Jurnal Ekonomi dan Bisnis Digital (MINISTAL)
Vol. 4, No. 3, 2025: 281-296

Disclosure of Risk and Underpricing in Initial Public Offerings in the Indonesian Capital Market

Vivi Ariyani[1]*, Tatang Ary Gumanti[2], Y. Djoko Sukoco[3]
Faculty of Business, Universitas Katolik Widya Mandala Surabaya, Indonesia
Corresponding Author: Vivi Ariyani vivi.aiyani@ukwms.ac.id

A R T I C L E I N F O
Keywords: Disclosure, Risk and Under-pricing, Capital Market

Received : 16, July
Revised : 30, July
Accepted: 20, August

A B S T R A C T
This study tests whether the risk factors disclosed in the prospectus are able to explain the variation in underpricing. The data used in this study uses cross-sectional data on 364 companies that conducted initial public offerings on the Indonesia Stock Exchange for the period 2018 to 2024. The research results risk disclosure is measured using two methods, namely based on rating risk and risk as determined by the capital market regulatory agency in Indonesia, which produces consistent findings. In this case, it explains that risk disclosure by companies conducting IPOs, both the risks that are being faced and those that will be faced by the issuing company, is able to reduce the level of underpricing.

DOI: https://doi.org/10.55927/ministal.v4i3.15203
ISSN-E: 2827-8259
https://journal.formosapublisher.org/index.php/ministal

INTRODUCTION

One of the anomalies in the initial public offering (IPO) is the existence of underpricing. Underpricing is a condition when on average the shares offered are priced lower than the offering price. Empirical evidence shows that on average companies conducting an IPO experience underpricing. Recent research confirming the IPO underpricing phenomenon from Ritter (2024) that IPOs in the United States market experienced an average underpricing of 18.9%, as did Zhang & Neupane (2024) reported an average underpricing rate of 58.9%. Even during the Covid-19 pandemic, Zhang & Neupane (2024) reported an average underpricing rate in 32 world capital markets of 63.7% This evidence confirms the fact that underpricing is a global phenomenon that has attracted several academics to offer some theories as to why this phenomenon is consistently found. In addition, research that examines risk disclosure on initial returns in Indonesia has only been conducted by Gumanti et al. (2017) and there has been no research in Indonesia that examines risk factor disclosure using the Financial Services Authority (OJK) regulations on underpricing in IPOs.

Several theories have been proposed to answer why on average IPO companies experience underpricing. Ljungqvist (2007) identified four major theories that explain the underpricing phenomenon and empirical evidence supports each of these theories, namely asymmetric information, institutional, control, and behavior. Signaling theory is part of the asymmetric information theory (Allen & Faulhaber, 1989) . This study tests the signaling theory with a proxy being risk disclosure in the prospectus.

Intuitively, the more risks disclosed by a company conducting an IPO, the more it reduces the level of information asymmetry between the issuing company and potential investors, which will have an impact on reducing IPO underpricing. The object of this study is to non-financial companies conducting initial public offerings in the period 2018 to 2024, to explain the relationship between the issuing company's risk disclosure and the level of underpricing in the capital market in Indonesia covering the periods before, during, and after the Covid-19 pandemic.

This study found that risk disclosure using a proxy rating referring to the measurement from Guo et al. (2017) is proven to reduce the level of IPO underpricing. This means that the more detailed the information provided by the issuing company in the prospectus, the lower the level of information asymmetry between the issuing company and potential investors, which will have an impact on reducing the level of IPO underpricing. This result is consistent with conducting a robustness test using the second risk disclosure proxy using risk disclosure based on the four main factors required by OJK. It confirms that if the issuing company informs the four main risks required by OJK in the prospectus, it will reduce the information asymmetry of potential investors in the issuing company because it has provided detailed company risk information that can be used by potential investors as a consideration to buy shares of the issuing company. Thus, potential investors provide a fair price for the IPO company's initial public offering. Likewise, the robustness test conducted by adding control

variables has been proven to consistently show that risk disclosure is negatively correlated with the level of IPO underpricing.

The rest of this article is structured as follows. Section two presents the theoretical and empirical framework and hypothesis development. This is followed by a presentation of the methodology. Section four contains the results and discussion. The final section presents conclusions and suggestions.

