FINANCIAL RISK DISCLOSURE DETERMINANTS: STUDY ON COMPANIES LISTED IN MORGAN STANLEY CAPITAL INTERNATIONAL (MSCI) INDONESIAINDEX ON 2014-2016 PERIODS

Sayekti Endah Retno Meilani
Wiyadi

ABSTRACT

The purpose of this study is to examine the effect of corporate characteristics on financial risk disclosure in Indonesia 2014-2016 period. Corporate characteristics in this study are company size, industry type, ownership concentration, profitability and leverage. The sample of this study is a company listed on MSCI (Morgan Stanley Capital International) Indonesia Index on 2014-2016 periods. The results of this study indicate that the most disclosed financial risk information by the company is credit risk with average percentage of 81.52% followed by liquidity risk and market risk with average percentage of 78.00% and 47.16% respectively. The average disclosure level of financial risk of the sample research is 59.92%. This indicates that companies incorporated in the MSCI Indonesia Index period 2014-2016 have not fully disclosed the financial risk of the company as stipulated in the IFRS Convergence Financial Accounting Standards that is Statement of Financial Accounting Standards *No. 60 Revision 2014 on Financial Instruments: Disclosures that adopt IFRS No. 7 on Financial Instruments: Disclosures. In addition, the results of the study also concluded that firm size, industry type and profitability variables influence the disclosure of financial risk. Other independent variables such as ownership and leverage concentration have no effect on the level of financial risk disclosure.*

Keywords: financial risk disclosure, corporate characteristics, morgan stanley capital international indonesia index

INTRODUCTION

Background Research

To encounter ASEAN Economic Community (AEC), business competition is increasing. ASEAN Economic Community (AEC) is expected to be the driving force of economic integration among ASEAN countries. Through ASEAN Economic Community, there is increasing market access among ASEAN countries. The companies can expand market share coverage, investment flows, capital and skilled labor. However, that condition also has consequences for the business world. It was occured because the opening of access from the ASEAN region of course there is an increase in user demand financial reports on the presentation of financial statements with high integrity (Mindarti, 2015).

High-integrity financial statements required not only information on accounting figures in financial reporting but also need disclosure of other information that can influence stakeholder considerations in the decision-making process. Risk disclosure is one part of disclosing other information in financial reporting that provides qualitative information in the company's annual report.

Risk disclosure is one of important factor in corporate financial reporting because it contains information on how management manages risk and how it impacts on the viability of the company. Generally, risk disclosure is presented in the Corporate Governance section. Through risk disclosure in the annual report, the company becomes more transparent in terms of presenting information to their stakeholders.

Risks always appear in every business activity carried by the company. However, the greater the risk encountered by a company the greater the rate of return that will be achieved by the company. Minimizing risks that arise, the company occured with the require for the ability to manage risk so as to avoid any damages that may occur. One of the most important aspects for companies that perform risk management is the disclosure of corporate risk (Mubarok & Rohman, 2013).

The appearof the issue of corporate risk disclosure began to be of concern to the business world when ICAEW (Institute of Chartered Accountants in England and Wales) published a discussion paper entitled "Financial Reporting of Risk - Proposals for a Statement of Business Risk" in 1998. ICAEW recommends to the companies to disclose information about their business risks through annual reports in order to assist company stakeholders in the decision-making process (Linsley & Shrives, 2006). According to ICAEW, the lack of information relating to corporate risk will reduce the accountability level of the company's annual report. This will have an impact on the company's stakeholders in doing considerations related to predicting the future situation that will be encountered by the company.

In addition, according to (Solomon, Solomon, Norton, & Joseph, 2000) investors showed high required for corporate risk disclosures in helping investors to improve their investment decisions. The existence of risk disclosure can assist investors in the investment decision-making process through evaluation of information that has been disclosed by the company in terms of the level of risk encounter by the company (Mubarok & Rohman, 2013).

The importance of corporate risk disclosure enables regulators in Indonesia to issue and decide some rules that require disclosure of risk information reported by the company in annual reports. As in SFAS No. 60 (Revised 2014) on Financial Instruments: Disclosures adopted from IFRS Number 7 about Financial Instruments: Disclosures. This regulation applies to all entities. Points of these regulation require the entity to convey the information required by the stakeholders to evaluate the significant effect of the financial instruments on the company's financial performance as well as the risks arising from such financial instruments and how an entity conducts risk management. Each entity is required to disclose both qualitative and quantitative information so that information users obtain a comprehensive picture of the nature and extent of risk (Wibowo & Probohudono, 2017).

