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Understanding fund manager readership of annual report risk disclosure

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ABSTRACT

An understanding of company risk for investment decisions is fundamental for capital market users such as fund managers. The annual report is an established source of risk reporting information. Whilst market-based studies highlight the economic value relevance of risk reporting, such disclosure at a firm level, has been widely criticised, failing to provide meaningful, decision-useful, information to users. Despite these criticisms, the small body of risk reporting literature that has directly engaged with capital market users provides evidence of their readership of such reporting but has not examined their reasoning behind this. Drawing on 24 interviews with fund managers, we examine the usefulness of risk reporting to them. The theoretical framing of comfort is employed to analyse themes emergent from the transcribed data. Applying senses of comfort helps to unpack the reasoning for their continued use of such reporting and to provide a counterpoint to the criticisms as to its lack of usefulness to such users. These findings, through direct engagement with a primary annual report user group, extend prior predominantly archival risk-based disclosure research and contribute to our understanding of user consumption of annual report information.

Highlights

- Interviews with 24 UK fund managers/equity market actors.
- Generally critical of annual report risk reporting quality, but evidence that it is widely read by them.
- Their readership, and its usefulness to them, framed through comfort.
- Tension of economic value relevance versus sociological comfort.

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1. Introduction

Information on the principal risks faced by companies is salient for capital market users, such as fund managers, for their investment decisions (Cascino et al., 2014; Drake et al., 2016; Drake et al., 2019) and is well recognised in the regulatory environment. The

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International Accounting Standards Board (IASB) (2021, p. 45) management commentary exposure draft notes that “information about risks shall enable investors and creditors to understand the nature of the risks to which the entity is exposed”. In a UK context, the Financial Reporting Council (FRC) (2017, p. 3) reports that “investors are unanimous that understanding those principal risks faced by a company is important both before making an investment and during the holding of that investment” and continues that they “see the annual report as a reliable source of information used to assess the risks of a company”. This interview-based research examines the readership of annual report risk disclosure by UK fund managers and its usefulness to them.

There has been increasing academic attention to risk reporting (see Elshandidy et al., 2018; Ibrahim et al., 2022 for literature reviews), of which two strands examining aspects of reporting quality are pertinent to this study. However, and in contrast to this study, these predominantly rely on archival desk-based data. Firstly, capital market-based studies commonly employing agency (Fama & Jensen, 1983; Jensen & Meckling, 1976) and/or signalling theory (Spence, 1973), that have analysed the economic consequences and related price effects of risk disclosure. This stream of research (based on large aggregate datasets) with implied readership (see Krakow & Schäfer, 2020) has generally reported the economic value relevance of risk reporting, serving to reduce asymmetry (Bao & Datta, 2014; Campbell et al., 2014; Elshandidy & Shrivs, 2016; Hail et al., 2021; Kravet & Muslu, 2013) between managers and shareholders, evidenced through enhanced credit ratings (Elamer et al., 2021), investment fund flows (Krakow & Schäfer, 2020) and an inverse relationship to the cost of capital (Heinle & Smith, 2017; Hope et al., 2016).

Secondly, those studies that have analysed the quantitative and/or qualitative content of risk disclosure at a firm level (Abraham & Shrivs, 2014; ACCA, 2014; Dobler et al., 2011; ICAEW, 2011; Lee, 2012; Linsley & Lawrence, 2007; Linsley & Shrivs, 2006; Malafronte et al., 2018; Ryan, 2012). Such studies have reported an increase in risk disclosure content over time. However, significant concerns regarding its actual quality have been consistently raised being viewed as boiler-plated, perfunctory and symbolic with little or no decision-useful informational content to users. This is encapsulated by Abraham and Shrivs (2014, p. 104) that risk reporting is “unlikely to be useful to readers of financial statements”. From a practice perspective, the FRC (2017) report that many investors call for greater company-specific risk information, clearer categorisation of principal risks and mapping to longer-term business strategy.

Hence, there is an apparent tension in the literature regarding the actual versus normative usefulness of such reporting to fund managers as a primary user of annual report information. However, despite the recognised importance of risk disclosure to investors (FRC, 2017; IASB, 2021) and the increasing academic literature, there remains a paucity of research directly engaging with users of risk disclosure regarding their readership and their views on its usefulness to them. Indeed, Elamer et al. (2021, p. 1292), recognise “like all archival studies, [inter alia] the risk disclosure variable and measures employed may or may not reflect actual practice. Future studies may be able to offer new insights by conducting interviews” consistent with that called for by Elshandidy and Shrivs (2016). Further, Dyer et al. (2017, p. 224), in their textual analysis of risk reporting, reflect that their study does not “directly measure the usefulness of the actual disclosure content” to users. This research responds to these calls in the literature.

On risk reporting, only Solomon et al. (2000) in a survey with fund managers, Campbell and Slack (2008) and Bean and Irvine (2015) both with analysts, offer some direct insights into user views. Whilst these studies report that these audiences do read risk reporting in the annual report, they were highly critical as to its content and its consequential limited decision-usefulness to them. This reveals an interesting “empirical anomaly” (Malsch & Salterio, 2016, p. 15) regarding their readership despite such a reported lack of usefulness. This was not questioned by this limited corpus of user-based research and is especially surprising bearing in mind the time-pressured environment within which fund managers and analysts work and the alternative sources of risk information available to them (Barker et al., 2012; Taffler et al., 2017).

Motivated by the importance of risk reporting to capital market users and recognising the largely archival-based research in the prior literature, and the scarcity of user-based studies, this research directly examines the readership of risk disclosure by equity fund managers. This enables insight into the following research questions. Firstly, whether fund managers read annual report risk disclosures despite the well-aired firm level criticisms. Secondly, and based on this reading, their opinions of such reporting. Thirdly, considering this (and their reported criticisms), and the key focus of this study, to explore why fund managers continue to read risk disclosure. This is informed by an understanding of its usefulness to them, so helping to unravel the apparent empirical anomaly.

The research adopts an interview approach to gain direct evidence, and appropriate richness of data, with fund managers as a primary capital market user group (IASB, 2018; 2021). Face-to-face interviews were conducted with 24 UK fund managers based in London and Edinburgh, homes to major global investment houses. Fund managers are directly responsible for investment decisions through managing portfolios (Cascino et al., 2014; Coleman, 2014, 2015; Eshraghi & Taffler, 2015; Millar, 2021). Their importance is summarised by Barker et al. (2012, p. 207) as the “primary investment decision makers on behalf of asset owners fulfilling a central and significant role in the economy” and more widely, facilitating market efficiency and the growth of market economies (Coleman, 2015; Eshraghi & Taffler, 2015; European Fund and Asset Management Association (EFAMA), 2022; Investment Association, 2022; Millar, 2021). Hence, their views on risk reporting as a primary user provide valuable insights.

