed and Weakly Governed Firms in the UK and Italy

Dependent variables	ES	<i>All firms</i>				<i>Strongly governed firms</i>				<i>Weakly governed firms</i>			
		<i>Market liquidity</i>				<i>Market liquidity</i>				<i>Market liquidity</i>			
		<i>The UK</i>		<i>Italy</i>		<i>The UK</i>		<i>Italy</i>		<i>The UK</i>		<i>Italy</i>	
Independent variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
<i>Voluntary risk disclosure</i>	(-)	-0.196*** (-5.995)		-0.078** (-2.261)		-0.225*** (-5.408)		-0.096* (-1.779)		-0.174*** (-3.103)		-0.067 (-1.240)	
<i>Mandatory risk disclosure</i>	(-)		-0.128*** (-4.546)		-0.038 (-1.035)		-0.128*** (-3.548)		-0.014 (-0.255)		-0.147*** (-3.313)		-0.031 (-0.472)
<i>Board size</i>	(-)	-0.107*** (-3.233)	-0.137*** (-4.225)	-0.145*** (-4.024)	-0.131*** (-3.499)	-0.094** (-2.166)	-0.126*** (-3.158)	-0.098 (-1.597)	-0.082 (-1.480)	-0.119** (-2.138)	-0.135*** (-2.669)	-0.226*** (-4.013)	0.214*** (-3.350)
<i>Non-executive directors</i>	(?)	0.044 (1.421)	0.039 (1.273)	0.014 (0.410)	0.018 (0.540)	0.023 (0.572)	0.023 (0.586)	-0.008 (-0.158)	0.002 (0.040)	0.037 (0.728)	0.031 (0.619)	0.086 (1.606)	0.090* (1.671)
<i>Independent non-executive directors</i>	(?)	0.034 (0.949)	0.039 (1.120)	-0.041 (-1.203)	-0.043 (-1.252)	0.005 (0.127)	0.009 (0.242)	-0.022 (-0.448)	-0.021 (-0.477)	0.041 (0.779)	0.045 (0.859)	-0.006 (-0.129)	-0.003 (-0.063)
<i>CEO duality</i>	(?)	0.016 (0.451)	0.022 (0.625)	0.083*** (2.602)	0.088*** (2.789)	0.014 (0.352)	0.017 (0.485)	0.049 (1.002)	0.056 (1.102)	0.028 (0.447)	0.035 (0.576)	0.124** (2.456)	0.124** (2.441)
<i>Book-to-market ratio</i>	(-)	-0.158*** (-5.325)	-0.161*** (-5.476)	-0.139*** (-3.755)	-0.154*** (-4.161)	-0.144*** (-3.573)	-0.141*** (-3.694)	-0.139** (-2.498)	-0.145** (-2.564)	-0.158*** (-3.147)	-0.165*** (-3.314)	-0.087 (-1.511)	-0.104* (-1.827)
<i>Risk</i>	(-)	-0.110*** (-3.582)	-0.115*** (-3.710)	0.011 (0.357)	0.014 (0.415)	-0.052 (-1.378)	-0.057 (-1.459)	0.017 (0.354)	0.033 (0.688)	-0.199*** (-3.609)	-0.210*** (-3.792)	0.051 (0.820)	0.042 (0.666)
<i>Share price volatility</i>	(+)	0.307*** (9.739)	0.308*** (9.514)	-0.056* (-1.774)	-0.053* (-1.650)	0.319*** (7.657)	0.332*** (7.595)	-0.054 (-1.202)	-0.047 (-1.074)	0.311*** (6.027)	0.305*** (5.910)	-0.062 (-1.232)	-0.065 (-1.276)
<i>Trading volume</i>	(-)	-0.426*** (-12.815)	-0.454*** (-14.023)	-0.193*** (-5.633)	-0.201*** (-5.828)	-0.445*** (-10.606)	-0.474*** (-12.514)	-0.166*** (-3.310)	-0.181*** (-3.505)	-0.396*** (-6.752)	-0.425*** (-7.634)	-0.228*** (-4.129)	-0.235*** (-4.281)
<i>Size</i>	(-)	-0.045* (-1.762)	-0.035 (-1.407)	-0.025 (-0.780)	-0.019 (-0.589)	-0.023 (-0.737)	-0.017 (-0.517)	-0.023 (-0.507)	-0.016 (-0.326)	-0.085* (-1.924)	-0.072* (-1.650)	-0.002 (-0.052)	0.007 (0.134)
<i>Liquidity</i>	(-)	-0.045 (-1.632)	-0.047* (-1.704)	-0.043 (-1.016)	-0.048 (-1.126)	0.001 (0.043)	-0.005 (-0.141)	-0.121* (-1.799)	-0.125** (-2.084)	-0.080* (-1.724)	-0.0711 (-1.490)	0.055 (0.956)	0.050 (0.859)
<i>Capital structure</i>	(-)	0.015 (0.500)	0.006 (0.178)	-0.008 (-0.224)	-0.003 (-0.075)	0.077* (1.800)	0.054 (1.314)	-0.044 (-0.759)	-0.046 (-0.770)	-0.028 (-0.565)	-0.027 (-0.552)	0.049 (0.833)	0.053 (0.889)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Correct for heteroskedasticity	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared		52.2%	51.5%	71.1%	70.3%	53.3%	52.1%	68.3%	67.2%	50.9%	50.9%	74.3%	74.0%
F-value		38.55***	38.59***	43.86***	43.00***	20.1***	22.96***	20.75***	18.77***	15.52***	14.81***	26.63***	26.66***
Observations		772	774	344	346	445	446	190	192	327	328	154	154