There are other conditions that regulating corporate risk disclosure, such as Decision of the Chairman of Bapepam LK Number: Kep-431 / BL / 2012 about Obligation to Submit Annual Report to Issuer or Public Company. In this regulations, each company is required to disclose the risks encountering the company that may affect the sustainability of the company's business in addition to the various measures taken to manage those risks. Bank Indonesia also issued a regulation. Bank Indonesia Regulation Number 14/14/PBI/2012 about Transparency and Publication. The rules of the bank for the preparation of annual reports whose scope and risk of loss (risk of exposure) that banks continue to practice in practice risk management applied by banks (Utomo & Chariri, 2014).

Several factors are indicated to have an effect on the company's financial risk disclosure level. Among these factors are profitability, leverage, firm size, industrial type and concentration of ownership. Firm size describes the size of the company indicated by total assets, total sales, average total sales and average total assets. According to (Amran, Manaf, & Bin, 2009), the larger the size of the company, the greater the number of stakeholders involved in the company. Based on stakeholder theory, with increased stakeholder involvement, the disclosure obligations become larger to meet the needs of stakeholders.

Industrial type is a characteristic that is owned by the company related to the business field, business risks, employees owned and corporate environment. In accordance with signal theory, firms within the same industry type are likely to adopt the same level of disclosure (Aly, Simon, & Hussainey, 2010). Further, according to Craven and Marston in (Elzahar & Hussainey, 2012) if an enterprise in an industry fails to follow the same disclosure practices as any other company in the same industry, it is interpreted as a bad signal. On the other hand, different industrial types will be influenced by a variety of unique and different constraints in their business environment. This results in the type and level of risks encountered differing among industry types according to their complexity in value creation activities and the extent of financial risk disclosure in each industry-type environment.

Ownership concentration is a large ownership by certain parties in a company that will impact on the quality of implementation of corporate governance concerned. The greater the degree of ownershipconcentration, the stronger the demand to identify risks encountered that include financial risk, operational risk, reputation, regulation and information.

Profitability is used to measure a company's ability to generate profits (profitability) at certain levels of sales, assets, and share capital. The higher level of profitability of a company can cause the principal interest to buy stock or invest in a company. The greater the profitability generated by the company, the more widespread risk disclosure will be made because it shows to stakeholders about the company's ability to streamline the use of capital within the company. Companies with high profitability and high risks, will be encouraged to disclose information on increasing risk. There is a positive relationship between the profitability of firms and the extent of risk disclosure, as corporate managers in an effort to increase profitability will provide wider information in order to increase investor confidence which in turn will increase the compensation they will receive (Singhvi and Desai, 1971 in (Aljifri & Hussainey, 2007)).

Leverage is a way for measuring the amount of debt used to finance investment. The higher the level of a company's leverage, the more widespread the risk disclosure will be made by the company. This is possible because the higher the level of corporate debt, the company is increasingly at risk. Therefore the creditor needs transparency of financial reporting and accountability for the use of funds that have been lent as a benchmark of debt repayment. (Hassan, 2009) explained that the level of corporate leverage will have an impact on the level of corporate financial risk disclosure. Company managers tend to support risk-related disclosures when the company's financial situation is in a state of adversity (not good). The companies with higher levels of risk, will disclose greater amount of information because company managers want to explain the consequences of high risk.

In Indonesia, research on financial risk disclosure is a topic that is still slightly discussed. Further research on financial risk disclosure in Indonesia is necessary given the importance of financial risk disclosure, lack of research on financial risk disclosure, inconsistency of prior research and information needs of financial risks required by stakeholders. This study refers to research conducted by (Atanasovski, Serafimoska, Jovanovski, & Jovevski, 2015) with the object of research are companies listed on the MSCI Indonesia Index 2014-2016. The selection of the 2014-2016 period is considered to represent how the current financial risk disclosure practices in Indonesia are.

MSCI Indonesia Index is one of index compiled by Morgan Stanley Capital International since 1968 which aims to measure market performance in certain areas and countries. The MSCI Index released by the New York-based Morgan Stanley Group has a variety of indexes that international investors often use as portfolio benchmarks. More than 160,000 indexes have been formed by MSCI. Some MSCI indices that often affect the movement of Asian and Indonesian exchanges include MSCI The Emerging Markets Index and MSCI Indonesia Index. MSCI The Emerging Markets Index is designed to measure market performance in developing countries. Similarly, MSCI Indonesia Index, contains a portfolio of stocks in Indonesia to measure market performance in Indonesia.