LITERATURE REVIEW

The theory of information asymmetry with a signaling model between the issuing company and investors explains the correlation between the risk factors reported by the IPO company in the prospectus and the underpricing of the IPO (Jamaani & Alidarous, 2019). This means that the risk factors of the IPO company informed using the prospectus provide a signal to potential investors that the company is informing the company of the underpricing of the IPO. Ariyani (2023) found that information asymmetry regarding the information provided by the issuing company through the prospectus to potential investors can lead to IPO underpricing. Information regarding the disclosure of the risks of the IPO company in the prospectus is useful in reducing the asymmetry of information between the issuing company and investors, because if investors receive more detailed information, they will be more aware of the risks faced and the possible future risks of the IPO company. This is also emphasized by Ljungqvist (2007) that underpricing can be reduced by reducing information asymmetry between the issuing company and investors. This means that the more detailed information the issuing company provides to potential investors, the more investors can understand the issuing company's price and provide a fair price for the initial offering.

The literature on IPOs states that underpricing is one of three anomalies in IPOs. The other two anomalies are the existence of a cycle in both the size of the IPO and the level of underpricing and the long term, IPOs will experience underperformance, Ritter (1991). Underpricing or positive initial return is a condition where on average the shares of companies conducting an IPO will experience a positive return on the first days of trading. There are several theories about why IPOs experience underpricing on average. One of these theories is related to the existence of information imbalance. in the IPO event, between the issuing company and investors (Allen & Faulhaber, 1989; Dorn, 2009).

This study focuses on the information asymmetry model between issuing companies and investors (Allen & Faulhaber, 1989; Dorn, 2009). Research on IPOs has found strong evidence that the level of underpricing is influenced by the information asymmetry of the signaling model (Clarkson, 1994; Jamaani & Ahmed, 2020). The signal given by the company through risk disclosure information will reduce the information asymmetry between the issuing company and investors (Ljungqvist, 2007) . However, of the many factors that are proxies for risk information, information that includes quantitative and qualitative information about business risk presented in the prospectus has not been widely studied. The importance of information about risk as a determinant

of the level of underpricing has been mentioned in the literature (Beatty & Welch, 1996; Hanley & Hoberg, 2019; Arnold et al., 2010). (Clarkson, 1994) can be said to be the first researcher to reveal the possibility of a relationship between explicit information about the amount of risk disclosure and the level of underpricing. Based on the arguments above, the hypothesis proposed is:

H1: risk disclosure using Guo's rating proxy has a negative influence on IPO initial returns

Providing specific and clear information describing the issuer's risk conditions can indicate potential risks as a consideration for investors to anticipate possible losses. In addition, OJK Regulation Number: 8/PJOK.04/2017 requires IPO companies to report the main risks that have a significant impact on the continuity of the company's business activities, business risks, general risks, and risks related to investment in the company's shares in the company's offering prospectus. The potential risk of a prospective IPO company determines the level of return or rate of return on the primary market. Specifically, (Gupta et al., 2022) found that disclosure of risk information in quantitative form affects the initial return better known as underpricing in IPOs. This explains that the more information is disclosed about the risk, the riskier the company is, and consequently the higher the demands of investors for returns. According to Clarkson (1994), a positive relationship occurs because investors have difficulty predicting the actual initial return from high risk disclosures. This is also emphasized by Rock (1986) that companies making initial offerings must price their shares at a discount to ensure that less informed investors will buy the shares. This is supported by some studies that found that overall reported risk factor disclosure has a positive effect on IPO underpricing (Gumanti et al., 2017; Wasiuzzaman et al., 2018). Similarly, Guo et al. (2017) found that Biotechnology IPO companies in Taiwan that provided more detailed risk information experienced higher underpricing. This means that the higher the risk factors reported by the IPO company, the higher the risk exposure of investors in investing, and investors expect higher compensation in the form of positive initial returns (underpricing).

Meanwhile, (Ding, 2016) And (Singh, 2021) found that the information Informative disclosure of risk factors reduces the level of underpricing. This occurs because an informative explanation of the risks regarding the possibilities that will be faced by the issuing company in the future, can reduce information imbalance. for investors so that it will have an impact on reducing underpricing. In addition, Grover & Bhullar's (2021) research found that the occurrence of IPO underpricing and overpricing is highly dependent on information that can be freely accessed by investors. One type of information that can be used as a basis for assessing the risk level of an IPO is information related to the risks faced by the company. This is in accordance with the opinion of (Arnold et al., 2010) that the presentation of complete information about risks in the prospectus reduces the level of underpricing during and after the IPO. This is by the statement of Jamaani and Alidarous (2019) who explain the asymmetry of information in the signaling model between the issuing company and investors that the issuing

company provides a signal to potential investors which is given through information in the issuing company's prospectus. The signal received by potential investors is influenced by the factors disclosed in the prospectus.