This table explains how voluntary and mandatory risk disclosure affect market liquidity in the UK and Italy. It reports the standardized coefficients on the explanatory variables. All variable definitions are the same as in Table 1. *, ** and *** indicate significance at 0.1, 0.05 and 0.01, respectively.

TABLE 6

Panel A: Fixed and Random Effects Panel Regressions of Aggregate Risk Disclosure for All, Strongly Governed and Weakly Governed Firms in the UK and Italy

Dependent variables	ES	Aggregate risk disclosure					
		All firms		Strongly governed firms		Weakly governed firms	
		The UK (1)	Italy (2)	The UK (3)	Italy (4)	The UK (5)	Italy (6)
<i>Board size</i>	(+)	0.165*** (2.896)	0.278** (2.250)	0.136* (1.712)	0.226* (1.942)	0.116 (0.965)	0.289 (1.059)
<i>Non-executive directors</i>	(+)	0.337*** (4.193)	0.168** (2.127)	0.348** (2.311)	0.229** (2.228)	0.160 (1.101)	0.028 (0.213)
<i>Independent non-executive directors</i>	(+)	-0.005 (-0.189)	-0.015 (-0.190)	-0.015 (-0.196)	-0.019 (-0.136)	-0.002 (-0.020)	0.238 (0.446)
<i>CEO duality</i>	(-)	-0.011 (-0.331)	0.016 (0.605)	0.001 (0.018)	0.018 (0.455)	0.005 (0.083)	-0.010 (-0.260)
<i>Dividend yield</i>	(-)	-0.023** (-2.257)	-0.010 (-1.094)	-0.047*** (-2.997)	0.004 (0.277)	-0.024 (-1.365)	-0.028** (-2.095)
<i>Concentrated ownership</i>	(-)	-0.068 (-1.345)	-0.113 (-0.972)	-0.051 (-0.661)	-0.220 (-1.420)	-0.099 (-1.061)	0.102 (0.529)
<i>Audit quality</i>	(+)	-0.026 (-1.008)	-0.027 (-0.770)	0.012 (0.327)	-0.048 (-0.932)	-0.099* (-1.778)	-0.061 (-1.143)
<i>Size</i>	(?)	0.036*** (3.504)	0.025* (1.704)	0.044*** (3.402)	0.031 (1.565)	0.107*** (3.248)	0.017 (0.734)
<i>Growth</i>	(?)	-0.019 (-0.762)	-0.010 (-0.311)	-0.076** (-2.175)	0.021 (0.497)	-0.048 (-1.020)	-0.060 (-1.198)
<i>Profitability</i>	(+)	-0.018 (-0.974)	-0.046 (-0.240)	-0.056** (-2.126)	0.178 (0.662)	-0.000 (-0.013)	-0.188 (-0.665)
<i>Liquidity</i>	(+)	-0.020 (-0.301)	-0.455*** (-3.422)	-0.089 (-0.998)	-0.549*** (-2.980)	0.061 (0.512)	-0.217 (-1.109)
<i>Risk</i>	(+)	0.004 (0.346)	0.048* (1.798)	0.008 (0.489)	0.041 (1.120)	-0.006 (-0.222)	0.053 (1.262)
<i>Capital structure</i>	(?)	0.008 (0.854)	0.001 (0.036)	0.013 (1.007)	0.000 (0.005)	0.007 (0.461)	0.007 (0.153)
<i>Intercept</i>	(?)	1.812*** (13.697)	2.080*** (11.774)	1.941*** (9.047)	2.146*** (8.743)	1.653*** (5.546)	1.888*** (6.092)
Adj. R-squared		12.43%	17.42%	20.04%	15.95%	14.04%	23.58%
F-value (Wald-chi ²)		6.06***	39.92***	4.57***	25.95**	1.97**	19.41**
Observations		805	335	457	191	348	144

