



The Effect of Changes in Credit Rating on the Quality of Disclosure at Tehran Stock Exchange Listed Companies¹

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INTRODUCTION

Today, one of the most important factors in the decision-making process for market participants in Tehran Stock Exchange-listed companies is the information published by these companies. If information is not properly disclosed, the market's price discovery mechanism will undoubtedly fail to function correctly, and bond pricing will not be conducted effectively. Therefore, given the importance of disclosure, it is crucial to identify the factors that influence its quality. In this research, the effect of credit rating changes on the quality of disclosure has been examined. Moreover, since no prior research has addressed this issue in Iran, it is considered an innovative aspect of the current study. In other words, the aim of this study is to determine whether credit ratings and their changes influence the quality of disclosure for companies listed on the stock market.

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MATERIALS AND METHODS

For the analysis, data related to credit ratings, disclosure quality ratings, and control variables were extracted from Rahavard Novin software and the accompanying notes of the financial statements from the Codal system. The research covers a 10-year period from 2012 to 2021. To determine the statistical sample, all companies listed on the Tehran Stock Exchange in 2021 were initially considered, and the following criteria were applied:

1. The company's financial year must end on the last day of Esfand.
2. There should be no change in the fiscal year during the study period.
3. The company's financial information must be available for the entire study period.
4. The company must not be a bank or financial institution.
5. The company must have been listed on the Tehran Stock Exchange by the end of 2012 and not delisted between 2013 and 2021.

A sample of 126 companies listed on the Tehran Stock Exchange during the period from 2014 to 2022 was selected for examination. To conduct the research, the credit ratings of these companies were initially calculated. After determining the difference in credit ratings between the current year and the previous year, the impact of this difference on the level of disclosure for the current year was analyzed. SPSS and EViews software were used to test the research hypotheses.

RESULTS AND DISCUSSION

Hypothesis 1: An increase in credit rating leads to a decrease in the level of disclosure.

The estimated coefficient for the increase in credit rating is -0.013, indicating an inverse relationship between the increase in credit rating and the quality of disclosure. However, since its significance level is greater than 5%, we conclude that this effect is not statistically significant.

Hypothesis 2: A decrease in credit rating leads to an increase in the level of disclosure.

The estimated coefficient for the decrease in credit rating is 0.0045, which indicates a positive relationship between the decrease in credit rating and the quality of disclosure. However, since the probability of the test statistic is greater than 5%, this effect is also not statistically significant.



Hypothesis 3: A higher credit rating results in a decrease in the level of disclosure. The estimated coefficient for credit rating is -0.022, indicating a negative relationship between credit rating and the quality of disclosure. Since the probability of the test statistic is less than 5%, this effect is statistically significant. In other words, a higher credit rating is associated with lower quality of disclosure, which supports the third hypothesis of the research.

CONCLUSION

The primary basis for decision-making by participants in the stock exchange is the information published by companies listed on the exchange. If disclosure is not conducted properly, stock pricing will not be accurate. Therefore, identifying the factors that affect the quality of disclosure is crucial. Additionally, given that the information disclosure behavior of companies is influenced by their credit risk, this research examines the impact of credit ratings and their changes on the quality of disclosure. These results are consistent with the findings of Basso et al. (2017) and Guilet et al. (2020).

Based on the results obtained and the theoretical foundations, a decrease in credit rating is associated with changes in capital structure, specifically a shift from debt financing to equity issuance. In other words, as the credit rating declines, the company's focus shifts toward equity holders, while an increase in credit rating leads to a focus on financing through debt. These factors influence the type of information disclosed. The more comprehensive the disclosure, the lower the cost of financing will be. Conversely, as the credit rating increases, investors perceive risk to be lower, which reduces their demand for extensive information disclosure. Thus, an increase in credit rating can lead to a decrease in disclosure due to diminished information demand.

RECOMMENDATION

1. Company managers are advised to enhance the quality of their disclosures to gain the trust of investors and creditors.
2. Banks and credit institutions are recommended to consider the quality of disclosure and credit ratings of companies when evaluating their creditworthiness.

3. Market participants and investors are encouraged to take companies' credit ratings into account when making decisions regarding stock purchases.

Keywords: Credit rating, Credit risk, Disclosure Quality.

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