The findings show that the fund managers were knowledgeable about annual report risk disclosures but were also highly critical of its content. Despite this, the findings also confirm their continued readership of such reporting. Adopting an inductive research approach, consistent with Bean and Irvine (2015), and through reference to the wider accounting and sociological literatures extending beyond risk and disclosure usefulness (Georgiou, 2018) helped us to analyse the transcripts as to their reasoning. One potential insight into this was the tentative assertion in Campbell and Slack (2008, p. 21) that “the presence of risk narrative was a potential source of comfort to analysts even though the content was probably not of direct material interest”. Tangentially, Spira and Page (2010) found that governance and internal control statements, while extensively criticised, nonetheless, by their presence, serve as a source of comfort to investors.

We employ the theoretical framing of comfort alluded to by Campbell and Slack (2008) and Spira and Page (2010) to help explain our findings as to fund manager

readership. Within the framing of comfort, derived from the sociological literature (Kolcaba et al., 2006; Kolcaba & Dimarco, 2005; Kolcaba & Kolcaba, 1991), three senses of comfort exist; the state sense; the relief sense and the renewal sense (Kolcaba & Kolcaba, 1991). This research unpacks the notion of comfort in relation to fund manager readership of risk reporting. Carrington and Catasús (2007, p. 36) reflect that “such a perspective would contribute to a possibility to move beyond seeing comfort as a binary concept” of disclosure presence (as evident in Campbell & Slack, 2008; Spira & Page, 2010). Through the data analysis, the discrete senses of comfort are illustrated, helping to explain their reading. This ranges from risk reporting fulfilling a confirmatory function of their a priori knowledge (relief sense), that the reporting was complete without any unexpected disclosures (state sense) to occasions where the reporting resulted in a re-evaluation of risk (renewal sense).

The research contributes to the literature in the following ways. First, it provides a counterpoint to the extant desk-based risk reporting literature that has been generally critical of risk reporting, at a firm level, (Abraham & Shrivs, 2014; Dobler et al., 2011; Elshandidy et al., 2018; Lee, 2012; Linsley & Lawrence, 2007; Malafronte et al., 2018) and consequently having an implicit lack of usefulness to users. Whilst our research also evidences criticisms of risk reporting, nonetheless it is evident that such disclosure is read providing useful information to fund managers in terms of its evaluative properties through comfort. Second, and building on this, the research extends the limited prior research that has directly canvassed capital market user views on risk reporting (Bean & Irvine, 2015; Campbell & Slack, 2008; Solomon et al., 2000). All these studies reported user criticisms of reporting although provided clear evidence as to their readership which was not questioned by them. This study extends this field of research by examining why such criticised reporting continues to be read by capital market users especially considering the pressurised environment within which they work. Arising from these contributions, thirdly, the research extends the prior literature in accounting and disclosure that has referred to comfort solely as the binary presence of information (Campbell & Slack, 2008; Georgakopoulos & Thomson, 2005; Spira & Page, 2010) to readers. However, such research did not develop comfort through its discrete senses used as the theoretical framing in this research. Hence, we extend those studies and make a theoretical contribution to the accounting disclosure literature. Together, this is a unique contribution serving to deepen our understanding of why investors read firm specific risk disclosures despite its apparent lack of decision-usefulness to them and in doing so providing insights into this empirical anomaly.

Fourthly, whilst prior market-based research demonstrates the economic value relevance of risk reporting this necessarily relies on aggregated datasets of disclosure and not readership per se. Our research provides explicit insight into investor readership of risk reporting (as highlighted by Elamer et al., 2021) rather than through the use of regression proxy measures, and shows that, at a firm level, risk disclosure provides useful information to fund managers through both its confirmatory (relief and state senses) as well as incremental (renewal sense) relevance to them. Finally, and following on from this, Barker et al. (2012, p. 207) reflecting on market-based studies argue that “conventional economic theory, applied to information released by listed companies, equates ‘useful’ with ‘price-sensitive’ [suggesting] that information is not useful to investors if it is not price-sensitive”. In their research with fund managers and their use of

meetings with company management, as non-price sensitive events, they question this definitional narrowness and the need to consider information usefulness in a wider context. They conclude a limitation in (positivist) research studies that test information-usefulness by assuming it to be synonymous with price-sensitivity and failing to take into account more subjective or sociological evaluations. Our research provides additional support for this contention through fund manager readership of non-price sensitive public historic information and its usefulness to them analysed through comfort. Indeed, we extend Barker et al. (2012) by moving beyond their setting of interactive face-to-face meetings and the related social/relational traits by considering risk disclosures as a more passive medium.

The remainder of the paper proceeds as follows. In Section 2, we present the UK regulatory context of risk reporting within which this research is set. Section 3 is the literature review on risk reporting and Section 4 set out the theoretical framing of comfort. In Section 5, we outline the access to fund managers, the interview format adopted and the subsequent research approach and coding method for the analysis of the transcribed data. Section 6 presents the main findings supported by verbatim quotes. Section 7 is the discussion and conclusion highlighting the implications of the research and its practice relevance, research limitations and ideas for future research.

2. Risk reporting – UK regulatory context

For UK listed companies, the regulatory context for reporting on the principal risks faced by companies within the annual report is governed by the UK legislative framework and a succession of voluntary guidelines. Principally these include the Companies Act, 2006 (Companies Act, 2006), the UK Corporate Governance Code (FRC, 2018) and the Disclosure and Transparency Rules (FCA, 2023a). Further, the FRC and previously the Accounting Standards Board (ASB), and professional accounting bodies such as ICAEW (2011) and ACCA (2014) have also provided best practice recommendations and guidelines for risk reporting within the annual report. These requirements and best practice guidelines are important as they govern risk reporting within the research setting. It is clear from these that risk reporting is a central element of corporate reporting that should help inform investor decision-making.

From a mandatory perspective, Regulation 2016 Section 414(C)(a) of the Companies Act (2006) requires a trading, banking or insurance company with more than 500 employees to include a non-financial information statement as part of a strategic report within the annual report. Specifically, Section 414(2)(b) requires that the strategic report contains: “a description of the *principal risks* and uncertainties facing the company” (emphasis added). In addition, Section 4.1.8 of the Disclosure and Transparency Rules requires a management report within the annual report containing a description of the principal risks and uncertainties facing the company similar to, and fulfilling, Section 414 of the Companies Act 2006 (FCA, 2023a). The UK Corporate Governance Code (FRC, 2018, p. 1), that operates on a “comply or explain basis”, notes that the board should take account of the company’s current position and principal risks. Specifically, these risks

should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the company’s business model, future performance, solvency or

liquidity and reputation. In deciding which risks are principal risks companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur. (FRC, 2018, p. 12)

This impact of risk on performance and solvency is broadly consistent with the Conceptual Framework for financial reporting (IASB, 2018, para 1.2) for companies to provide financial information about the reporting entity that is “useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity”. Hence, consideration of risk within accounting standards used in reporting for asset/liability and income/expense recognition helps “investors to identify opportunities and risks across the world, thus improving capital allocation” (IASB, 2018, para 1.5c, p. A17).