However, risk disclosure also cannot always explanied as expected by investors. For example, Ng & Lee (2019) found that the risk measure in the IPO prospectus is not relevant information that can determine the value of companies in Malaysia. This means that prospective investors will try to find relevant information about the issuer company that is their investment choose, so that decision making can be done correctly. some empirical evidences emphasize the importance of information about risk disclosure as one of the determining factors for the price of an IPO. Based on the arguments above, the hypothesis proposed is:

H2: Risk disclosure using OJK regulation proxy has a negative influence on IPO initial return.

Figure 1 explains the relationship between risk disclosure using two proxies, namely Guo's rating risk disclosure and risk disclosure based on OJK regulations with initial returns.

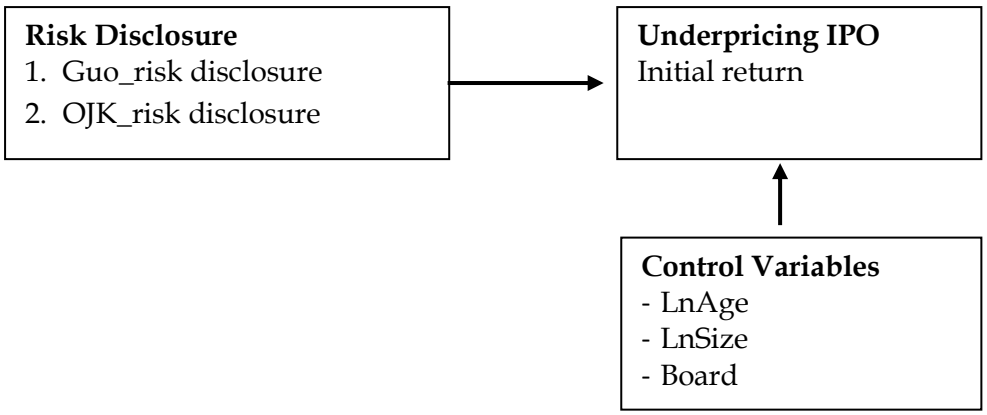

Figure 1 Relationship between Risk Disclosure and IPO Initial Return

METHODOLOGY

The subjects of this study were non-financial companies conducting initial public offerings (IPOs) in the Indonesian capital market in the period 2018 to 2024. This study determined the sample criteria that the issuing companies that were sampled were non-financial companies that had issued a company prospectus or could be accessed, the company must not have taken corporate actions prior to the IPO, such as mergers or acquisitions, the IPO company did not conduct a re-offering of shares after previously being a private company, and the company reported in rupiah. With the determination of these criteria, out of 366 companies conducting initial public offerings in the Indonesian capital market, 364 IPO companies were non-financial companies that meet the research sample criteria.

This research is a quantitative research, with an explanatory method. This study explains the influence between independent variables and dependent variables according to the hypothesis. The data analysis technique used in this study is Regression Analysis to test the relationship between independent variables and dependent variables with data collection using secondary data.

The population of this study is non-financial companies conducting initial public offerings (IPO) in the Indonesian capital market from 2018 to 2024. The subjects of this study were obtained using a purposive sampling technique, namely the companies used in the study are companies that report financial statements in rupiah and report company prospectuses. Of the 366 IPO companies that did not meet the sample criteria, there were 2 companies. Based on the sampling criteria, the companies that were the research samples were 364 companies.

This study uses secondary data from the IPO company prospectus report for the data on risk disclosure variables and underwriters used by the issuing company. Data on the number of IPO companies and the closing price data of IPO companies are obtained from the official website of the Indonesian Stock Exchange report.

The independent variable of this study is the risk disclosure variable using two measurement proxies, namely rating risk measurement and OJK measurement. The first risk measurement refers to Guo et al. (2017) , using a rating proxy, based on information on the risks reported by the issuing company in the prospectus, which are shown in Table 1.