Generally, the MSCI Indonesia Index is populated by large companies with good stock liquidity. The best stocks are chosen to represent and become indicators. The elected company is considered representative of the Composite Stock Price Index (IHSG) in Indonesia Stock Exchange (IDX) and the company is a big company that affects the Indonesian economy. Morgan Stanley Capital International rebalancing every May and November for the MSCI Indonesia Index. Rebalancing is an activity to overhaul the contents of stock portfolios that form the index calculator. MSCI selects shares that are easy to trade or liquid, there are active investors and without restrictions from the owners of the company. The stocks listed in the MSCI index is a liquid stock with a large amount of foreign ownership compared to the other stocks. And these stocks are also selected based on the fundamental performance of issuers, liquidity, and market capitalization is some of the indicators that become the main condition of entry of a stock to the MSCI index.

Problem formulation
The problem formulations in this research are:
1. What is the level of financial risk disclosure of companies listed in the MSCI IndonesiaIndex.
2. Is the characteristics of the company proxied with profitability, leverage, industrial type, ownership concentration and firm size affect the financial risk disclosure of companies listed in MSCI IndonesiaIndex.

THEORETICAL FRAMEWORK AND THE DEVELOPMENT OF HYPOTHESIS

Agency Theory
(Jensen & Meckling, 1976) states that the agency relationship as a contract whereby one or more principals (owners) use another person or agent to execute a company activity involving the delegation of some decision-making authority from principal to agent. When the two parties concerned try to maximize their respective interests, then there arises a conflict of interest, in which the agent is likely to put more of his personal interests than the principal interests.

According to the agency theory perspective, the basis used to understand the practice of financial risk disclosure is that managers as corporate managers must know more information and prospects of the company in the future when compared with the owner of the company. Therefore, it results in information asymmetry on both sides. This will certainly harm the owners of the company. In this case, the owner of the company is the shareholders and creditors. To reduce the emerging agency problem, a company manager must present all relevant information indicating that all of their actions are intended for the benefit of shareholders and creditors, by disclosing information about the company's financial risk (Elzahar & Hussainey, 2012).

Signaling Theory
According to the perspective of signal theory, the practice of risk disclosure is intended as a signal that corporate managers disclose information about the risks facing the company to the owners of the company (investors and creditors). If the company manager discloses adequate information to the owners of the company, then such a thing is a good news for the company. It is intended that managers can secure the investment of owners in the company. Additionally, another manager's goal of disclosing adequate information in the annual report is to give special signals to current and potential users of the information about the company's condition (Elzahar & Hussainey, 2012).

Stakeholder Theory
In the perspective of stakeholder theory, a company is not an entity that only operates for its own sake, but the company must always provide benefits to its stakeholders (Ghozali and Chariri, 2007). When the stakeholders provide support to the company by controlling vital economic resources for the company, the company will react by satisfying the interests of its stakeholders (Ulman, 1985 in Ghozali and Chariri, 2007). Wide disclosure by providing the information needed by stakeholders is one way to achieve stakeholders' satisfaction. Based on this theory, firms with high risk levels will reveal explanations and justifications about what actually happens within the company (Amran et al., 2009). The higher the risk level of the company, the more financial risk disclosures the firm must make, because management needs to explain the cause of the risks, the impacts, and how the company manages risk to its stakeholders (Linsley & Shrives, 2006).

Financial Risk Disclosure
Financial risk disclosure in Indonesia is regulated in Statement of Financial Accounting Standards No. 60 Revision 2014 on Financial Instruments: Disclosures that adopt IFRS No. 7 on Financial Instruments: Disclosures. This rule applies to all entities. This regulation requires the entity to convey the information required by the user to evaluate the significance of the financial instrument to the financial performance as well as the risks arising from such financial instruments and how the entity carries out the risk management. The entity discloses the information qualitatively and quantitatively so that the information user gets an idea of the nature and coverage of the risk as a whole.

In accordance with the revelation of IFRS Number 7 in (Wibowo & Probohudono, 2017) financial risks are classified into three, that are:
1. Credit risk represents the risk that either party will suffer loss of financial instruments against other party resulting from failure to pay the obligation.
2. Liquidity risk is a risk that occurs when the entity difficulties in paying off its obligations. This risk can be solved by handing over cash or other assets.
3. Market risk is the risk that there is fluctuation in the fair value of a financial instrument. This risk is due to market price changes. Market risk is divided into three, that are:
    a. Interest rate risk, is the occurrence of fluctuations in future cash flows of financial instruments as a result of changes in interest rates.

b. Foreign currency risk, is the occurrence of fluctuations in the fair value of a financial instrument of a company due to exchange rate changes.
c. Other price risk, is the fluctuation of future cash flows of financial instruments of the company due to factors other than interest rates and foreign currency.

