Disclosure Level and Cost Equity: A Theoretical Framework

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Abstract
Nowadays the users of financial reports are more demanding and requesting better information of a company's performance. With the sophistication in the business environment, disclosure is becoming more important to business communities. The impact of information disclosure in the annual reports to the cost of equity capital is of significant interest to managers. This paper review literatures from many theoretical papers and empirical studies the effect information disclosure on cost equity capital. Many theories being discuss in this paper such as agency cost theory, signaling theory, capital markets transaction hypothesis, and positive accounting theory. Many empirical studies proved that disclosure reduce cost equity capital by reducing the information asymmetry and increasing the companies' liquidity.

Keywords: disclosure, cost equity, liquidity, agency cost, capital market

1.0 Introduction

Nowadays the users of financial reports are more demanding and requesting better information of the company's performance. With the sophistication in the business environment, disclosure is becoming more important to business communities. The subjects of the timely and quality information are relevant to the business environment. Good disclosure will foster a healthy relationship of company performance and improve corporate governance. Some companies provide disclosure to differentiate their products and while others disclose accounting information to acquire external financing. As a result, large companies in Malaysia are especially concerned about the impacts of the disclosure which in turn might indicate their awareness (Hashim and Salleh, 2007, Abdullah and Ismail, 2008*)*. They are aware and concerned about the poor disclosure images when they communicate about them and thus become more sensitive to different pressure groups and legislators.

The extent of disclosure issues has been highlighted in corporate scandals such as WorldCom and Enron which had applied unethical ways to cheat the stakeholders of those companies, employees, creditors, the government and shareholders (Unermana and O'Dwyerb, 2004). Such misleading financial reporting has called for institution attention to reform corporate governance. In Malaysia, it has been observed that poor quality of disclosed information significantly affects the firm's profitability and subsequently leads to an increase in legal and non-legal problems. The National Economic Action Council (NEAC) has recommended that the Malaysian capital market can be improved through transparency, accountability