In relation to voluntary disclosure, the FRC has issued several reports with best practice guidelines and recommendations to enhance disclosure quality of principal risks in the annual report (FRC, 2011, 2014a, 2014b, 2021). A common theme in the guidelines is their focus on significant principal and strategic risk factors rather than “those risks that arise naturally and without action by the company (such as volcanic interruptions of air travel or earthquake damage” (FRC, 2011, p. 10). Emphasis is placed on company-specific risk factors and material risks, “where the risk or uncertainty is more generic, the description should make clear how it might affect the company specifically” (FRC, 2014a, p. 13). Companies are encouraged to include

a description of the likelihood of the risk, an indication of the circumstances under which the risk might be most relevant to the company and its possible impacts. Significant changes in principal risks such as a change in the likelihood or possible impact, or the inclusion of new risks, should be highlighted and explained. (FRC, 2014a, p. 13)

The guidelines also support risk factor information disclosure being in a central location (FRC, 2011) with linkages to other relevant sections (FRC, 2021) rather than being scattered across the annual report. The FRC has also provided examples from current reporting practices related to governance and processes, the nature of risks and uncertainties, management approach to risk factors and examples of risk scenarios and stress testing (FRC, 2021).

These recommendations on the importance to users of annual report information of specificity, quantification, risk management and linkages to overall strategy are also reiterated in risk reporting recommendations and guidelines previously published by other regulatory bodies such as the Accounting Standards Board (ASB) (ASB, 2007; 2009) and by professional accounting bodies (ACCA, 2014; ICAEW, 1997, 1999, 2002, 2011).

3. Literature review

Good quality risk disclosure to users should facilitate a reduction in information asymmetry between company management and investors, consequently helping investors better determine the risk profile of a company (ACCA, 2014; FRC, 2021; ICAEW, 2011). Further, Heinle and Smith (2017) argue that if risk disclosure reduces investor uncertainty, it will also reduce the cost of capital. Hence, from a normative perspective, annual report risk disclosures should serve as a value-relevant and decision-useful source of information to capital market participants such as fund managers.

Indeed, there is evidence from the market-based literature, examining the economic consequences of risk disclosure to support its value-relevance. For instance, Hope et al. (2016) examining disclosure quality, using a computing algorithm to measure reporting specificity (informativeness to users), show that more specific risk disclosure leads to greater positive short-term market pricing reactions (and a reduction in cost of capital consistent to that predicted by Heinle & Smith, 2017). Elamer et al. (2021), using a risk disclosure index, find that the informativeness of risk disclosures, providing greater transparency, have a predictive effect on bank credit ratings and Wang (2021) finds a change in tone of risk disclosures is positively related to credit default swap spreads. Using an event study, analysing the decision of the Swiss National Bank to abandon the minimum euro-Swiss franc exchange rate, Hail et al. (2021, p. 284), found that historic risk disclosures help investors weaken information asymmetry in light of unexpected news which is “heightened in cases of the precision (quality) of the risk disclosure”. Further, in a survey with sell side analysts, they report that their “main use of financial statement information was to better contextualize and interpret currency risk ... and past annual reports served as important information source for the IR managers” (Hail et al., 2021, p. 287). Interestingly, they report that this was in response to a specific exogenous shock and “contrasts with the information sources that analysts use under ‘normal’ circumstances” (Hail et al., 2021, p. 314) such as industry knowledge and private communication (see Barker et al., 2012; Brown et al., 2015).

Whilst prior research has generally shown the economic value relevance of risk disclosure at a market level, this notably has not been reported at a more specific firm level. For instance, Campbell et al. (2014) find that changes in risk disclosure (or unexpected risk disclosure) does influence investors’ assessments of firm risk and value. However, they report that the usefulness of risk disclosure does not relate to company-specific information but rather to more general industry disclosures. Similarly, Kravet and Muslu (2013) find at an industry level risk reporting is informative to investors, but that company-specific information is lacking in annual reports. Bao and Datta (2014) developed the Kravet and Muslu (2013) study through further classifying and quantifying risk disclosures. Of the 30 identified risk disclosure types, they find that 22 are non-significant, regarded as uninformative and over-generalised.

Although all these studies report, to some extent, the value relevance of risk reporting, significantly they also acknowledge criticisms and limitations in risk disclosure especially at a firm level. This is encapsulated by Wang (2021, p. 1467) that, “the financial reporting system has received long-standing criticism for the lack of meaningful disclosures about risk and uncertainty”, consistent to that noted by Hope et al. (2016) and Dyer et al. (2017). These criticisms of risk reporting resonate with the more specific firm level reporting literature that commonly highlights a lack of risk quantification, the presence of generic statements, boiler-plated disclosures, the predominance of past information and the prevalence of positive news over negative risk disclosures (Abraham & Shrivs, 2014; Lee, 2012; Linsley & Shrivs, 2006; Malafronte et al., 2018; and reported in the literature reviews by Elshandidy et al., 2018; Ibrahim et al., 2022; Tahat et al., 2019). Abraham and Shrivs (2014, p. 91) remark, “company managers prefer providing disclosures that are symbolic rather than substantive”. They summarise prior research as finding “brief, very general and not sufficiently forward-looking risk disclosure practices”

(Abraham & Shrivs, 2014, p. 92) being of limited use to readers. Most recently, Ibrahim et al. (2022, p. 20) reflecting on the importance of risk disclosures call for the “need to avoid using complex language and boilerplate risk statements in their annual reports ... [and] not use risk disclosure [to] obfuscate stakeholders” consistent to criticisms reported by FRC (2017).

Overall, this tension between the purported usefulness and criticisms of risk reporting are echoed by the small number of prior user-based studies. Solomon et al. (2000, p. 447) in their questionnaire-based survey with responses from 95 fund and trust managers highlight that, “increased risk disclosure would help in their portfolio investment decisions” and significantly, that good quality risk disclosure enables them “to build up a comprehensive profile of corporate risk” (Solomon et al., 2000, p. 450). However, the study concludes that the generalised nature of annual report risk reporting makes it inadequate for their decision-making. Similarly, Campbell and Slack (2008) examining the views of 19 sell-side analysts reported, “although, *prima facie*, risk disclosure might be considered to be naturally material, the majority of analysts expressed scepticism about narrative risk reporting in the annual report” due to boiler-plate, a tick-box mentality and the generalised nature of such reporting. Further, Johansen and Plenborg (2013, p. 627), in their more general survey of 288 annual report users with an investment focus, found that risk disclosures were ranked fifth in importance, from a total of 24 reporting categories but significantly had a “relatively poor cost-satisfaction score”. Consistent with these findings, Bean and Irvine (2015, p. 602), in their study with 16 Australian credit and risk analysts, report that, “[risk] disclosures are growing in length while decreasing in information value” with risk reporting being too generic and boiler-plated and a need for companies to “to improve their disclosure of material economic risks”. Such a conclusion, in common with Solomon et al. (2000) and Campbell and Slack (2008), nonetheless evidences their readership of such reporting despite their widely acknowledged criticisms of it.

The theoretical framework of comfort is now set out, which we employ in this study to help explain fund manager reasoning for their consumption of risk reporting.