The influence of Firm Size on Financial Risk Disclosure
The larger size of the company, so the level of risk disclosure is greater.The companies that are large, then the business activities that run definitely complex so it will involve more stakeholders. The disclosure is a form of corporate responsibility to the public. (Amran et al., 2009), states that the larger the size of the company, the greater the number of stakeholders involved in the company. Based on stakeholder theory, by increasing the number of stakeholders involved in the company, the obligation to disclose financial risk becomes greater. Based on the description, the hypothesis proposed in this research is:

H_1: Firm size affects financial risk disclosure in financial statements.

The influence of Industrial Type to Financial Risk Disclosure
Research (Aljifri & Hussainey, 2007), (Amran et al., 2009), (Hassan, 2009), and (Elzahar & Hussainey, 2012) conclude that industrial types have a significant effect on risk disclosure. In accordance with the perspective of signal theory, firms within the same industrial type are likely to adopt the same level of disclosure (Aly et al., 2010). Then, according to Craven and Marston in (Elzahar & Hussainey, 2012) when a company in an industrial fails to follow the same disclosure practices as any other company in the same industry, it can be interpreted as a bad signal, . This study predicts that the level of financial risk disclosure in the company's financial statements will be influenced by different industrial types. Furthermore, different industries will certainly be affected by the unique and differentiated constraints of the business environment (Elzahar & Hussainey, 2012). It causes of the type and level of financial risk will differ among different types of industries according to the complexity in value creation activities and the extent of risk disclosure in each industry environment.

Based on previous study and signal theory, the hypothesis that can be proposed in this research is as follows:

H_2: The industrial type sector affects the financial risk disclosure in the financial statements.

The influence of Ownership Concentration on Financial Risk Disclosure
The results of (Atanasovski et al., 2015) concluded that there is an influence on the level of corporate financial risk disclosure with concentration of ownership. The greater the degree of ownership concentration, so the demand to identify the risks is stronger that may be encountered by the company. These risks include financial, operational, reputation, regulatory and information risks.

(Shleifer & Vishny, 1986) states that one of the methods used to improve the quality of risk management is to ensure the existence of at least one majority shareholder in the company. The research of (Desender, 2007) concludes that firms with concentrated ownership, stockholders of the majority have a strong preference for controlling management, reducing agency costs and increasing the oversight role in the firms in which they invest.

Based on the above explanation, the hypothesis can be formulated in this study are as follows.

H_3: Ownership Concentration affects the financial risk disclosure in the financial statements.

The influence of Profitability on Financial Risk Disclosure
Profitability is a characteristic that shows the success of the company's ability in generating profit. In accordance with the agency theory perspective, managers in companies with high levels of profitability will provide more information about risks in interim financial statements (Elzahar & Hussainey, 2012). This is possible because to balance the current manager's performance against shareholders.

Companies with high profitability will disclose more extensive information in their annual report. It has be done because the high profitability indicates that the company concerned can manage the risk well. It was given both information and signals for shareholders on how the company can manage the risks faced in the company's annual report. Based on the description, the hypothesis formulated in this study are as follows:

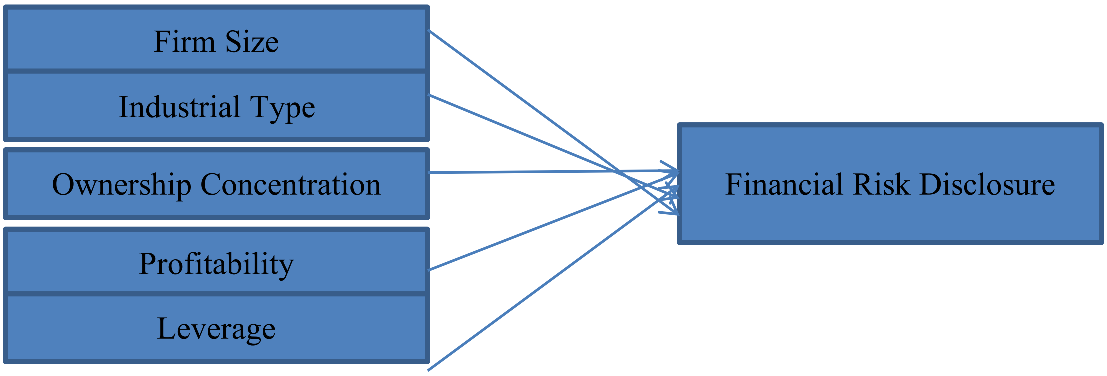
H_4: Profitability affects risk disclosure in financial statements.

