

A Critical Study on Accounting Disclosure and Reporting Practices of Financial Derivatives in India

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ABSTRACT

Purpose: This study aims to analyze the accounting disclosure practices of financial derivatives in India and further, the way firm size, profitability, and audit committee characteristics affect the quality of these disclosures. This includes an investigation of the direction between company attributes and reporting practices of financial derivatives.

Design/Methodology/Approach: The study used a quantitative research design that integrated primary data gathered from a standardized questionnaire with secondary data sources. The sampling technique utilized here is purposive sampling and the sample size for 385 respondents has been calculated using Cochran's formula. This study has used tools like SPSS 26 and Excel by applying various statistical techniques like Mean, Standard deviation, T-test, and ANOVA tools for the analysis of data.

Findings: The findings of the research suggest that larger and more profitable firms are associated with better quality of disclosure of their derivative instruments, and also the companies with an active audit committee. On the other hand, other elements placed within the binding regulatory structures and the internal organizational culture of disclosers aimed at increasing the level of transparency of the process tend to obstruct the situation, hence, there is a need to obtain practical evidence regarding the practices of disclosure. Strategic considerations rather than compliance with rules govern the practice of disclosure.

Pragmatic Outcomes: This study illustrates a gap that organizations in practice ought to start addressing which is to provide insight into the alignment in governance structure, particularly the make-up of audit committees as a way of accounting for financial derivatives. Understanding what type of characteristics of firms also affect disclosure practice will assist in looking for improved ways of boosting investor confidence and a move toward compliance.

Originality/Value: This study fills an existing gap in the available literature by specifically focusing on firm size, profitability, and audit committee characteristics and their impact on financial derivatives disclosure in the Indian context. Thus, this study provides valuable input and insights to policymakers, corporate executives, and scholars about the validity of governance mechanisms as determinants in enhancing the quality of financial reporting.

INTRODUCTION

In today's rapidly evolving business landscape, the competition associated with investment and funding is becoming more complicated than ever before. In recent years, there has been a rise in alternative financial instruments as an outcome of the evolving investment and funding landscape. Derivatives have become popular as a financial instrument that has experienced substantial growth (Ugbah, et al., 2023; Gu & Zhao, 2022). The usage of derivatives has experienced significant growth in recent years. By 2000, a majority of firms in 47 countries had adopted a minimum of one type of derivative, and by 2013, the notional values for over the counter (OTC) derivatives had surpassed \$650tn (Bartram, 2019). However, the discussion surrounding the disclosure of information regarding transactions involving

derivative instruments has sparked significant debate on a global scale (Leote et al., 2020). Regulatory bodies have expressed their apprehension regarding the determination of the minimum disclosure criteria (Serra, et al., 2022). The disclosure of derivative instruments helps to decrease capital costs and improves the efficiency of market discipline by reducing knowledge asymmetries (Scanella & Polizzi, 2019).

In recent decades, the accounting for financial derivatives has undergone a significant transformation due to the exponential increase in their usage. Researchers, regulators, and consumers of financial statements have paid close attention to the function of derivatives in the capital markets due to such a rise, that is not unexpected (Shichalina, 2020; Jalal-Eddeen & Saleh, 2022). The risk-reward trade-off is fundamental to corporate investment, and

derivatives have become an essential instrument for managers to lessen the impact of unfavorable risk factors (Campbell, et al., 2019). The financial reporting for derivatives and hedging operations is equally complicated and has changed significantly over the previous several decades, in line with the complexity involved with many financial derivative instruments in the economy (Malaquias & Zambra, 2019). However, in India, very few studies have been conducted since companies have just begun employing derivatives for the last ten or more years, and corporate data about the usage of financial derivatives has not been easily accessible (Sahoo & Sahoo, 2020). Thus, the purpose of the study is to evaluate the accounting disclosure and reporting practices of financial derivatives in India.

Apart from the introduction, subsequent portions of the paper are structured as follows: section 2 describes reviews of different authors from past studies related to accounting for derivatives, section 3 summarizes research methods for the study, section 4 discusses the results and findings, section 5 explains the discussion, and Section 6 shows the conclusions, implications, limitations, and recommendations for Further Studies. Finally, references are presented.

1. Literature Review

This section of the study includes assessments of related previous studies that have been carried out to help comprehend the current state of the topic, as indicated by the brief introduction above. To facilitate comprehension, the section has been strategically split into three categories:

- i. Effects of accounting disclosure of financial derivatives in Companies
- ii. Factors affecting disclosure of derivatives
- iii. Reason for complexities of derivatives accounting.