Table 1. Measurements Guo's Rating Based Risk

Class	score	Description
Quantitative	4	The issuing company provides quantitative information regarding the risk or is clearly defined in monetary terms or physical quality.
Descriptive	3	The issuing company provides qualitative information regarding the risks specifically for actions, people, events/places or their impact on the company clearly disclosed.
Unclear	2	The issuing company only explains risks that are general or non-specific.
Not important	1	Disclosures of the issuing company are not material to the financial condition and performance of the company.

Source: Guo (2017: 520)

The second risk measurement refers to Arnold et al. (2010) by adjusting the disclosure of four mandatory risks based on OJK regulations reported by non-financial issuing companies. Risk information in the prospectus in Indonesia includes four parts, namely the main risks that have a significant impact on the

company's business continuity, material business risks, general risks, and risks for investors, which are shown in Table 2.

Table 2. Measurements Risks Based on OJK Regulations

No	Risk	Item
1	Main Risks	The main risks that have a significant impact on the issuer's business continuity
2	Business risks that are material, either directly or indirectly, which can affect the business results and financial condition of the issuer.	a. Competition b. Investment or corporate action c. Failure to comply with industry requirements d. Technological changes e. Scarcity of resources f. Supply of raw materials
3	General risks	a. Macroeconomics or globalization b. Changes in foreign exchange rates c. Compliance with applicable laws and regulations relating to the Issuer's business sector d. Lawsuit or lawsuit e. government policy f. Provisions of other countries or international regulations
4	Risks for investors/ Risks related to the company's shares	a. Risks related to fluctuations in the company's share price b. Risks related to the liquidity of the company's shares c. Risks related to the company's ability to pay dividends

Source: OJK regulations

The dependent variable is measured as the difference between the closing price on the first trading day over the offer price divided by the offer price. The three control variables studied are firm size, firm age, and board size. Firm size is measured using the natural logarithm of the total assets of the last year available in the prospectus. Firm age is expressed in the form of a natural logarithm from the time the company was founded until the year of the IPO . Board size is measured by the number of commissioners.

This research model tests the effect of risk disclosure on the level of IPO underpricing. Risk disclosure is measured using two proxies, namely risk disclosure using rating-based and OJK regulation-based. The regression equation model used to test the research variables is presented as follows.

$IR_1 = \alpha + \beta_1 Guo\_Risk_i + \beta_2 Size_i + \beta_3 Age_i + \beta_4 Board_i + e_i$ ……..(1)

$IR_1 = \alpha + \beta_1 OJK\_Risk_i + \beta_2 Size_i + \beta_3 Age_i + \beta_4 Board_i + e_i$ ……(2)

RESEARCH RESULT AND DISCUSSION

Based on prospectus data from a sample of non-financial companies conducting initial public offerings on the Indonesian stock exchange in the period 2018 to 2024, there were 364 companies. If grouped into companies experiencing underpricing, fair pricing and overpricing, then IPO companies in Indonesia from 2018 to 2024 experienced more underpricing than those experiencing overpricing and fair price . Especially in the early period of the Covid-19 pandemic in 2020, the underpricing rate reached 100%. However, from 2021 to 2023 the underpricing rate continued to decline to 74.32%. Interestingly, the percentage of companies experiencing fair price and overpricing actually increased in 2022 to 2023 by 24.33% and the underpricing rate increased again in the period 2024. This condition is certainly interesting to analyze, in order to dig deeper into the underpricing phenomenon in Indonesia before, during the Covid-19 pandemic and after the Covid-19 pandemic.

Table 3. Grouping of Initial Return IPO of sample companies

Year		***Overpricing***		***Fair Price***		***Underpricing***	
		IPO Company	**Average %**	**IPO Company**	**Average %**	**IPO Company**	**Average %**
2018	52	2	3.85	0	0	50	96.15
2019	48	2	4.17	0	0	46	95.83
2020	46	0	0	0	0	46	100.00
2021	49	5	10.20	0	0	44	89.80
2022	57	11	19.30	0	0	46	80.70
2023	74	18	24.33	1	1.35	55	74.32
2024	38	4	10.53	0	0	34	89.47
Total company sample	364	42	11.54	1	0.27	321	88.19

Source: www.idx.co.id and IPO company prospectus

Descriptive statistics are explained in Table 4, presenting the dependent variable first, then the independent variables and control variables.