The Influence of *Leverage* on Financial *Risk Disclosure*
Based on the perspective of agency theory, the creditors of firms with high levels of debt risk in their capital structure can force firms to disclose information in their annual report more widely (Amran et al., 2009). Similarly, firms with high debt levels are more speculative and risky so that wider risk disclosure is used to reduce information asymmetry between agents and principals. In accordance with the previous explanation, the hypothesis proposed in this study is:

H_5: Leverage affects financial risk disclosure in annual report

Theoritical Framework
The practice of financial risk disclosure by the companies in Indonesia is different, depending on the characteristics of each company. To provide an understanding of the effect of independent variables on the dependent variable of financial risk disclosure of the company, then presented the scheme of figure 1.

Figure 1.
Theoritical Framework



RESEARCH METHODOLOGY

a. Population, Sample and Sampling Technique

Population is the whole object of concern. The population in this study was all companies listed on MSCI Indonesia Index during 2014 -2016. Samples are part of a particular population of concern. The sample of this research is taken with purposive sampling criterion. Sampling of purposive sampling is sampling with certain consideration based on research interest or purpose. These criteria are:

1. Listed Companies on MSCI Indonesia Index during 2014-2016.
2. The Companies did not suffer any losses during the study period.
3. The Companies reports the complete financial report of 2014-2016.

b. Operational Definition of Variables

1. *Financial Risk Disclosure Index* (FRDI)

Financial risk disclosure (FRD) was the dependent variable in this study. This research used a financial risk disclosure index (FRDI) as a proxy or measurement of dependent variable that refers to the research (Wibowo & Probohudono, 2017) adapted from research (Atanasovski et al., 2015), Oorschot (2010),and IFRS Number 7 financial instrument: disclosure. FRDI in this study consists of 43 items of disclosure. The items in the FRDI are divided into 3 categories: liquidity risk, market risk, and credit risk. In accordance with IFRS Number 7, market risk can also be differentiated into currency risk, interest rate risk and other price risk.

The calculation of the disclosure items uses a dichotomy approach, ie each item of the disclosed FRD is given a value of 1, and a value of 0 if not disclosed. Each item will be aggregated to obtain the overall FRD index of each company. Information on FRD disclosure is obtained from the annual report and the company website. Calculation of FRD Index is formulated as follows:

$$FRDI = \frac{Number\ of\ Items\ Disclosed}{Total\ Score\ of\ Disclosure}$$

The method used in analyzing financial risk disclosure is the content analysis method. This method is used to measure the level of risk disclosure in the financial statements. This method was chosen because the study focused on the extent or quantity rather than on the quality of financial risk disclosure.

2. Industrial Type

The industrial sector typewas divided into two categories: financial industry and non-financial industry, and measured by dummy variable. Companies that fall into the category of the financial industry rated 1. While non-financial industry companies rated 0 (Atanasovski et al., 2015).

3. Firm Size

Firm size is a value that shows the size of the company. Here are the indicators in measuring the size of the company:

Firm Size = Ln (Total Assets)

4. Ownership Concentration

The ownership concentration illustrates how and who controls wholly or largely over the ownership of the enterprise and the whole or most of the controls of the business activity of an enterprise. The ownership concentration is measured by a more than 51% ownership level (Shleifer & Vishny, 1986) indicating a right of control by the majority shareholder. In this study the concentration of ownership is dummy variable, 1 = concentrated company and 0 = un-concentrated company.

5. *Leverage*

Leverage is the level that indicates a company's ability to fulfill its financial obligations. Leverage in this research is measured by using debt to equity ratio. Debt to equity ratio is the ratio of the amount of debt or liabilities to the amount of the company's equity (Atanasovski et al., 2015).

6. Profitability

Referring to the research undertaken by (Atanasovski et al., 2015), Return on Equity (ROE) is used as a proxy for measuring profitability, which is calculated by comparing the net income with the average total equity.

$$Return\ on\ Equity = \frac{net\ income}{average\ of\ total\ equity}$$

c. Data analysis technique

Data analysis technique used in this research is descriptive statistical analysis and multiple linear regression analysis. Multiple linear regression is to test the effect of two variables or more independent variables on one dependent variable. The independent variables in this study are firm characteristics that include profitability, leverage, firm size, industry type and ownership concentration. While the dependent variable is a financial risk disclosure index.