2.1 Effects of Accounting Disclosure of Financial Derivatives in Companies

Ugbah, et al. (2023) suggested that the inclusion of financial derivative risk information in disclosures can result in a rise in discretionary accrual value, potentially compromising the integrity of financial reports. In this context, Chen, et al. (2018) revealed that when companies' major clients made FAS 161 disclosures, the liquidity of their stock price went higher, which might mean that the disclosure has consequences across a company's supply chain. Similarly, Chang and Hsu (2023) discovered that the stock market efficiency seemed to have been enhanced by FAS 161 disclosures. Amazingly, Khan, et al. (2018) stated that the market received the two most recent substantial modifications to derivative accounting, FAS 133 and FAS 161, with very unfavorable responses. The complicated nature of derivatives may cause expensive preparation and other expenses (i.e., proprietary costs) associated with disclosure of derivatives, which may explain the reason investors may not get much informational advantage from it. In a recent research paper that provides proof of these expenses, Zou (2022) stated that businesses must pay proprietary costs as a result of higher derivatives disclosures since they provide competitors access to knowledge about their future production costs.

2.2 Factors Affecting Disclosure of Derivatives

Kota and Charumathi (2018) investigated Indian non-financial companies' financial derivative disclosure practices and the elements that influence them. The discovered determinants included binary variables for family businesses, the existence of a risk management committee, size, foreign revenue, utilization of derivatives, and institutional holdings. Similarly, Serra, et al. (2022) found that the level of disclosure about derivative instruments can be affected by the size of the business, the gender of the auditor, and the number of independent members on the board of directors. Additionally, Lemos, et al. (2019) found that the gender of the auditor and the size of the audited firm both had an impact on the amount of disclosure. The degree of disclosure was greater in bigger organizations where audits were conducted by male auditors. Finally, Chantachaimongkol and Chen (2018) and Ali and Abdelfettah (2019) also discovered that the number of board directors and disclosure policies had a negative relationship, implying that smaller boards release more information.

2.3 Reason for Complexities of Derivatives Accounting.

Malaquias and Zambra (2020) provided evidence that both gender and education have a role in determining the level of complexity regarding the accounting of derivatives. Additionally, Camfferman (2015) and Chang, et al. (2016) stated that the inherent complexity of derivatives and the susceptibility to ambiguity and misunderstanding make financial instrument accounting a challenging and intricate field. Further, Malaquias and Zambra (2020) asserted that professional expertise constitutes a significant factor to take into account when analyzing the adoption of international financial reporting standards (IFRS), the changes made to them, and the complex nature of these standards. Lastly, Krasodomska, et al. (2020) stated that a high degree of complexity has been a defining characteristic of the occupational (technical) knowledge and abilities that have been linked with accounting.

2. Objectives

Objective 1: To examine the current accounting disclosure practices of financial derivatives in India.

Objective 2: To examine the accounting disclosure practices of financial derivatives in India, with a specific focus on the influence of firm size, profitability, and the characteristics of the audit committee.

H2a: "Larger firms" are more likely to provide comprehensive disclosures of financial derivatives compared to smaller firms.

H2b: More "profitable firms" are more likely to disclose detailed information about their financial derivatives.

H2c: "Firms with larger audit committees" provide more extensive disclosures of financial derivatives.

Objective 3: To explore the relationship between company characteristics (firm size, profitability, and the characteristics of the audit committee) and reporting practices of financial derivatives in India.

H3a: "Larger firms" are more likely to have comprehensive reporting practices for financial derivatives compared to smaller firms.

H3b: "More profitable firms" are more likely to report detailed information about their financial derivatives compared to less profitable firms.

H3c: Companies with a more active and independent audit committee are more likely to report comprehensively on their financial derivatives.

3. Research Methods

➤ **Research Design:** The present study employs a quantitative research design, where the accounting disclosure and reporting practices of financial derivatives in India are monitored. For collecting data, both primary and secondary sources have been followed. Primary data have been collected using a structured questionnaire. The observation of relevant respondents has also been ensured through purposive sampling. The target study area is India, and the questionnaire is based on demographic variables like age, designation, income, education, gender, and location, and study-specific variables which include financial derivatives disclosure, derivatives accounting, firm size, profitability, and audit committee characteristics. For this study, the sample size calculated by using Cochran's formula is 385 respondents since the population targeted is undefined. The analysis is performed using SPSS 26 and Microsoft Excel. Statistical techniques such as means, standard deviations, T-test, and ANOVA are applied to test the hypotheses of this study.