This table explains the extent to which corporate governance mechanisms influence aggregate risk disclosure for all, strongly governed and weakly governed firms in the UK and Italy. It reports the unstandardized coefficients on the explanatory variables. All model estimations are based on fixed effects panel regressions except for Models 2, 4 and 6 that are based on random effects panel regressions. All variable definitions are the same as in Table 1. *, ** and *** indicate significance at 0.1, 0.05 and 0.01, respectively.

Panel B: OLS Regressions of the Impact of Aggregate Risk Disclosure on Market Liquidity for All, Strongly Governed and Weakly Governed Firms in the UK and Italy

Dependent variables	ES	<i>All firms</i>		<i>Strongly governed firms</i>		<i>Weakly governed firms</i>	
		<i>Market liquidity</i>		<i>Market liquidity</i>		<i>Market liquidity</i>	
		<i>The UK</i>	<i>Italy</i>	<i>The UK</i>	<i>Italy</i>	<i>The UK</i>	<i>Italy</i>
Independent variables		(1)	(2)	(3)	(4)	(5)	(6)
<i>Aggregate risk disclosure</i>	(-)	-0.193*** (-5.877)	-0.801** (-2.285)	-0.216*** (-5.140)	-0.087* (-1.794)	-0.174*** (-3.162)	-0.074 (-1.310)
<i>Board size</i>	(-)	-0.109*** (-3.285)	-0.130*** (-3.576)	-0.099** (-2.256)	-0.209*** (-3.624)	-0.116** (-2.092)	-0.084 (-1.359)
<i>Non-executive directors</i>	(-)	0.044 (1.443)	0.016 (0.483)	0.025 (0.627)	0.085 (1.602)	0.037 (0.731)	-0.002 (-0.045)
<i>Independent non-executive directors</i>	(?)	0.034 (0.961)	-0.046 (-1.351)	0.005 (0.131)	-0.010 (-0.207)	0.044 (0.838)	-0.023 (-0.466)
<i>CEO duality</i>	(?)	0.018 (0.521)	0.086*** (2.680)	0.016 (0.418)	0.122** (2.446)	0.030 (0.484)	0.052 (1.074)
<i>Book-to-market ratio</i>	(?)	-0.156*** (-5.275)	-0.146*** (-3.909)	-0.140*** (-3.513)	-0.091 (-1.607)	-0.158*** (-3.136)	-0.142** (-2.540)
<i>Risk</i>	(-)	-0.112*** (-3.614)	0.013 (0.389)	-0.054 (-1.426)	0.048 (0.779)	-0.201*** (-3.637)	0.026 (0.538)
<i>Share price volatility</i>	(-)	0.306*** (9.671)	-0.055* (-1.733)	0.320*** (7.621)	-0.063 (-1.255)	0.309*** (5.973)	-0.050 (-1.102)
<i>Trading volume</i>	(+)	-0.426*** (-12.870)	-0.197*** (-5.658)	-0.444*** (-10.624)	-0.219*** (-4.035)	-0.398*** (-6.825)	-0.178*** (-3.519)
<i>Size</i>	(-)	-0.044* (-1.755)	-0.014 (-0.434)	-0.025 (-0.793)	0.008 (0.171)	-0.083* (-1.885)	-0.011 (-0.257)
<i>Liquidity</i>	(-)	-0.043 (-1.575)	-0.046 (-1.084)	0.001 (0.042)	0.058 (1.007)	-0.078* (-1.658)	-0.127* (-1.884)
<i>Capital structure</i>	(-)	0.016 (0.536)	-0.001 (-0.035)	0.076* (1.789)	0.051 (0.883)	-0.027 (-0.548)	-0.037 (-0.642)
Industry fixed effects		Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects		Yes	Yes	Yes	Yes	Yes	Yes
Correct for heteroskedasticity		Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared		52.1%	70.7%	53.0%	67.6%	52.0%	74.5%
F-value		38.13***	42.59***	25.11***	20.71***	15.36***	27.14***
Observations		773	346	446	192	327	154