Regression model in this research is as follows:

$$\mathbf{FRDI = \alpha + \beta1UP + \beta2TI + \beta3KP + \beta4RA + \beta5PRF + \beta6LVR + \varepsilon}$$

Where as:
FRDI : *financial risk disclosure index*
TI : industrial type
UP : firm size
KP : ownership concentration
RA : auditor reputation
PRF : profitability
LVR : *leverage*
α : constant
β1....β6 :regression coefficient
ε : *error term.*

DISCUSSION

Descriptive Statistics

Descriptive statistics aim to describe independent and dependent variables in the study covering the mean (minimum), maximum, and standard deviation values. The dependent variable in this study is financial risk disclosure while the independent variable consists of industrial type, firm size, ownership concentration, profitability and leverage.

Table 1. Descriptive Statistics Results of Dependent and Independent Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Risk Disclosure Index	90	0.0930	1.0000	0.5992	0.2181
Profitability	90	0.0200	1.9303	0.3941	0.4203
Leverage	90	0.1535	18.3214	2.1742	3.0974
Industrial type	90	0.0000	1.0000	0.1667	0.3747
Ownership Concentration	90	0.0000	1.0000	0.8667	0.3418
Firm Size	90	28.86	34.58	31.5356	1.3877
Valid N (listwise)	90				

The highest level of financial risk disclosure made by companies listed in the MSCI Indonesia Index period 2014-2016 is 100% while the lowest financial disclosure risk is 9.3%. The average disclosure level of financial risk of research sample is 59.92%. This indicates that companies incorporated in the MSCI Indonesia Index period 2014-2016 have not fully disclosed the financial risk of the company as stipulated in the IFRS Convergence SAK that is PSAK No. 60 Revision 2014 on Financial Instruments: Disclosures that adopt IFRS No. 7 on Financial Instruments: Disclosures .

Most of the companies analyzed belong to non-financial sector (83.3%). Statistics about average ownership concentration (86.70%) indicate that the average of companies incorporated in the MSCI Indonesia Index 2014-2016 period has a highly concentrated ownership among some dominant shareholders. More than three quarters of the companies in the sample have dominant shareholders.

Table2. Industrial Type

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	non financial	75	83.3	83.3	83.3
	Financial sector	15	16.7	16.7	100.0
	Total	90	100.0	100.0	

Table 3. Ownership Concentration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not concentrated	12	13.3	13.3	13.3
	concentrated	78	86.7	86.7	100.0
	Total	90	100.0	100.0	

Table 4 presents information on the percentage of items disclosed by the company. The most common financial risk information disclosed by the company is credit risk with average percentage of 81.52% followed by liquidity risk and market risk with average percentage of 78.00% and 47.16% respectively. Price risk or other price risk recorded the lowest average percentage of the average compared to other market risks, which amounted to 22.59%. This is because many companies do not provide information about price risks.

Table4.*Financial Risk Disclosure* (2014-2016)

No	Risks	Average
1	Market Risk	47.16%
	a. Interest Rate Risk	54.81%
	b. Currency Risk	64.00%
	c. Other Price Risk	22.59%
2	Credit Risk	81.52%
3	Liquidity Risk	78.00%
Financial Risk Disclosure		**59.53%**

Classical Assumption Test

The results of normality test by using Kolmogorov-Smirnov showed that the test results Kolmogorov-Smirnov equal to 0.200 greater than 0.05, it can be concluded that the data in this study is normally distributed. This study uses Gjser test to detect the presence or absence of Heteroscedasticity. The statistical output indicates that the data satisfies the assumption of Heteroscedasticity.

Based on Multicollinearity test indicated that all independent variables have tolerance values greater than 0.10 (10%) which means that the correlation between independent variables is less than 95% and the result of variance inflanation factor (VIF) calculation shows that it has VIF less than 10, if the tolerance value is more than 0.10 or 10% and the VIF value is less than 10, so in the test data there is no correlation between independent variables or Multicollinearity. The result of autocorrelation test using run test shows that in this research there is no autocorrelation or no autocorrelation.

Model Accuracy Test

Table 5 shows that Adjusted R-Square has a value of 0.422 or 42.20%. This result shows the contribution of independent variable to the dependent variable (financial risk disclosure index) that is equal to 42.20% and the rest of 57.80% explained by other variables. Simultaneous regression testing (Test F) aims to determine whether the dependent variable is influenced by the dependent variable together. F arithmetic has a value of 13.998 with a f-statistic value of 0.000 or a significance level smaller than 0.05 so that the regression model used to estimate the dependent variable can be said to be fit.