4. Theoretical framework: comfort

In the accounting literature, a small number of prior studies have referred to comfort, although at a binary level, considering the presence of reporting to users. Building on Beck's (1992) risk society thesis, Georgakopoulos and Thomson (2005, p. 57) discuss the impact of organic product certification labels on consumers through their positioning away from “intensive chemical-based farming”. They argue that such labelling, or account of the product, provides comfort to consumers despite the informed criticisms of such labelling from industry groups.

Following this reasoning to wider aspects of corporate reporting, Campbell and Slack (2008) examined the use and relevance of narrative reporting to analysts. They refer to the front-end disclosures, specifically including risk, as providing “psychological comfort” (p. 25). They report respondents referring to comfort, “the fact that it's there – you see it's there, you know it's there – it gives you some comfort” (Campbell & Slack, 2008, p. 21) and asked about its hypothetical omission “I think psychologically it would be a very striking omission ... I like to know that it is there, yes” (Campbell

& Slack, 2008, p. 26). Spira and Page (2010) found that governance and internal control statements, while extensively criticised, nonetheless serve as a source of comfort to investors by their presence. They report one of their respondents as follows, “the disclosures are rather like audit reports insofar as if they weren’t there, they would by their absence undermine the confidence which investors would place in the control environment and consequently a disclosure void would influence investment decision-making” (p. 427). Spira (1999, p. 231) examining audit committees and related reporting highlighted their ceremonial importance to investors through their presence, rather than any measure of their effectiveness, providing a “comforting display of concern for corporate governance standards”. Comfort has also been deployed in the auditing literature. For instance, Sarens et al. (2009) draw on comfort examining the operation of the internal audit function providing comfort to the audit committee on internal controls and the control environment. Carrington (2010, p. 679) ordinarily finds that the audit report, and its presence, “produces the comfort an investor ‘needs’ in order to trust the audited financial reports”.¹ Finally, O’Dwyer (2011) discusses the presence of sustainability assurance and its comfort to stakeholders of such reporting.

Within comfort theory (Kolcaba et al., 2006; Kolcaba & Dimarco, 2005; Kolcaba & Kolcaba, 1991) originating in the sociology and nursing literatures, three senses of comfort are set out; the relief sense; the state sense and the renewal sense. These senses of comfort “can exist without a prior state of discomfort” (Kolcaba & Kolcaba, 1991, p. 1302). For instance, one may retire from a dinner to a more informal setting on more casual furniture. Both settings are comfortable, and no prior state of discomfort existed. Further, you may be in good health and without any current or prior state of discomfort. The annual medical check-up provides comfort that your health is confirmed as you expect, with nothing untoward to report and no issues arising that may warrant further investigation. Or, in a reporting sense, the annual review of governance or risks in the annual report may equally provide comfort to the reader.

Firstly, the relief sense is those acts such as the very presence of a matter which on reading helps to confirm a priori understanding so providing comfort. In our context this would relate to the presence of reporting (the binary sense of comfort alluded to in earlier studies such as Campbell & Slack, 2008) and the confirmatory reassurance of such disclosure. Secondly, the state sense, which moves beyond presence to other confirmatory acts, that there is no omission or nothing new or untoward. In our context, the disclosures are regarded by readers as complete, without any unexpected omissions, or the revelation of new or untoward material risks or as portrayed by Spira (1999, p. 251) “where no nasty surprises have occurred”. Thirdly, the renewal sense, are those occasions that promulgate the need for additional information to restore comfort due to new issues emerging outwith the a priori understanding of the reader. Indeed, in our context, this was tentatively noted by Campbell and Slack (2008, p. 15) that, “risk reporting may contain risks previously unknown to analysts that are capable of affecting returns”. This may trigger actions such as investigating with management or analysts, so engaging with information sources outside of the annual report.

¹More generally within the audit-related literature, comfort is positioned to alleviate discomfort that is achieved during the audit process (see Pentland, 1993; Carrington & Catasús, 2007).

5. Method

We use semi-structured interviews with fund managers providing direct evidence through insights into their reading of risk reporting. This format, particularly suitable for studying real-world phenomenon (Georgiou, 2018; Mazzi et al., 2022), allowed the interviewees to express their opinion on a number of pre-determined topics but also allowed us to probe and develop issues that arose during the interview or needed clarification (Abraham & Bamber, 2017; Bamber & Abraham, 2019; Barker et al., 2012; Jones & Solomon, 2010; Slack & Tsalavoutas, 2018).

To gain access to fund managers, in the first instance, we used details available from fund manager websites consistent with Campbell and Slack (2008, 2011). However, gaining access via “cold-calling” proved to be difficult. As a second step, we then used personal contacts, university contacts and details from professional body publications and subsequent snowballing through consented referrals. This approach is consistent with that suggested by Taffler et al. (2017) and employed by Georgiou (2018) and Mazzi et al. (2022). Further, it was important for the validity of the research to canvass the views of experienced individuals on their use of, and opinion on, risk reporting as part of their investment decision-making. Coleman (2014; 2015) in his interview-based study with global fund managers reports the importance of experience for their decision making (and see Holland, 2016). Subsequently, we followed up leads as appropriate to contact those senior named individuals as confirmed from their respective websites.

As part of preparation for the interviews, a list of questions was prepared informed by the authors’ prior fund manager experience and related accounting disclosure research. Following the approach in Cohen et al. (2010), Brown et al. (2015) and Mazzi et al. (2022) we solicited feedback on our interview questions from a fund manager and a sell-side analyst as well as three experts from professional accountancy and finance bodies² as part of our pre-test of the interview format. The nature of the project and anonymity by name and institution was confirmed to all participants in advance of the interviewees. The main themes addressed in the interviews are shown in Appendix. This enabled us to ensure commonality of approach between the participants as the interviews proceeded. Good rapport was established throughout the interview process by first informally discussing issues of a general nature such as common professional body associations. The interview time ranged from forty minutes to one hour³ and all interviews were face-to-face. At the outset, each of the interviewees provided their informed consent and the interviews were recorded and later transcribed.

A total of 21 face-to-face interviews were conducted in the respective offices (either London or Edinburgh⁴) of 24 fund managers (three of the interviews had two participants in attendance) who worked for a variety of funds including pensions, insurance, unit trusts, private wealth management and mixed funds. The United Kingdom is the

²The FRC, the IASB and the CFA Institute of the UK.

³This compares to the 30 to 45 min face to face interview duration reported by Bean and Irvine (2015) in their user-based study of risk disclosures.

⁴Edinburgh is a well-established cluster of fund management firms with considerable scale with firms based in the city accounting for roughly 20% of investment management for UK head-quartered companies (Investment Association, 2022), (and see Millar, 2021).

largest European asset management market with £10 trillion assets under management and second globally behind the United States. In the UK market, 68% of assets are actively managed by investment/fund managers, with the largest proportion (42%) being direct investment in equities (Investment Association, 2022).