➤ **Data Collection:** Primary data has been collected through a structured questionnaire using purposive sampling that focuses on particular respondents. To support the primary data, secondary sources have been used.

➤ **Sample Size:** The sample consists of 385 respondents, which was calculated based on Cochran's formula for statistical relevance since the target population definition has not been clearly defined.

➤ **Reliability and Validity:** The study has checked its reliability using Cronbach's Alpha in calculating the consistency of responses under the perspective of quality of financial derivatives disclosure and reporting practices. Cronbach's Alpha values regarding these aspects have been at more than 0.7, and therefore, it was proved that there is

strong reliability. A pilot study comprised 385 respondents to validate and authenticate the research methodology and instrument.

4. Results Reliability and Validity Testing

A questionnaire is used in the study to collect data. Evaluating a questionnaire's reliability is crucial before beginning the analysis. The accuracy of a questionnaire is determined by its reliability. Cronbach's Alpha (CA) is often used to evaluate the reliability of a measurement process. Cronbach's Alpha values around unity suggested that all of the construct's component pieces had a consistent scope and meaning (Cronbach, 1971).

Table 1 Reliability and Validity Statistics

Reliability Statistics				
Label	Cronbach's Alpha	N of Items	KMO and Bartlett's value	Sig. value
Quality of financial derivatives disclosure	0.770	8	0.680	0.000
Reporting practices of financial derivatives	0.717	8	0.603	0.000

Table 1 shows the Cronbach's Alpha reliability statistics for the quality of financial derivatives disclosure stand at 0.770 while reporting practices stand at 0.717. Reliability is thus good; both items are reliable. KMO values of 0.680 and 0.603 show that the data is adequate for factor analysis though it falls in the "mediocre" range, meaning there is always room for

improvement. The results of Bartlett's test with statistically significant p-values (0.000) support the view that the correlation matrices are not identity matrices; hence, enough correlations among the variables persist for conducting factor analysis. Generally, all instruments can be viewed as reliable and thus appropriate for further analyses.

Table 2: The Respondents' Demographic Profile

Sr. No.	Demographic Characteristics	Category	N	%
1	Gender	Female	185	48.1
		Male	200	51.9
2	Age	Below 25 Years old	135	35.1
		25 - 40 Years old	116	30.1
		40 - 55 Years old	77	20.0
		Above 55 Years old	57	14.8
3	Education Background	Bachelor's Degree	210	54.5
		Master's Degree	110	28.6
		Doctoral Degree	65	16.9
4	Firm Size	Large	155	40.3
		Small	230	59.7
5	Profit of Firm	Less than ₹10 crores	63	16.4
		₹10 crores to ₹50 crores	78	20.3
		₹50 crores to ₹100 crores	96	24.9
		₹100 crores to ₹500 crores	77	20.0
		More than ₹500 crores	71	18.4
6	Members of the Audit Committee of the Firm	1-2	57	14.8
		3-5	66	17.1
		6-8	133	34.5
		More than 8	129	33.5

Table 2 displays the "demographic characteristics of the respondents" regarding their gender, age, educational background, firm size, profit of the firm, and members of the audit committee of the firm. Out of 385 respondents, 48.1% are females, and 51.9% are males, indicating nearly equal gender distribution. Most respondents are below 25 years of age i.e. 35.1% of the total. The majority of respondents have bachelor's degrees i.e. 54.5% of the total. The majority of respondents, i.e. 59.7% of the total, belong to small-size firms. The majority, i.e. 24.9% of the total respondents belong to firms with a profit of ₹50 crores to ₹100 crores. The majority, i.e. 34.5% of the total respondents, belong to firms where the audit committee consists of 6-8 members. This implies a significant number of respondents are a part of small-sized firms with moderate profits.

Objective 1: To examine the current accounting disclosure practices of financial derivatives in India.