This table explains how aggregate risk disclosure affects market liquidity in the UK and Italy. It reports the standardized coefficients on the explanatory variables. All variable definitions are the same as in Table 1. *, ** and *** indicate significance at 0.1, 0.05 and 0.01, respectively.

TABLE 7

OLS Regressions of Voluntary and Mandatory Risk Disclosure in the UK and Italy during the financial crisis

Dependent variables	<i>ES</i>	<i>Voluntary disclosure</i>		<i>Mandatory disclosure</i>	
		<i>The UK</i> (1)	<i>Italy</i> (2)	<i>The UK</i> (3)	<i>Italy</i> (4)
<i>Board size</i>	(+)	0.322*** (7.152)	-0.168 (-1.508)	0.374*** (5.108)	0.302*** (3.292)
<i>Non-executive directors</i>	(+)	0.151** (2.287)	0.062 (0.740)	0.215* (1.909)	0.091 (1.521)
<i>Independent non-executive directors</i>	(+)	0.003 (0.106)	-0.055 (-0.699)	0.081* (1.777)	0.012 (0.191)
<i>CEO duality</i>	(-)	0.001 (0.045)	-0.030 (-1.081)	0.053 (1.169)	-0.020 (-0.867)
<i>Dividend yield</i>	(-)	-0.010** (-2.220)	0.002 (0.205)	-0.000 (-0.056)	0.008 (1.362)
<i>Concentrated ownership structure</i>	(-)	-0.066** (-2.312)	-0.059 (-0.555)	-0.055 (-1.100)	-0.166** (-2.032)
<i>Audit quality</i>	(+)	-0.010 (-0.748)	0.011 (0.428)	-0.019 (-0.922)	-0.012 (-0.497)
<i>Size</i>	(?)	0.075*** (8.344)	0.004 (0.283)	0.079*** (5.300)	0.016 (1.525)
<i>Growth</i>	(?)	-0.065*** (-3.772)	0.020 (0.494)	-0.134*** (-4.512)	0.004 (0.132)
<i>Profitability</i>	(+)	0.013 (0.649)	-0.109 (-0.452)	-0.021 (-0.662)	0.259 (1.338)
<i>Liquidity</i>	(+)	0.045 (0.845)	-0.019 (-0.128)	0.006 (0.062)	-0.078 (-0.792)
<i>Risk</i>	(+)	0.020* (1.867)	-0.030 (-1.011)	0.030* (1.674)	0.007 (0.314)
<i>Capital structure</i>	(?)	0.046*** (6.074)	0.016 (0.494)	0.067*** (5.348)	0.076*** (3.643)
<i>During the crisis</i>	(?)	0.079*** (6.990)	0.059** (2.345)	0.044** (2.149)	0.067*** (3.675)
<i>After the crisis</i>	(?)	0.046** (2.576)	0.152*** (6.268)	-0.022 (-0.731)	0.146*** (7.615)
<i>Intercept</i>	(?)	1.405*** (12.987)	2.192*** (10.545)	0.342* (1.924)	1.346*** (9.926)
Industry fixed effects		Yes	Yes	Yes	Yes
Correct for heteroskedasticity		Yes	Yes	Yes	Yes
Adj. R-squared		40.2%	18.1%	24.0%	39.1%
F-value		26.27***	4.73***	13.53***	18.98***
Observations		804	333	807	335