On average, the participants had worked for 15 years in the investment industry such that our sample provided insights into “the experienced eye” (Carrington & Catasús, 2007, p. 47) through their seniority and experience and reflective of our strategy to engage with senior decision-makers. All the participants made direct equity investment decisions on behalf of asset owners, reflective of their significance and role in the capital markets (Barker et al., 2012; Coleman, 2014; 2015; Eshraghi & Taffler, 2015). More widely, Millar (2021, p. 1906) notes that “decisions and actions taken in the sector have widespread economic and societal ramifications” pertinent to a wider public interest and an increasing sustainability role though their allocation of resources (EFAMA, 2022; Institute of Directors, 2021; Investment Association, 2022).

Specific job titles vary among investment firms, but the general roles include Fund Manager, Senior Investment Manager, Head of Investment Strategy, Senior Portfolio

Table 1. Sample composition.

Interview number	Position	Firm assets under management (£) range	Location	Contact method	Length of interview
1	Fund Manager	500 Million–1 Billion	Edinburgh	Personal Contact	55 min
2	Fund Manager	500 Million–1 Billion	Edinburgh	Contact through UK CFA Society	60 min
3	Head of Investment/ Investment Analyst*	> 10 Billion	Edinburgh	University Contact	53 min
4	Fund Manager	> 10 Billion	London	Personal Contact	60 min
5	Fund Manager	> 10 Billion	London	Personal Contact	36 min
6	Fund Manager	> 10 Billion	Edinburgh	University Contact	50 min
7	Senior Portfolio Manager	> 10 Billion	Edinburgh	Personal Contact	35 min
8	Senior Investment Manager	500 Million–1 Billion	Edinburgh	Referral	35 min
9	Investment Manager	1 Billion–10 Billion	Edinburgh	Referral	45 min
10	Fund Manager	> 10 Billion	Edinburgh	Contact through UK CFA Society	52 min
11	Fund Manager	> 10 Billion	Edinburgh	Contact through UK CFA Society	46 min
12	Investment Director	> 10 Billion	Edinburgh	Contact through UK CFA Society	55 min
13	Investment Director	> 10 Billion	Edinburgh	Contact through UK CFA Society	52 min
14	Investment Director	> 10 Billion	Edinburgh	Contact through UK CFA Society	44 min
15	Fund Manager	> 10 Billion	London	Contact through UK CFA Society	55 min
16	Fund Manager/ Investment Analyst*	> 10 Billion	London	Referral	55 min
17	Head of Equity Research/ Investment Analyst*	> 10 Billion	London	Referral	36 min
18	Head of Investment Strategy	500 Million–1 Billion	London	Personal Contact	36 min
19	Investment Director	> 10 Billion	Edinburgh	Personal Contact	50 min
20	Head of Research	> 10 Billion	London	Referral	55 min
21	Investment Director	> 10 Billion	London	Referral	38 min
	*Two individuals were jointly interviewed				Average 48 min

Manager and Investment Director. Table 1 provides information on the number and duration of interviews, title and average investment firm assets under management. Our respondents generally worked for firms that managed over £10 billion of assets with a mean fund size of almost £60 billion.

All the interviewees were involved in fundamental company analysis, using annual reports and other published information, and were actively seeking to invest in equities that would outperform a particular benchmark over the long term. As part of the interview process, the fund managers confirmed their long-term investment horizon as a core strategy for portfolio holdings. As discussed in Solomon et al. (2000, p. 457), “risk disclosure is likely to be more important to long-term holders of stock particularly if they do not actively arbitrage when managing their portfolios” consistent with that reported by Barker (1998).⁵ The participants were therefore in a suitable position to comment on the issues addressed in this paper.

In line with the approach used by Jones and Solomon (2010) and suggested by Lincoln and Guba (1985) we conducted interviews until we felt we had reached theoretical saturation and no new issues were arising (Corbin & Strauss, 2008; Fusch & Ness, 2015; Guest et al., 2006). Lincoln and Guba (1985, p. 235) note, “it is usual to find that a dozen or so interviews, if properly selected, will exhaust most available information; to include as many as twenty will surely reach well beyond the point of redundancy”. Indeed, our study reporting the findings from 24 participants compares well against other interview-based studies directly in this field such as Campbell and Slack (2008) with 19 participants and Bean and Irvine (2015) with 16 participants.

The transcript analysis employed in the research draws on a version of the staged approach suggested in Easterby-Smith et al. (1991) and used in other interview-based research (Abraham & Bamber, 2017; Georgiou, 2018; Mazzi et al., 2022; Slack & Tsala-voutas, 2018). Initially the transcripts were read by the researchers to be familiar with the general findings across the interviews. It was apparent through the interviews, and our subsequent reading of the transcripts, that despite criticisms of reporting, the fund managers affirmed, with reasoning, their continued readership of annual report risk disclosures that could then be appropriately identified and coded. Further, we found no apparent differences in responses and reasoning attributable to the size of fund under management, although (as shown in Table 1) the majority were large funds with over £10 billion of assets under management.

Taylor (2018, p. 513) suggests there is a need to interpret emergent findings by looking for appropriate theoretical framings for “the discovery of patterns that enable understanding” and to consider wider inter-disciplinary sources of illumination. Adopting this approach (see also Gebreiter, 2020; Georgiou, 2018), we sought to make sense of their responses through exploring a wider literature base beyond risk reporting. Further, and of relevance to our use of senses of comfort, Muniesa et al. (2007, p. 2) highlight that the intersection of economic sociology is “particularly fruitful in considering market devices [such as corporate reporting in our case] as objects of sociological inquiry”. Following this reasoning, we worked iteratively from the transcripts identifying

⁵Barker (1998), in his survey of fund managers reported that they viewed the annual report as one of their most valuable sources of information, second only to formal meetings with senior company management, with analyst information being ranked fourth by them.

emergent themes (Georgiou, 2018). Through this process, we drew on the three senses of comfort; relief, state, and renewal to help analyse our findings. To internally validate the research interpretations, the authors independently micro-analysed the data for its subsequent coding. A series of meetings were then held between the research team to confirm a common interpretation (Malsch & Salterio, 2016) of the coding relevant to each of the three defined senses of comfort.

The findings are now presented with verbatim quotes numbered by fund manager reference (FM1 onwards) enabling readers “to ‘hear’ the interviewees’ voices” (Georgiou, 2018, p. 1304). These reflect the common and recurring views representative of the data through our analysis of the transcripts.

6. Findings and discussion

6.1. Risk reporting readership and investor criticisms

The prior literature and regulatory environment (discussed in Sections 2 and 3) are well versed on the importance of risk disclosure to investors. Indeed, the evidence gained from the cohort of fund managers found that they widely read the annual report risk disclosure. For instance, FM 8 confirmed, “when the annual report turns up it does cause me to revisit the key risks again and have a good read through”. There was no ambiguity in their responses regarding their readership of risk reporting. FM 5 stated, “yes, I would read the annual report and specifically the risk section”. Similarly, FM 8 commented: “we will look at the company report and accounts for risk information”; and FM 17 that, “the annual report was a key source of risk information”. Further, FM 1 noted, “we will go to the reports and accounts [for risk reporting] ... don’t think you can have an investment opinion and defend it unless you have been through those”. These findings evidence that fund managers are familiar with, and do read, risk disclosures in the annual report, and, at face value, consistent with its regulatory importance to users (FRC, 2017; IASB, 2021) and its economic value relevance highlighted by capital market studies (Heinle & Smith, 2017; Hope et al., 2016).