The study evaluates the problematic practice of accounting for derivative instruments and their accounting disclosure requirements in India regarding the existing local legal framework (Kota & B, C. 2018). Derivative instruments have always involved risk management tools for business entities and financial managers since they are composed of different kinds of futures,

options, swaps, and forwards (Venkatayya et al., 2023; Jones & Sudhir, 2018). This aspect also makes it difficult in the sense that the hurdle may pose a challenge to reporting and level of abstraction in financial accounts accurately (Soyinka et al., 2024; Mazurowska, 2023). The kinds of derivatives discussed included hedging, speculation, and arbitrage. With changing legal requirements and international guidelines, several decisions have now become imperative. In India, the use of derivatives has been increasingly imperative Hence their accounting practices warrant investigation (D, P. ,2023).

In particular, it establishes the guidelines, standards, and regulations concerning the disclosures of financial derivatives in India with a specific focus on the extent to which Indian Accounting Standards or Ind AS and International Financial Reporting Standards or IFRS norms are being adopted by the Companies in India (Gupta & Pandey, 2019; Singh, 2019). Most likely, this particular strives to investigate how the existing practices are governed and, the main processes of recognition, measurement, and valuation of derivative instruments utilized in the reporting by financial institutions and firms that are exposed to risks in disclosure such as credit risk, liquidity, and market risk (Kota & B, C. 2018). The study in addition seeks to evaluate in

detail whether the disclosures made to reporting requirements are indeed clear and understandable to the investors, analysts, and regulators who are the key stakeholders who can make sound decisions (Christensen et al., 2018; Ciubotariu et al., 2019). Finally, it presents suggestions to improve current practices in such a manner that financial reporting needs and regulatory requirements are met to provide scope to enhance the quality and comprehensiveness of financial derivative disclosures in India.

Objective 2: To examine the accounting disclosure practices of financial derivatives in India, with a specific focus on the influence of firm size, profitability, and the characteristics of the audit committee.

H2a: Larger firms are more likely to provide comprehensive disclosures of financial derivatives compared to smaller firms.

Table 3: Group Statistics Table

Group Statistics					
	Firm Size	N	Mean	Std. Deviation	Std. Error Mean
Quality of financial derivatives disclosure	Small	230	28.1565	5.84381	.38533
	Large	155	26.9097	5.34081	.42898

Table 3 shows the group statistics of the independent sample test. The results indicate that small firms have a higher mean quality of their financial derivatives disclosure scores (Mean = 28.1565, SD = 5.84381) in comparison with large firms, which report lower mean results (Mean = 26.9097, SD = 5.34081). This finding suggests

that smaller organizations may be more transparent in their financial reporting as a result of regulatory pressures or a need to establish trust among shareholders whereas bigger enterprises might rely on reputation and therefore not pay much attention to specific requirements regarding disclosure items.

Table 4: Independent Samples Test Table

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Quality of financial derivatives disclosure	Equal variances assumed	1.744	.187	2.125	383	.034	1.24684	.58683	.09303	2.40066
	Equal variances are not assumed.			2.162	349.675	.031	1.24684	.57663	.11274	2.38095

Table 4 shows that larger firms are more prone than smaller ones to engage in extensive financial derivatives reporting. The Levene's Test for Equality of Variances reveals equality of variances (F=1.744: Sig.= .187). Based on the t-test for equality of means, this difference is significant with respect to the quality of financial derivatives disclosure between larger and smaller companies (t (383) =2.125, p=.034). The mean difference between

the two groups is 1.24684, with a 95% confidence interval ranging from 0.09303 to 2.40066, suggesting that larger firms do provide more comprehensive disclosures. Consequently, these findings highlight how much firms disclose their financial derivatives and indicate greater transparency by large-sized enterprises as compared to smaller ones.

H2b: More profitable firms are more likely to disclose detailed information about their financial derivatives.

Table 5: Descriptives Table

Descriptives								
Quality of financial derivatives disclosure								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Less than Rs.10 crores	63	29.1746	5.47292	.68952	27.7963	30.5529	16.00	40.00
Rs.10 crores to Rs.50 crores	78	28.2692	5.54245	.62756	27.0196	29.5189	15.00	40.00
Rs.50 crores to Rs.100 crores	96	27.0104	5.74089	.58593	25.8472	28.1736	15.00	40.00
Rs.100 crores to Rs.500 crores	77	27.8442	5.88277	.67040	26.5089	29.1794	15.00	40.00
More than Rs.500 crores	71	26.2958	5.37825	.63828	25.0228	27.5688	14.00	39.00
Total	385	27.6545	5.67273	.28911	27.0861	28.2230	14.00	40.00

Table 5 shows descriptives of the quality of financial derivatives disclosure with profitability. The data reveals that firms with profits of less than Rs. 10 crores have higher mean disclosure scores compared to more profitable firms. This suggests that less

profitable firms may be more diligent in their financial disclosures, possibly due to greater regulatory pressure, the need to attract investors, or a desire to enhance their credibility in the market.