This table explains the extent to which corporate governance mechanisms influence voluntary and mandatory risk disclosure during and after the recent financial crisis, in the UK and Italy. It reports the unstandardized coefficients on the explanatory variables. All variable definitions are the same as in Table 1. *, ** and *** indicate significance at 0.1, 0.05 and 0.01, respectively.

Appendix A

Mandatory and voluntary risk disclosure scores and examples obtained from QSR(6) output, based on 2007 annual reports

Panel A: UK firms

Company's code, scores, examples	Mandatory risk disclosure						Voluntary risk disclosure					
<p>GB0002303468</p> <p><i>Examples:</i></p>	Year	2005	2006	2007	2008	2009	Year	2005	2006	2007	2008	2009
	MS	45.00	24.00	18.00	30.00	36.00	VS	153.00	173.00	248.00	279.00	277.00
	GM	34.16	30.10	31.90	34.67	37.75	GM	184.10	233.50	249.35	269.50	283.78
	<p>Whether in the form of better services, <i>lower</i> prices, improved customer satisfaction or a quicker payback on investment, the benefits of such cross-fertilisation flow to our passengers and tendering authority customers, to our employees, and to our investors.</p> <p>The net finance cost for the year was <i>higher</i> at £16.5 million (2006: £11.6 million) due to investment in acquisitions and <i>higher</i> interest rates in mainland Europe.</p> <p><i>Fluctuations</i> in interest rates are managed through the use of interest rate derivatives and fixed rate debt.</p> <p><i>Differences</i> on exchange arising from the retranslation of the opening investment in subsidiary undertakings and the associated borrowings or hedging instruments, where hedge accounting is permitted, are taken to the Statement of Recognised Income and Expense.</p> <p>Derivatives are entered into in order to hedge exposure to foreign currency exchange <i>risk</i>.</p>						<p>The Board recognises that any commercial opportunity brings with it a degree of <i>risk</i> and, like any business, Arriva must manage a range of <i>risks</i> in the course of its activities.</p> <p>The revenue <i>risk</i> associated with any potential <i>loss</i> of consumer demand from the travelling public is mitigated by the substantial proportion of the group's revenues which flow from non-passenger sources (see page 8 -Spreading our net).</p> <p>These planned and potential changes could have <i>significant</i> impact on the UK bus industry.</p> <p>These statements and forecasts involve <i>risk</i> and <i>uncertainty</i> because they relate to events and depend upon circumstances that occur in the future.</p> <p>There may be a number of factors that could cause actual results or developments to <i>differ</i> materially from those expressed or implied by these forward-looking statements and forecasts.</p>					
<p>GB00023740</p> <p><i>Examples:</i></p>	Year	2005	2006	2007	2008	2009	Year	2005	2006	2007	2008	2009
	MS	162.00	103.00	114.00	85.00	42.00	VS	677.00	528.00	662.00	524.00	428.00
	GM	34.16	30.10	31.90	34.67	37.75	GM	184.10	233.50	249.35	269.50	283.78
	<p>Net corporate operating costs <i>decreased</i> by £6 million as a result of transfers between business segments and there was a <i>decrease</i> of £1 million as a result of foreign exchange impacts.</p> <p>Hedge of net investment in foreign operations: The group hedges a substantial portion of its exposure to <i>fluctuations</i> on the translation into sterling of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency swaps and forwards.</p> <p>To manage interest rate <i>risk</i>, the group manages its proportion of fixed to floating rate borrowings within limits approved by the board, primarily through issuing fixed and floating rate term debt and commercial paper, and by utilising interest rate derivatives.</p> <p>The group has used a sensitivity analysis technique that measures the estimated change to the fair value of the group's financial instruments, to the income statement and to equity of either an instantaneous <i>increase</i> or <i>decrease</i> of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening in sterling <i>against</i> all other currencies, from the rates applicable at 30 June 2007, for each class of financial instrument with all other variables remaining constant.</p> <p>Exchange <i>differences</i> arising on the re-translation at closing rates of the opening balance sheets of overseas entities are taken to reserves, as are exchange <i>differences</i> arising on related foreign currency borrowings and financial instruments designated as net investment hedges, to the extent that they are effective.</p>						<p>Raw materials: The group has a number of contracts for the forward purchasing of its raw material requirements in order to minimise the effect of raw material price <i>fluctuations</i>.</p> <p><i>Increased</i> competition and unanticipated actions by competitors or customers could lead to downward pressure on prices and/or a <i>decline</i> in Diageo's market share in any of these categories, which would <i>adversely</i> affect Diageo's results and hinder its growth potential.</p> <p>Regulatory decisions and changes in the legal and regulatory environment could <i>increase</i> Diageo's costs and liabilities or limit its business activities. Diageo's operations are subject to extensive regulatory requirements which include those in respect of production distribution, importation, marketing, promotion, labelling, advertising, labour, pensions and environmental issues.</p> <p>If such litigation resulted in fines, damages or reputational damage to Diageo or its brands, Diageo's business could be materially <i>adversely</i> affected. If commodity price changes result in unexpected <i>increases</i> in the cost of raw materials, glass bottles and other packaging materials or the transportation of such materials and Diageo's beverage products, Diageo may not be able to <i>increase</i> its prices to offset these <i>increased</i> costs without suffering reduced volume, revenue and operating income.</p> <p>In addition, there is an inherent <i>risk</i> of forecasting error in determining the quantity of maturing stock to lay down in a given year for future consumption.</p>					