However, the fund managers were also highly critical of current risk reporting at a firm level. Four main areas of criticism were cited in the interviews summarised with illustrative quotations and reference to relevant literature set out in Table 2.

Thus, despite the potential (and recognised) importance of risk disclosure to investors (ACCA, 2014; Elshandidy et al., 2018; FRC, 2017; IASB, 2021; Johansen & Plenborg, 2013; Linsley & Shrivess, 2006), we find that the fund managers are nonetheless highly critical of annual report risk disclosures. This reflects the prior firm-specific literature such as that reported in Abraham and Shrivess (2014) and more generally by Dyer et al. (2017) and Elshandidy et al. (2018) and is in stark contrast to the normative “perfect risk disclosure” (Heinle & Smith, 2017, p. 1461) serving to minimise asymmetry and related investor uncertainty. Indeed, their observations that key information is crowded out by the sheer volume of risk disclosure lies counter to the FRC (2017, p. 29) that risk disclosure should focus on those risks that are “material to the development, performance, position or future prospects of the entity”. Hence, it is not surprising that Hail et al. (2021) reported that under “normal circumstances”, the preferred risk information sources for capital market users were industry knowledge and private communications with management.

Table 2. Fund manager criticisms of risk reporting.

Area of criticism and reference to prior literature	Illustrative quotations
Risk disclosures are too generic and obvious (Abraham & Shrides, 2014; Campbell & Slack, 2008; Linsley & Shrides, 2006)	They're not that helpful. For instance, they will merely point out that the company does most of the trading in the Soviet Union states then it's subject to risks pertinent to Russia. So, well, no shit Sherlock, you know you understood that. I think a lot of the risk statements are mother statements ... they're just so obvious as to be painful, the sort of thing your mother would tell you (FM 15); Much of it tends to be obvious and it just gets annoying (FM 8); They're actually quite obvious. I find them quite simplistic, very obvious (FM 10).
Risk disclosures are too voluminous (Elshandidy et al., 2018; FRC, 2017; Malafronte et al., 2018; Tahat et al., 2019).	The risk disclosure is like a big shopping list that those people have thrown in ... you sometimes think it's just the chief executive that says well here's 15 empty spaces could you fill it in for the accounts (FM 1); I think they will give you all the [risk] information ... They'll talk about 150 risks ... but basically only need to talk about two or three of the 150, how do you know what's important? (FM 5); If they would just communicate a handful of the most major risks and the factors that would lead to those risks manifesting themselves (FM 6)
Risk disclosures lack specificity in relation to identified key risks (Abraham & Shrides, 2014; FRC, 2017; Ibrahim et al., 2022; Linsley & Shrides, 2006; Malafronte et al., 2018)	Companies are resistant to providing focused risk disclosure (FM 9); For years have been always twisting company's arms for granularity (FM 15); They should be making it [key risks] explicit in the annual report (FM 19).
Risk disclosures lack quantification of their impact (Abraham & Shrides, 2014; Linsley & Shrides, 2006)	More footnotes for risk to explain if there would be a big change in the [profit] numbers, that would give us more insight into things (FM 7); You would have something that was more forward looking ... I would like this to be detailed, about the risks and their quantitative impact (FM 12); If the risk disclosures contained sensitivity tables for key factors on profit (FM15)

Given the foregoing and their critical opinions of risk disclosure, this acutely highlights the “empirical anomaly” pertinent to this research, as to why capital market users invest time reading such reporting evidenced, but not questioned, in Campbell and Slack (2008) and Bean and Irvine (2015). To interpret this, we inductively employ the theoretical framing of comfort to analyse themes emergent from the data that help understand their reading of such disclosures.

6.2. Senses of comfort

6.2.1. Relief sense

The relief sense is those disclosures that enable users to confirm the presence of reporting and provide a check on their a priori understanding of company risk. Firstly, comments which reveal that comfort is gained through the risk disclosures being present echoes that reported, but not extended, by Campbell and Slack (2008), Spira and Page (2010) and Carrington (2010) on aspects of reporting within the annual report such as risk, governance and the audit report respectively. For instance, “you want to know the risks are there year on year” (FM 12) and “as I said I want to know they [the risks] are there [in the

report] ... You want to know it's there" (FM 18). Further, FM 8 commented, "I know that's there ... I think that's quite instructive".

Secondly, and building on the presence of disclosure, comfort through confirmation of their a priori understanding. For instance, FM 2 that "the risk factors I think should confirm what we already know". Such a source of comfort and the use of reading as a checking mechanism were referred to by many of the fund managers as to why they read the disclosures. FM 3 remarked, "it becomes a checking mechanism for *what we already have*" (emphasis added) and similarly FM8 that the reading, "should confirm what we know".

Comfort deriving from this sense accords with the confirmatory relevance of disclosures to fund managers in enabling them to "check the story" (Holland, 2006). As such, the disclosure, helps to reinforce their underlying understanding and confidence regarding their appraisal of company risk and the reliability of their judgements (Hilton, 2010; Mokoaleli-Mokoteli et al., 2009). This resonates with Barker et al. (2012, p. 213) who comment, "information can be useful even if it simply confirms that nothing has changed. A decision to hold is a decision to invest, and the fund manager needs current information to provide reassurance that the decision to hold is understood and remains supportable", a position consistent with that noted by FRC (2017).

The relief sense is embodied in their desire to affirm their a priori understanding, despite widely acknowledging the time pressured and multi-task environment under which they operate (Taffler et al., 2017), as summarised by FM 11,

I hope you've got the sense from me is that time is the enemy on everything that we do here. I suppose you rely on the fact that *they're in place and actually confirm what we know*. (Emphasis added)

FM 8 additionally remarked, "if I read two pages and it takes me say eight minutes to read it, I have confidence that I haven't missed anything".

However, comfort is not a binary construct reflective only of one sense of confirmatory presence (c.f. Campbell & Slack, 2008; Spira & Page, 2010) but rather multiple senses (Kolcaba & Kolcaba, 1991). As such, the relief sense may merge into the state sense through gradations of comfort. For instance, FM 6 reflecting on the construction of their analysis as part of their investment decision-making commented, "it [referring to risk disclosures] would be more an indication of a SWAT analysis, what the well-recognised risks are, just making sure that those are mentioned and not missed out". Here, we see evidence of the relief sense of comfort, that the well-recognised risks are reported, moving into state sense, their reading helping them to make sure those known risks are not omitted.