Table 4. Descriptive Statistics of Research Variables (n-364)

Variables	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
IR	-0.405	2.984	0.292	0.283
Guo_risk disclosure	2	4	2.94	0.674
OJK_risk disclosure	0.063	1,000	0.749	0.133
Age	1	64	16.93	12.074
LnSize	20.473	31.056	26.260	1.722
Board	1	7	2.820	1.066

Table 4 shows descriptive statistics of the research variables on 364 non-financial companies conducting IPOs on the Indonesian stock exchange in 2018-2024. On average, companies conducting IPOs in that period experienced a positive initial return of 29.2%. The results of the one-way t-test sample show that initial rate of return different from zero meaning that on average the companies studied experience underpricing. The rate of underpricing by 29.2% more low than reported by Zhang and Neupane (2024) at the time examined 78 IPOs from 2015-2021.

Table 4 shows that the average value of risk disclosure with a proxy of rating is 2.94. This means that the issuing company on average provides qualitative information about the risks specifically for actions, people, events or places or their impact on the company is clearly disclosed. The average value of risk disclosure with a proxy of OJK regulations is 0.75. This means that on average the number of risk factors presented in the prospectus reaches three-quarters of the total number of risks mandated in OJK regulations. In other words, the company's compliance in disclosing mandatory types of risks cannot be said to be high or meets OJK provisions.

The average value of the size of companies conducting an IPO is IDR253,8 billion and the minimum value is IDR778,5 million. If we look at the maximum value of the total assets of IPO companies, it can be seen that there are companies that have total assets of IDR30 trillion. This means that there is a gap in terms of business scale in the companies studied.

On average, the companies studied have a board of commissioners of 3 people (2.82). Uniquely, some companies only have 1 board of commissioners. The largest number of board of commissioners in a company is 7 people. At a glance, it can be seen that companies with only one board of commissioners are certainly less effective in implementing supervisory activities.

After the statistical description of the research data is known, before testing the hypothesis, the Pearson correlation matrix is presented (Table 5). Table 5 shows that both risk measures are negatively and significantly correlated with initial returns. Firm age and board size are negatively and significantly correlated with initial returns. While firm size is positively and significantly correlated with initial returns. Specifically, it can be seen in the table that firm size and firm age are negatively and significantly correlated with a very high correlation coefficient, which is -0.961.

Table 5. Pearson Correlation Matrix of Research Variables (n=364)

Variables	OJK_Risk	LnAge	LnSize	Board	IR
Guo_risk disclosure	0.267 **	-0.027	0.102	0.089	-0.117 *
OJK_risk disclosure		0.072	-0.005	0.095	-0.128 *
LnAge			-0.961 **	0.188 **	-0.111 *
LnSize				-0.130 *	0.124 *
Board					-0.165 **

Notes:
** and * respectively show coefficient correlation significant at the 1% and 5% levels (2-tailed).

Next, multiple regression analysis is conducted to test the hypothesis. Table 6 presents a summary of the results of testing the influence of independent variables on the dependent variable. The table contains four models containing several combinations of regressions.

Table 6. Summary of Regression Results

Variables	Prediction	Model 1	Model 2	Model 3	Model 4
Constants		0.436 (6,593)	0.087 (0.26)	0.495 (5,876)	0.156 (0.755)
Guo_risk disclosure	-	-0.049 (-2.237)**	-0.059 (-2.641)***		
OJK-risk disclosure	-			-0.272 (-2.454)**	-0.289 (-2.575)**
Ln-Size	-		0.018 (2,395)**		0.017 (2,286)**
Ln-Age	-		0.014 (1,864)*		0.014 (1,812)*
Board Size	-		-0.042 (-3.016)***		-0.043 (-3.030)***
R^2		0.117	0.245	0.128	0.243
Adj. R^2		0.011	0.050	0.014	0.049
F-stat		5.006***	5.745***	6.022**	5.655***

Notes:
The t-value is presented in brackets.
***, ** and * respectively indicate significant correlation coefficients at the 1%, 5% and 10% levels (1-tailed).

Model 1 Table 6 shows that risk disclosure using the first proxy, namely the disclosure of rating risk, has a negative and significant effect on the level of IPO underpricing. This means that the disclosure of the IPO company's rating risk in detail in the form of quantitative information, which provides an explanation of the amount or percentage of the IPO company's income along with a qualitative explanation of the specific risks regarding the actions taken by the IPO company in the prospectus will reduce IPO underpricing. This result is consistent with using the second risk disclosure proxy, namely the OJK risk disclosure shown in model 3, that risk disclosure has a significant negative effect on underpricing. This means that the disclosure of the risks faced by the IPO company in the operations of the IPO company is reported in the prospectus in accordance with the risks required by the OJK, will reduce IPO underpricing. This study strengthens the theory of information asymmetry of the signaling model (Jamaani & Ahmed, 2020) that the signal given by the company through

risk disclosure information will reduce the information asymmetry of potential investors in the issuing company.