Table 6: ANOVA Table

ANOVA					
Quality of financial derivatives disclosure					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	348.721	4	87.180	2.759	.028
Within Groups	12008.334	380	31.601		
Total	12357.055	384			

ANOVA Table 6 reveals that there is a substantial and statistical difference between financial derivatives disclosure quality among the firms according to their profitability level at a significance level of 0.028 ($p < 0.05$). The F value of 2.759 indicates that the difference in disclosure quality between groups is larger than the difference within groups. This supports the hypothesis that more profitable companies tend to release comprehensive information

regarding their financial derivatives. Nevertheless, the fact that the F-value is relatively low implies that although profitability has some influence on this, it might not be the only or even the major determinant of disclosure quality.

H2c: Firms with larger audit committees provide more extensive disclosures of financial derivatives.

Table 7: Descriptives Table

Descriptives								
Quality of financial derivatives disclosure								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1-2	57	28.2456	5.46182	.72344	26.7964	29.6948	16.00	40.00
3-5	66	27.5758	5.46333	.67249	26.2327	28.9188	16.00	40.00
6-8	133	28.3459	5.52549	.47912	27.3981	29.2936	14.00	40.00
More than 8	129	26.7209	5.94240	.52320	25.6857	27.7562	15.00	40.00
Total	385	27.6545	5.67273	.28911	27.0861	28.2230	14.00	40.00

Table 7 shows descriptives of the quality of financial derivatives disclosure with audit committee members. The data reveals that firms whose audit committees consist of 6-8 members record the highest mean score (28.35) in terms of financial instruments disclosure quality, indicating their propensity to make wide-ranging disclosures. Nevertheless, firms with smaller audit

committees (1-2 members) or bigger ones (more than 8 members), have only slightly lower mean disclosure scores of 28.25 and 26.72 respectively. Overall, the results show that people have a generally positive view of the quality of disclosure, though this view changes a lot depending on how many derivatives they hold.

Table 8: ANOVA Table

ANOVA					
Quality of financial derivatives disclosure					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	196.328	3	65.443	2.050	.106
Within Groups	12160.726	381	31.918		
Total	12357.055	384			

ANOVA Table 8 indicates the F-value of 2.050 and a p-value of 0.106 are greater than the significance level, which is 0.05; thus, indicating that there is no statistically significant difference in the quality of financial derivatives disclosure across firms with different audit committee sizes. This would therefore suggest that the size of the audit committee does not have a major effect on the number of financial derivatives disclosed by such firms. That means that the results do not support the hypothesis.

Objective 3: To explore the relationship between company characteristics (firm size, profitability, and the characteristics of the audit committee) and reporting practices of financial derivatives in India.

H3a: Larger firms are more likely to have comprehensive reporting practices for financial derivatives compared to smaller firms.

Table 9: Group Statistics Table

Group Statistics					
	Firm Size	N	Mean	Std. Deviation	Std. Error Mean

Reporting practices of financial derivatives	Small	230	27.8043	5.55489	.36628
	Large	155	26.1355	5.68899	.45695

Table 9 shows the group statistics of the independent sample test. The mean value is higher for small firms (Mean = 27.8043, S.D. = 5.55489) than for large firms (Mean = 26.1355, S.D. = 5.68899). This indicates that larger firms provide more detailed and extensive disclosures. The standard deviations and standard errors

reflect some variability, but the consistently higher mean for large firms reinforces the idea that their reporting practices for financial derivatives are more thorough compared to smaller firms.

Table 10: Independent Samples Test Table

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Reporting practices of financial derivatives	Equal variances assumed	.607	.436	2.863	383	.004	1.66886	.58291	.52276	2.81497
	Equal variances are not assumed.			2.850	325.190	.005	1.66886	.58563	.51676	2.82097

Table 10 indicates that larger firms are more inclined to embrace a holistic reporting model for financial derivatives than small ones. The assumption of equal variances has been proved by Levene's test (F=0.607, Sig.= 0.436), which permits utilization of the t-test for equality of means. T-test results indicate a significant difference in reporting practices between large and small firms (t = 2.863; df = 383; p = 0.004), with a mean difference of about 1.66886. Hence, it can be inferred that larger firms give more detailed and extensive explanations of their financial

derivatives as compared to smaller firms. Additionally, the confidence interval for mean difference (0.52276 to 2.81497) further reinforces the validity of this finding as well as adds some confidence towards its robustness when viewed from the statistical perspective.