6.2.2. State sense

The state sense serves to provide comfort through satisfying that, in line with their expectations, nothing significant is omitted and there is nothing new or untoward in the disclosures. Firstly, on reading to satisfy the completeness of risk disclosures and that there are no omissions that may serve to question their prior understanding. This was neatly summarised by FM 13 who commented, "I like to have the assurance that it's complete, that everything is there". Further, FM 3 commented,

I think it's actually quite refreshing to look at it [disclosure] again and actually see these, especially when you see a disaster in a stock and you say yup it was risk 14 out of 35, it was highlighted to me ... I think there probably is some meaning in there in the sense that if something does go wrong it's probably listed on that sheet [of risk reporting].

Interestingly, this also reflects a criticism of risk reporting, that simply too many risks are disclosed without a focus on those risks most critical to the business. Balanced against this, but in the context of an exogenous shock, Hail et al. (2021, p. 284) recognise that firms with more transparent risk disclosures *ex ante* “exhibit significantly lower information asymmetry *ex post*” and thus management should pay heed in determining current risk disclosures to the possibilities of future events reflective of the comment by FM 3. More widely, Drake et al. (2016), report that investors access historical financial accounting information more frequently in times of general uncertainty and related earnings shocks for firm-based contextualisation. However, these contrast to the on-going confirmatory importance of risk disclosures in our study through relief and state senses.

Secondly, comfort in a state sense through their assurance of no new, or untoward, information is shown by the response from FM 20 and illustrative of moving from relief to state sense, “it is important to me that I can find the risk disclosures and they are reported (relief sense), and that when I read them [there is] nothing new”; and similarly by FM 12, “I want it [risk disclosures] to be there, *but I want to make sure that there isn't anything new*” (emphasis added). Such responses are consistent with a state sense of comfort, that nothing new is reported which may trigger investigation to help them understand any such new or unexpected disclosures further moving into the renewal sense.

Following this reasoning and reflecting on FM 13 who commented, “it is good if you can tie up what you believe are the risks for the company and what the company is saying”, and continued, “and it can highlight any areas [that] *you might be missing*” (emphasis added) that attract attention and may warrant further investigation. Thus, as well as providing confirmatory comfort (consistent with relief sense), this also reveals the importance to them of there being no new or unexpected disclosures or that no material risks have been omitted (potentially moving from state sense to renewal sense). This is affirmed by FM 8 who reflected, “I would read them ... if there isn't anything that attracts my attention then all right, fine, nothing to worry about” (i.e. no new or unexpected information nor material omission) indicating a possible shift to renewal sense if the disclosures did warrant additional attention and a potential “red flag” that is now considered.

6.2.3. *Renewal sense*

Instances of new revelations, whilst infrequent, are consistent with comfort as renewal, potentially triggering the need for further investigation. Such schema-discrepant outcomes challenge individuals' expectations and existing knowledge structures. This contrasts to that reported by Hail et al. (2021) whereby disclosures provide historic context in the event of an exogenous event rather than the disclosure itself acting as a potential signal. For instance, FM 16 commented, “Maybe occasionally there may be *something that stands out a bit* ... you will say oh yeah, I should have thought of that” (emphasis added). Further FM 5 candidly acknowledged,

Once in a while it comes out with something that you hadn't immediately thought of. You know ... with a retailer you know the key risks are and so on ... once in a while after [reading reporting by] a few retailers you start to realise that the key drivers are actually x y z. Once in a while a company will throw in *something that you hadn't thought of*. (Emphasis added)

Such new information lies outside their expectations of reporting (for example the realisation of “new drivers”). This may lead to a re-appraisal of their a priori understanding and necessitate drawing on external sources, such as analysts or through a regular investor meeting with company management, to help restore their understanding of risk in that area. Hence, reporting acts as a catalyst for risk re-appraisal. FM 15 commented that “It's [risk disclosure] always worth reading, but in nine out of 10 cases you're not going to get anything you didn't know about” indicating that disclosure is both known by them and complete (consistent with relief and state senses), but importantly reveals that occasionally new information challenging their understanding may emerge. Whilst Campbell et al. (2014) reported that changes in, or unexpected, disclosure influenced investors, this was at an industry rather than firm-specific level.

At a firm-specific level, FM 4 referred to an issue flagged in the annual report, “like the copyright example where there was something, and it was quite interesting because I gave them a call (sell-side analysts) and they were surprised that I had noticed it”. They continued,

I'll give you an example of a company I looked at recently of things that you *wouldn't have thought about*. I was looking a mining company and they use a different process to extract sulphide metals. In the annual report I have found information about the fact that the company did not have a registered copyright for this process, *it's not something you would actually have thought about*, we just sort of assume that the legal things are fine, so this directed my attention. What happens if someone sues them, or what happens if someone else starts using the process. What if they get a legal case and this might actually ruin my investment case because they might have big costs associated with it, they might have to stop production, there might be big penalties? ... And then I would like to know what is the biggest downside. (Emphasis added)

The reading highlights a hitherto unknown risk issue with potential downside consequences for their investment case. It is at this point, that additional information is sought consistent with a sense of renewal,

You want to know that you can raise it with the management. It's something you can't really quantify yourself unless you are an industrial lawyer who specialises in bleaching and you know you don't have this knowledge. Being a fund manager, you try to calculate the risk, assess the risk, respond to them, but you don't have the perfect knowledge, and you need to make decisions in an environment of uncertainty, So I was glad to have found it.

In such instances, the risk disclosures provide new, relevant, and useful information to the reader. This contrasts to the widespread criticisms evident in the firm-level literature (Abraham & Shrivs, 2014; Dobler et al., 2011; Elshandidy et al., 2018; Ibrahim et al., 2022; Lee, 2012; Linsley & Lawrence, 2007; Malafronte et al., 2018) where risk reporting is perceived as lacking usefulness. Furthermore, the potential for new risk information was not considered by other research engaging with capital market users (Bean & Irvine, 2015; Campbell & Slack, 2008).

Risk-related disclosures that signal changes in the external environment or exogenous events may equally trigger renewal sense. Indeed, Krakow and Schäfer (2020), albeit in relation to investment funds, reported that changes in the informativeness of risk disclosure to investors was positively related to future investment risk levels. Hence, in our case at a firm level, the need to investigate such triggers. This was highlighted by FM 13 on their recollection of litigation disclosures arising from asbestos claims,

Yeah, you do see some cases, [of new disclosure] like an industrial business [name here], but it has specific disclosure on outstanding court cases for asbestos claims, these things aren't necessarily small sums, they're sums that can hit the business, so things like that, disclosure on items like that.

Based upon this, comfort is founded on an expectation of subsequent risk disclosure, beyond just historic contextualisation of an exogenous event (Hail et al., 2021), reverting to relief sense of confirmatory reporting thereafter. Unexpected new disclosure signals the potential need for interaction with others such as sell-side analysts or directly with the company management. The sense of comfort is renewed with a revised understanding of risk informing their subsequent expectations on future disclosures. This is consistent with that advocated by Abraham and Shrivies (2014) for significant events to be reflected in subsequent risk reporting.