Furthermore, model 2 testing the risk disclosure regression with the proxy of rating adds the control variables of age, size and board size, as a robustness test to the model. The regression results show consistent results, that risk disclosure using the proxy of rating has a significant negative effect on IPO underpricing. This means that if the issuing company informs the risks faced and the risks that will be faced by the company in the future, it will reduce the level of IPO underpricing. This is supported by research (Ding, 2016; Singh, 2021) which found that risk disclosure reduces the level of IPO underpricing. The control variable age shows that the older the company, the better the issuing company is, so that prospective investors expect high compensation with increasing levels of underpricing. Likewise, the larger the total assets as a proxy for size, the company is considered capable, so prospective investors expect high compensation from underpricing. While the board is negatively correlated with the level of underpricing, this explains that the more the number of boards of commissioners in the issuing company, the more prospective investors believe that the board of commissioners can oversee the company's operations running well, thereby reducing the level of underpricing of the IPO company.

The results of the study on model 4 were conducted to test the resilience of the second proxy, namely risk disclosure based on OJK regulations. The results show consistent results from model 2 that risk disclosure using OJK-required risk items has a significant negative effect on IPO underpricing. This means that if the issuing company informs the risk in detail in accordance with OJK regulations, it will reduce IPO underpricing. Because investors know the risks that will be faced by the issuing company and increase the trust of potential investors and reduce information asymmetry between the issuing company and potential investors. This study is in accordance with the theory of information asymmetry of the signaling model (Jamaani & Ahmed, 2020) and is supported by the statement (Arnold et al., 2010) which states that complete information about risks in the prospectus reduces the level of IPO *underpricing* .

The test conducted by this study proves that detailed and informative risk disclosure to potential investors can reduce information asymmetry between the issuing company and potential investors. The issuing company has succeeded in giving a good signal to potential investors that the company has risks that will be faced and has the ability to overcome possible risks that occur. Thus encouraging potential investors to provide a fair price for the initial offering of the issuing company which has an impact on reducing the level of IPO underpricing. Furthermore, the robustness test conducted by this study proves that the measurement of risk disclosure using sixteen items from four main risks based on OJK regulations that adapt the measurement from (Arnold et al., 2010) found consistent results with the measurement of rating risk that risk disclosure is correlated with the level of underpricing. This is a novelty of this study that the measurement using OJK risk disclosure can be used for further research.

To check whether the findings are sensitive to the size of IPO, the study divided the sample into two groups based on median value of total assets. The results of regression analysis on each group are shown in Table 7. In Table 7, this study conducted a robustness test by dividing the research sample into two groups, namely small and large IPO groups, the results of the regression test showed consistent findings in large IPO groups when the risk proxy was based on the rating of Guo (2007). The size of the board of commissioners was also found to have a negative and significant effect on the level of underpricing and this was in accordance with the findings in all samples. In the small IPO group, the results of the study showed that no variables had a significant effect on the level of underpricing. When the risk proxy was based on OJK regulations, the regression results showed consistent findings in the small IPO group. In this case, the risk proxy based on OJK regulations had a negative and significant effect. The test results on the large IPO group showed that only the size of the board of commissioners had a significant negative effect.

Table 7. Results of IPO Size-Based Regression Tests

Variables	Prediction	Small IPO	Large IPO	Small IPO	Large IPO
Constants		-0.242 (-0.653)	0.087 (0.426)	0.032 (0.084)	0.938 (1,755)
Guo_risk disclosure	-	-0.008 -0.107)	-0.211 (-2.724)***		
OJK_risk disclosure	-			0.032 (-2.169)**	0.938 (-1.246)
Ln-Size	-	0.773 (1,594)	-0.001 (-0.011)	-0.360 (1,500)	-0.198 (-0.414)
Ln-Age	-	0.688 (1,409)	-0.032 (-0.438)	0.020 (1,358)	-0.009 (-0.872)
Board Size	-	-0.083 (-1.029)	-0.192 (-2.608)***	0.017 (- 0.735)	-0.026 (-2.883)***
R^2		0.030	0.098	0.055	0.068
Adj. R^2		0.008	0.078	0.034	0.047
F-stat		1.375	4.802***	2,585**	3.242**

Notes:
The t-value is presented in brackets.
***, ** and * respectively indicate significant correlation coefficients at the 1%, 5% and 10% levels (1-tailed).