Panel B: Italian firms														
Company's code, scores, examples		Mandatory risk disclosure					Voluntary risk disclosure							
IT0000080447	Year	2005	2006	2007	2008	2009	Year	2005	2006	2007	2008	2009		
	MS	96.00	97.00	111.00	155.00	276.00	V/S	100.00	59.00	68.00	61.00	94.00		
	GM	59.93	67.00	74.38	84.96	108.70	GM	101.40	104.30	116.50	125.10	159.40		
Examples:	<p>In the case of an asset held under a finance lease, the initial cost is determined in accordance with IAS 17 as the <i>lower</i> between the fair value of the property and the present value of minimum lease payments under the lease.</p> <p>Receivables and payables in foreign currency, which was originally recorded at the exchange rates prevailing at the transaction date, are adjusted to current rates at the end of the period and the resulting <i>gains</i> and <i>losses</i> recognized in income.</p> <p>Financial instruments measured at fair value through profit or <i>loss</i> are classified as instruments that satisfy one of the following conditions:</p> <ul style="list-style-type: none"> - are held for trading (trading); - are financial asset designated on adoption of the "fair value option" for which fair value can be reliably determined. <p>Cash and cash equivalents include cash on hand, demand deposits and financial investments in the short term, <i>highly</i> liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant <i>risk</i> of change in value.</p>						<p>The group has nearly tripled the number of customers in 2007 (400 thousand units at year end) and has improved its competitive position in the Italian market, particularly in the segment of customers with <i>lower</i> consumption but <i>higher</i> profitability.</p> <p>There is a <i>risk</i> that serious difficulties in the financial sector, arising from the ongoing credit deflation, can affect real variables in the global economy.</p> <p>In the utilities sector the Sorgenia group in 2007 has continued to implement its business plan, which involves a <i>significant</i> development activity in the electricity generation sector, with particular attention to the renewable and <i>low</i> environmental impact sources, as proved by the aforementioned acquisition, in December, of Société Française d'Eoliennes (SFE).</p> <p>Intangible assets are recognized only if they can be separately identified, it is <i>probable</i> that they will generate future economic benefits and if the cost can be measured reliably.</p>							
IT00001469953	Year	2005	2006	2007	2008	2009	Year	2005	2006	2007	2008	2009		
	MS	32.00	34.00	35.00	44.00	54.00	V/S	222.00	158.00	170.00	170.00	162.00		
	GM	59.93	67.00	74.38	84.96	108.70	GM	101.40	104.30	116.50	125.10	159.40		
Examples:	<p>The Group is not significantly exposed to exchange rate <i>risk</i> which is mainly limited to exposures to foreign currency related to intra loans that generate profits or <i>losses</i> on exchange.</p> <p>The item relating to cash and cash equivalents includes cash on hand, bank accounts and other financial investments, <i>highly</i> liquid investments that are readily convertible into cash and are subject to an <i>insignificant risk</i> of change in values.</p> <p>Financial assets for which there are no quotations in an active market and financial assets held with the intention of holding until maturity are measured at cost using the effective interest method, net of any write-downs to reflect impairment <i>losses</i>, financial assets available for sale are measured at fair value and the <i>gains</i> and <i>losses</i> arising from changes in fair value must be accounted to a specific reserve.</p> <p>The <i>decrease</i> suffered compared to previous year is due to <i>lower</i> results achieved in such segment by Info2cell and AEM</p>						<p>The subsidiary Acotel do Brasil contributed significantly to the <i>increase</i> of revenues in services that in the period produced revenues for 5.9 million euros with an <i>increase</i> of 25.6%.</p> <p>The impairment test is recognized in the income statement and is attributed as a <i>decrease</i> of the accounting value of any eventual difference from consolidation and so as a reduction of other activities in proportion of the accounting value.</p> <p>The <i>increase</i> compared to the previous year is due to the <i>increase</i> of revenue produced by the Irish subsidiary.</p> <p>The <i>increase</i> in the provision of receivables is due mainly to the depreciation made by the subsidiary Info2cell.</p> <p>The <i>decrease</i> compared with the results of previous year is related to amortization and depreciation and to assets transferred to the subsidiary Noverca.</p>							