7. Conclusion and implications

Despite the wide coverage of risk reporting and its regulatory prominence, much of the prior research is inherently desk-based. In contrast, there is a paucity of risk reporting research directly engaging with capital market users as a primary audience of reporting (IASB, 2018). Of those, Solomon et al. (2000), Campbell and Slack (2008) and Bean and Irvine (2015) all report evidence that such users read the annual report risk information, and their candid criticisms of it. However, this prior research did not question the apparent anomaly of their readership of such information.

This research contributes to the risk reporting literature by examining why fund managers procedurally read annual report risk disclosures revealing how that information is consumed by them. Further, it challenges the orthodoxy prevailing in the firm-specific literature as to the general lack of usefulness of risk reporting to users, especially investors such as fund managers. Indeed, the prior literature that has examined risk disclosure characteristics is inherently bounded by its general lack of user engagement, in its critical reflection on risk reporting and does not reveal other insights that can be provided by such disclosure to users.

Reflecting on the FRC (2017, p. 9), it is salient to note their observation that “even when they [investors] have invested in a company or sector for a long period of time, investors will still review the principal risk disclosures in the annual report in order to evaluate their own views on the company's risk”. Further, the research highlights that usefulness is not constrained by value relevance (Barker et al., 2012) fundamental to market-based studies examining the economic consequences of risk disclosure on, for instance, share prices and the cost of capital. Employing comfort theory, we inductively show through respective senses of comfort why and how fund managers consume risk information. In so doing, we move beyond the prior extensive archival desk-based

research to provide first-hand empirical evidence of a primary user on their use and practice. Hence, the research provides insights into Elamer et al.'s (2021) concern regarding disclosure usefulness in practice to investors and responds to the earlier calls for such research on risk by Elshandidy and Shrikes (2016) and with fund managers more generally (Taffler et al., 2017). Beyond risk reporting, the research also contributes to the application of comfort theory and relevant senses in relation to the consumption by users of annual report information. In doing so this moves beyond the more binary notion of comfort associated with the presence of disclosure evidenced in other accounting studies (Campbell & Slack, 2008; Georgakopoulos & Thomson, 2005; Spira & Page, 2010).

Considering the findings and contributions of the paper, a number of implications, relevant to risk reporting emerge. Firstly, from a regulatory perspective, and reflecting on FRC (2017), it is evident that investors read and derive comfort from annual report risk disclosure but remain critical as to its quality. Whilst the reporting enables them to check their story, a tension remains between an exhaustive list of risks versus a focus on key risks, their prioritisation within the annual report and clear linkages to strategy and the business model. The former leads to unspecified and excessive disclosure but may provide comfort that all risks are reported. And from a preparer perspective may mitigate against any litigious action of non-disclosure. The latter may similarly face resistance from preparers due to proprietary information content and commercial sensitivity. Whilst accepting the volume of risk reporting, there should be greater focus and more clearer signposting of principal risks with appropriate links of their implications for, and effect on, the business model, for instance through sensitivity analysis. This would be in line with FRC (2017) guidelines serving to enhance the quality of reporting to users through increased reporting specificity and more clearly show the financial reporting consequences of firm-specific risk. As such, this may more closely reflect its economic value relevance.

Secondly, although cognisant of proprietary costs, it would seem in the interest of preparers to provide increased quality and specificity of risk reporting echoing Heinle and Smith (2017). As Abraham and Shrikes (2014, p. 104) comment, "there may exist a 'tipping point' at which certain companies become prepared to improve their disclosures and are willing to withstand some level of proprietary costs. Once this process has begun others may feel obliged to mimic their behaviour". There is clear evidence from the market-based studies, that reporting quality and its economic/pricing effects are positively related resulting in a reduced cost of capital. At a firm specific level, increased quality of reporting will help reduce information asymmetry, facilitating greater investor confidence and higher risk-related earnings forecasting accuracy. Hence, beyond its confirmatory relevance, investors, supported by the regulatory framework, should challenge excessive boiler-plated and commonly used standard risk disclosures that are provided without any underlying connectivity to the business model and/or financial implications or sensitivity.

Thirdly and relatedly, whilst we would not advocate increased risk regulation as it is already well covered (FRC, 2017; IASB, 2021), a more explicit "comply or explain" approach as noted by Elshandidy et al. (2018) would complement the existing regulation. This should facilitate greater coherence and quality of risk reporting, for it to be fully compliant with reporting guidance, and also be subject to greater levels of audit scrutiny.

Fourthly, there has been a significant increase in ESG-related investment (see for instance PwC, 2022) and, in 2022, the establishment of the International Sustainability

Standards Board (ISSB) to harmonise sustainability reporting frameworks notably in response to investor demands (ISSB, 2022). Consequently, future reporting should increasingly embed ESG- and sustainability-related risk issues. In this context, such risk considerations should be more demanded by, and be decision-useful to, fund managers reflective of their wider societal importance (Millar, 2021) through their equity investment decision decision-making. Indeed, as recognised by the FCA (2023b, p. 3), “the financial sector has an important role to play in contributing to the transition to a net zero economy and a more sustainable long-term future”.

We acknowledge that the views expressed in this paper relate only to the sample of our interviewees, and that all of the interviews were UK based. Equally, we are aware that the findings solely relate to risk disclosures and their consumption which is one element of a complex decision-making environment. Further to context-based limitations, we accept that qualitative research evidence garnered through interviews only reflects the personal views of the fund managers and further such views may differ from those held in reality. However, we sought to counter this by the interviews being anonymous by person and institution to facilitate an open and honest discussion. We recognise that our findings are not necessarily generalisable based on our framing and interpretation (Abraham & Bamber, 2017; Taffler et al., 2017) and we accept that other interpretations and theoretical perspectives of the data could be drawn.

Future research could usefully examine the views of preparers of risk reporting; who writes and signs-off the disclosure and their views on the relative importance of stakeholder groups as consumers of that information. Further, it would be interesting to examine the dialogue between company and capital providers concerning the provision of, and interactions around, risk information. This could encompass investor presentations, earnings conference calls, meetings with management and sell-side analyst reports. Finally, given the growth in ESG-related investment and the ISSB sustainability standards, both quantitative market-based and qualitative interview research would be welcomed to examine the value relevance and decision-usefulness of sustainability-related risk disclosures to investors.

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Appendix

A1.1. Fund manager readership of annual report risk disclosure: outline template for interviews

A1.1.1. Section 1: general annual report and risk disclosure review

- Is knowledge of company risk an important aspect of your role?
- Please discuss the type of information sources that you use to assess company risk and the importance of the company annual report as a source of risk information.
- How do information sources such as the annual report help understand the risk?
- Do you read the annual report risk reporting in detail?

A1.1.2. Section 2: relevance and usefulness of annual report risk disclosure

- Do you consider the information within the annual report risk disclosure to be material to your decision-making?
- What are the problems with risk reporting that impair its usefulness to you?
- Given criticisms of risk reporting, can you provide more detail as to why would you read the disclosure, if it is not material to your decision-making?
- Do you draw some form of reassurance from reading the risk disclosure?