Based on the findings above, it can be stated that the influence of risk proxy is sensitive to IPO size. The risk measure based on rating (Guo, 2007) is more appropriate to be used in the large IPO company size group. Conversely, in the OJK regulation-based measurement, the analysis model is more appropriate if applied to the small IPO company size group. Thus, it can be stated that the

choice of IPO size will determine whether the risk measure determines the level of underpricing.

CONCLUSIONS AND RECOMMENDATIONS

This study examines whether information related to risk disclosure available in the prospectus can explain the variation in the level of underpricing in companies conducting IPOs from 2018 to 2024. The empirical results of this study found that risk disclosure using two risk disclosure measurement proxies, namely rating risk disclosure and risk disclosure under OJK regulations based on the IPO company prospectus report, hurt the level of underpricing. This means that providing information about the risks faced by the company and the potential risks that will be faced in the future will reduce the asymmetric information between the issuing company and potential investors. These results support previous studies (Ding, 2016; Singh, 2021) which found that risk disclosure is negatively correlated with the level of initial return. An Informative explanation of risk can reduce the asymmetry of information for potential investors regarding the potential risks that will be faced by the issuing company. Another finding of the study is that the ability of risk measures to explain the level of underpricing is determined by the size of the IPO.

Regarding the control variables, the results of the analysis show that the large size of the issuing company can increase underpricing. This could be because large companies are considered qualified and able to provide compensation for potential investors so that they expect high initial returns. Meanwhile, the number of boards of commissioners in the issuing company is able to provide supervision of the company's management and operations which will provide potential investors with confidence in the issuing company, thereby reducing the level of IPO underpricing. Thus, the results of this study are proven to be able to explain that transparent risk disclosure from the issuing company can reduce the occurrence of IPO underpricing in the Indonesian capital market. In addition, this study contributes to the formation of a risk disclosure index score based on OJK regulations.

ADVANCED RESEARCH

The limitation of this study is that the research subjects are still within the scope of one country only. This is an opportunity for further researchers to add research subjects from other countries or add other variables that have not been included in the study to be able to explain the phenomenon of IPO underpricing. The study for investors implies is that risk disclosure can be a consideration for prospective investors when buying shares of an IPO company, that the more detailed risk information provided by the issuing company is not a consideration for not buying shares of the company but risk information can provide a good signal and reduce information asymmetry towards the issuing company.

REFERENCES

Allen, F., & Faulhaber, G. R. (1989). Signaling by underpricing in the IPO market. *Journal of Financial Economics*, *23*, 303–323. https://doi.org/10.1016/0304-405X(89)90060-3.

Ariyani, V. (2023). Asimetri Informasi Penyebab Underpricing IPO di Indonesia saat Pandemi Covid-19. *Jurnal Manajemen Dan Keuangan*, *12*(1), 124–140. https://doi.org/10.33059/jmk.v12i1.7571

Arnold, T., Fishe, R. P. H., & North, D. (2010). The Effects of ambiguous information on initial and subsequent IPO returns. *Financial Management*, *39*(4), 1497–1519. https://doi.org/10.1111/j.1755-053X.2010.01120.x

Beatty, R. P., & Welch, I. (1996). Issuer expenses and legal liability in initial public offerings. *Journal of Law and Economics*, *39*(2), 545–602. https://doi.org/10.1086/467359

Clarkson, P. M. (1994). The underpricing of initial public offerings, ex ante uncertainty, and proxy selection. *Accounting and Finance*, *34*(2), 67–78. https://doi.org/10.1111/j.1467-629X.1994.tb00270.x%250

Ding, R. (2016). Disclosure of downside risk and investors' use of qualitative information: Evidence from the IPO prospectus's risk factor section. *International Review of Finance*, *16*(1), 73–126. https://doi.org/10.1111/irfi.12066

Dorn, D. (2009). Does sentiment drive the retail demand for IPOs? *Journal of Financial and Quantitative Analysis*, *44*(1), 85–108. https://doi.org/10.1017/S0022109009090024