Table 5.Test Coefficient of Determination and Test F

Adjusted R-Squared	***F-Statistic***	***Prob (F-statistic)***
0.422	13.998	0.000

Hypothesis Test Results

Table 6 shows that industrial type, profitability, and firm size variables have an influence on financial risk disclosure index while leverage and ownership concentration have no effect on FRDI.

Table 6. Regression Test Results

Variables	***Coefficients***	***Probability***	**Interpretation**
Profitability	-0.123	0.011	Supported
Leverage	0.000	0.975	not supported
Industrial Type	-0.283	0.001	Supported
Ownership Concentration	0.075	0.181	not supported
Firm Size	0.127	0.000	Supported

Discussion

Indonesia as one of the G-20 countries (the world's 20 richest groups) has agreed to converge the Financial Accounting Standards with IFRS as a whole in 2012. According to Martani (2012:16), IFRS as an international standard has three main characteristics namely principle base, fair value, and disclosure. IFRS requires more disclosure covering accounting policies, detailed details, important explanations, and commitments in financial statements. More disclosure will provide information that can be used for user decision making.

With these mandatory guidelines, it should disclose the level of corporate financial risk disclosure in Indonesia in accordance with SFAS No. 60 (Revised 2014) on Financial Instruments: Disclosures that adopt IFRS No. 7 on Financial Instruments: Disclosures reach an ideal level of 100%. However, the implementation of the regulation has in fact not been able to guarantee the implementation of higher risk disclosure practices. This is evident with the results of research that found that the level of financial risk disclosure of companies incorporated in the MSCI Indonesia Index 2014-2016 period only reached 59.53%. The most common financial risk information disclosed by the company is credit risk with average percentage of 81.52% followed by liquidity risk and market risk with average percentage of 78.00% and 47.16% respectively.

Based on the result of regression statistic test, it can be concluded that profitability has an effect on financial risk disclosure. The results of this study are inconsistent with previous studies conducted by (Atanasovski et al., 2015) and (Elzahar & Hussainey, 2012)where profitability has no effect on financial risk disclosure. This research is in line with the research conducted by (Syafitri, Majidah, & Dillak, 2016). However, in this study, profitability has a negative relationship with the disclosure of financial risk, meaning that companies with low levels of profitability will actually improve the quality of corporate financial risk disclosure. The level of profitability has a negative effect on the disclosure of corporate financial risk because firms with low profitability tend to experience high risk, thus still encouraging managers to provide more detailed information, as well as accountability to investors despite low profitability but financial risk disclosure is increasing and wider to meet the needs of stakeholders.

This according to the agency theory perspective can explain how managers provide information about risks to shareholders and creditors by providing more information. The wide availability of information about risk by managers at a time when corporate profitability is low to shareholders and creditors will reduce the problem of information asymmetry (agency problem). The disclosure aims to gain trust to shareholders that the company can still provide the required risk information even if the company has low profitability.

A significance value of 0.975 above 0.05 indicates no significant effect of the leverage variable on the disclosure of corporate financial risk. This means that leverage is not able to impact on changes in corporate financial risk disclosure. These results are consistent with the results of research conducted by (Atanasovski et al., 2015); (Elzahar & Hussainey, 2012) and (Amran et al., 2009) which indicates that the level of leverage has no effect on the company's risk disclosure.

In accordance with the stakeholder theory, companies with high risk levels will reveal the justification and explanation of what is happening within the company (Amran et al., 2009). The higher the risk level of a company, the more risk disclosures a company should make, because management needs to explain the cause of the risks, the impacts, and how the company manages risk (Linsley & Shrives, 2006). Given that MSCI Indonesia Index is a liquid company, the risk of a company measured by leverage will not affect the extent of financial risk disclosure of the company.

The results of statistical tests show that the type of industry affects the disclosure of financial risk with significance of 0.001. The results of this study are inconsistent with previous studies conducted by (Atanasovski, Serafimoska, Jovanovski, & Jovevski, 2015) where the industrial type has no effect on FRDI. This research is in line with the research undertaken by (Elzahar & Hussainey, 2012) and Lopes and Rodriques (2007) which concluded that the industrial type affects risk disclosure. In this study, however, the relationship between industry type and financial risk disclosure is negative. That is, the sample research company dominated by the non-financial sector (83.30%) has a lower level of financial risk disclosure than the financial sector companies. This is possible because in this study it is predicted that the disclosure of financial risk is influenced by different industry types. Different industries will be affected by different and unique constraints in their business environment (Elzahar & Hussainey, 2012). This causes the type and level of risk to differ among sectors according to the complexity of value creation activities and the area of financial risk disclosure in each sector environment. The financial sector is an industry with very tight restrictions, so disclosure of wider financial risk will provide a positive signal for its stakeholders.