Panel C: Overall statistics for 2007		
	<i>UK</i>	<i>Italy</i>
<i>Aggregated risk disclosure QSR(6) output</i>	+++ Total number of text units retrieved = 81,583 +++ Retrievals in 290 out of 290 documents, = 100%. +++ The documents with retrievals have a total of 527,531 text units, so text units retrieved in these documents = 15.4%.	+++ Total number of text units retrieved = 16,796 +++ Retrievals in 88 out of 88 documents, = 100%. +++ The documents with retrievals have a total of 134,159 text units, so text units retrieved in these documents = 12.5%.
<i>Mandatory risk disclosure QSR(6) output</i>	+++ Total number of text units retrieved = 9,271 +++ The documents with retrievals have a total of 527,531 text units, so text units retrieved in these documents = 1.7%.	+++ Total number of text units retrieved = 6,546 +++ The documents with retrievals have a total of 134,159 text units, so text units retrieved in these documents = 4.9%.
<i>Voluntary risk disclosure (calculated by authors)</i>	Total number of text units retrieved = 72,312 The documents with retrievals have a total of 527,531 text units, so text units retrieved in these documents = 13.7%.	Total number of text units retrieved = 10,250 The documents with retrievals have a total of 134,159 text units, so text units retrieved in these documents = 7.6%.

Panels A and B of this appendix provide detailed statistics for each company under analysis for the year **2007**, including the mandatory (**MS**) and voluntary (**VS**) scores captured by QSR(6); those scores are introduced in a comparison with the yearly general mean (**GM**) for all firms. All numbers express the number of sentences, as in the original scores used in this paper. The keywords are highlighted in each sentence by putting them in ***bold/italic*** or just *italic* font to indicate mandatory or voluntary risk disclosures, respectively. All previous statistics are also given prior to (2005 and 2006) and post (2008 and 2009) **2007**. The panels also give examples of each disclosure type extracted from QSR(6). Panel C of this appendix gives overall statistics for the aggregated, mandatory and voluntary coded sentences relative to all sentences coded across 2007.