Grover, K. L., & Bhullar, P. S. (2021). The nexus between risk factor disclosures and short-run performance of IPOs – Evidence from literature. *World Journal of Entrepreneurship, Management and Sustainable Development*, *17*(4), 907–921. https://doi.org/10.1108/WJEMSD-11-2020-0146

Gumanti, T. A., Lestari, A. R., & Abdul Mannan, S. S. (2017). Underpricing and number of risk factors of initial public offerings in Indonesia. *Business: Theory and Practice*, *18*, 178–185. https://doi.org/10.3846/btp.2017.019

Guo, Y., Wang, T., Seng, J. L., & Hung, S. S. (2017). The effect of disclosure patterns of risk factors in prospectus on the relation between strategic alliances and underpricing of biotechnology IPOs. *Journal of Applied Business Research*, *33*(3), 509–520. https://doi.org/10.19030/jabr.v33i3.9943

Gupta, P., He, D., Ma, Y., & Yur-Austin, J. (2022). Do investors listen? Exploring the effect of investor relationship management on firm-specific stock return variation. *Research in International Business and Finance*, *60*, 101598. https://doi.org/10.1016/j.ribaf.2021.101598

Hanley, K. W., & Hoberg, G. (2019). Dynamic interpretation of emerging risks in the financial sector. *Review of Financial Studies*, *32*(12), 4543–4603. https://doi.org/10.1093/rfs/hhz023

Jamaani, F., & Ahmed, A. D. (2020). Simultaneous effects of clustering and endogeneity on the underpricing difference of IPO firms: A global evidence. *Research in International Business and Finance*, *54*, 101250. https://doi.org/10.1016/j.ribaf.2020.101250

Jamaani, F., & Alidarous, M. (2019). Review of Theoretical Explanations of IPO Underpricing. *Journal of Accounting, Business and Finance Research*, *6*(1), 1–18. https://doi.org/10.20448/2002.61.1.18

Ljungqvist, A. (2007). Chapter 7-IPO Underpricing. Dalam Eckbo. B.E. In *Handbooks in Finance, Handbook of Empirical Corporate Finance SET* (Issue 06, pp. 375–422). Amsterdam. https://doi.org/10.1016/B978-0-444-53265-7.50021-4

Ng, S. H., & Lee, C. S. (2019). Does IPO prospectus in Malaysia disclose relevant risk? *Asia-Pacific Journal of Business Administration*, *11*(4), 301–323. https://doi.org/10.1108/APJBA-08-2019-0164

Purwanti, T. (2022). *Usai pandemi, kapitalisasi pasar modal Indonesia naik 18,4%*. CNBC Indonesia. https://www.cnbcindonesia.com/market/20220629185327-17-351555/

Ritter, J. R. (1991). The long-run performance of initial public offerings. *The Journal of Finance*, *46*(1), 3–27. https://doi.org/10.1111/j.1540-6261.1991.tb03743.x

Ritter, J. R. (2024). Initial public offerings. *Handbooks in Operations Research and Management Science*, *9*(C), 993–1016. https://doi.org/10.1016/S0927-0507(05)80074-X

Rock, K. (1986). Why new issues are underpriced. *Journal of Financial Economics*, *15*(1–2), 187–212.

Singh, G. (2021). Disclosure of intended use of IPO proceeds and underpricing: Indian evidence. *Journal of Commerce & Accounting Research*, *10*(1), 01–06.

Wasiuzzaman, S., Yong, F. L. K., Sundarasen, S. D. D., & Othman, N. S. (2018). Impact of disclosure of risk factors on the initial returns of initial public offerings (IPOs). *Accounting Research Journal*, *31*(1), 46–62. https://doi.org/10.1108/ARJ-09-2016-0122

Wulandari, F. (2023). *BEI: Jumlah IPO Saham 2023 Berpeluang Cetak Rekor Terbanyak Sepanjang Sejarah*. VOA Indonesia. https://www.voaindonesia.com/a/bei-jumlah-ipo-saham-2023-berpeluang-cetak-rekor-terbanyak-sepanjang-sejarah-/7296100.html

Zhang, Z., & Neupane, S. (2024). Global IPO underpricing during the Covid-19 pandemic: The impact of firm fundamentals, financial intermediaries, and global factors. *International Review of Financial Analysis*, *91*. https://doi.org/10.1016/j.irfa.2023.102954