The results of statistical tests show that the ownership concentration has no effect on the disclosure of financial risk with significance of 0.181. The results of this study indicate that the ownership concentration does not affect the financial risk disclosure of the company, so if the company with a concentrated ownership structure or not, this does not affect the financial risk disclosure company. The results of this research are not in line with (Atanasovski et al., 2015)and (Meizaroh & Lucyanda, 2011) which states that one way of improving the quality of risk disclosure is to ensure the existence of one major shareholder (at least) within the company. In companies with concentrated ownership, majority shareholders have a strong preference for controlling management, reducing agency costs, and increasing the oversight role in the companies they invest in. The greater the degree of concentration of ownership within the firm the stronger the demand for identifying possible risks such as financial risk, operational, reputation, regulation, and information risk.

The size of the company is a factor affecting the company in disclosing information about the company's financial risk. Managers as internal parties of the company will surely know more about the company's risk information than the company's external parties. This results in information asymmetry and raises agency costs between internal and external parties. According to agency theory, large size companies need to disclose information about risks to users to lower agency costs and reduce information asymmetry (Inchaustiin (Elzahar & Hussainey, 2012)). A significant positive relationship between firm size and financial risk disclosure supports the proposed hypothesis. Large companies have many stakeholders, therefore the larger the size of the company the company will reveal more information. This is in line with the research (Amran et al., 2009). Large firms have more complex business activities that may have greater impact for companies and stakeholders, better manage and assume critical risk disclosures for companies, thus disclosing more information to demonstrate corporate accountability to the public. In addition, the larger the size of the company means the increasing number of stakeholders involved.

CONCLUSIONS LIMITATIONS AND SUGGESTIONS

Based on the results of the analysis that has been done, it is concluded that information about credit risk and liquidity is the most information disclosed by the company, while information on market risk is not much disclosed. In fact, items that should be disclosed by the company at most about market risk because these risks consist of interest rate risk, foreign currency risk, and price risk. The results of the study found that the level of financial risk disclosure of companies incorporated in the MSCI Indonesia Index period 2014-2016 only reached 59.53%. This indicates that companies incorporated in the MSCI Indonesia Index 2014-2016 period have not fully disclosed the financial risk of the company as stipulated in the IFRS Convergence Financial Accounting Standards that is Statement of Financial Accounting Standards No. 60 Revision 2014 on Financial Instruments: Disclosures that adopt IFRS No. 7 on Financial Instruments: Disclosures, so it is necessary to increase the disclosure of information about the company's risks.

In addition, the analysis results also conclude that the disclosure of corporate financial risk is influenced by firm size, industrial type and profitability, while the ownership concentration and leverage does not affect the disclosure of corporate financial risk. In Indonesia, research on financial risk disclosure is still rare even though the development of risk disclosure has begun to increase. This research is interesting to do considering financial risk disclosure is a new issue.

Although researchers have used five independent variables but the effect is still small with the value of adjusted R^2 of 0.422. It explains that there are still a number of other variables that have not been used, which also contributes to the level of financial risk disclosure of companies listed on the MSCI Indonesia Index.

Based on these limitations, suggestions given for future studies are for companies that will and / or have registered their shares either in IDX or foreign stock exchange should pay more attention to reporting the financial risk of the company. This is done so that investors can know how companies manage their financial risks and may influence their investment decisions. The next researcher is expected to use other variables other than those used in this study, especially variables related to corporate governance variables. Comparative studies with other MSCI indices such as MSCI ASEAN are required so that financial risk information disclosure can be compared among ASEAN countries.

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Sayekti Endah Retno Meilani
FakultasEkonomi dan Bisnis Islam IAIN Surakarta
Jl. Pandawa, Pucangan, Kartasura, Sukoharjo, Jawa Tengah - Indonesia
E-mail: sayekti.endah@iain-surakarta.ac.id

Wiyadi
Program Studi Magister Manajemen, Universitas Muhammadiyah Surakarta
Jl. A. YaniTromolPos I Pabelan, Surakarta, Jawa Tengah – Indonesia 57102
Phone: 062-271-717417; Fax: 062-271715448
E-mail: wiyadi@ums.ac.id