H3b: More profitable firms are more likely to report detailed information about their financial derivatives compared to less profitable firms.

Table 11: Descriptives Table

Descriptives								
Reporting practices of financial derivatives								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Less than Rs.10 crores	63	28.5238	5.58471	.70361	27.1173	29.9303	17.00	40.00
Rs.10 crores to Rs.50 crores	78	26.4103	5.71040	.64658	25.1228	27.6978	11.00	40.00
Rs.50 crores to Rs.100 crores	96	27.4896	5.28154	.53904	26.4194	28.5597	15.00	40.00
Rs.100 crores to Rs.500 crores	77	27.6104	5.43177	.61901	26.3775	28.8432	16.00	40.00
More than Rs.500 crores	71	25.6901	6.13093	.72761	24.2390	27.1413	12.00	37.00
Total	385	27.1325	5.66151	.28854	26.5652	27.6998	11.00	40.00

Table 11 reveals that reporting practices of financial derivatives in highly profitable companies tend to provide richer disclosures than in less profitable companies. Entities with profits ranging from Rs.100 crores to Rs.500 crores have an average score of 27.61, which is higher than those with profits below Rs.10 crores

(mean of 28.52) and those in other ranges. At the same time, firms making over Rs.500 crores have scored an average of 25.69, showing that as profitability increases, companies are more likely to produce comprehensive and detailed information about their financial derivatives which supports the hypothesis.

Table 12: ANOVA Table

ANOVA					
Reporting practices of financial derivatives					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	340.174	4	85.043	2.700	.030
Within Groups	11968.070	380	31.495		
Total	12308.244	384			

ANOVA Table 12 shows that there is a significant difference in Reporting practices of financial derivatives between variously profitable firms, which is signified by the F-value of 2.700 and a p-value of 0.030 (< 0.05). Therefore, it is concluded from this significant level that more profitable firms are highly inclined to

give extensive information about their financial derivatives, supporting the hypothesis.

H3c: Companies with a more active and independent audit committee are more likely to report comprehensively on their financial derivatives.

Table 13: Descriptives Table

Descriptives								
Reporting practices of financial derivatives								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1-2	57	27.0175	5.57575	.73853	25.5381	28.4970	12.00	37.00
3-5	66	26.7576	6.34898	.78151	25.1968	28.3184	11.00	40.00
6-8	133	28.0602	4.95091	.42930	27.2110	28.9093	16.00	40.00
More than 8	129	26.4186	5.94335	.52328	25.3832	27.4540	12.00	40.00
Total	385	27.1325	5.66151	.28854	26.5652	27.6998	11.00	40.00

Table 13 shows descriptives of the reporting practices of financial derivatives with audit committee members. The results show that companies with audit committees consisting of 6-8 members have the highest mean score (M = 28.06) of reporting practice indicating that they are likely to disclose their information better concerning financial derivatives than those with smaller or larger audit

committees. Intriguingly, this trend reverses when looking at firms whose audit committee comprises more than 8 members with a mean score of 26.42 as compared to other sizes. Overall, the reports about financial derivatives are more comprehensive, particularly from those with mid-sized auditing committees of around 6 or so people.

Table 14: ANOVA Table

ANOVA					
Reporting practices of financial derivatives					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	190.226	3	63.409	1.994	.114
Within Groups	12118.018	381	31.806		
Total	12308.244	384			

ANOVA Table 14 indicates that the “within the groups” variation (Sum of Squares = 12118.018, df = 381) is not significantly different from the “between the groups” variation in reporting practices (Sum of Squares = 190.226, df = 3). A significance level (p-value) of 0.114 and an F-value of 1.994 reveal that at conventional levels, there are no statistically significant differences in reporting practices among groups. Therefore, this analysis does not confirm the proposition that more active and independent audit committees lead to more comprehensive reporting on financial derivatives.

DISCUSSION

The present study investigates accounting disclosure and reporting of financial derivatives by Indian firms as a function of firm size, profitability, and characteristics of the “audit committee.” The findings indicate that these organizational features impact the quality of financial disclosure with a positive association between firm profitability and elaborate reporting of financial derivatives. However, relatively low statistical variance in some of the variables suggests that though some of these attributes impact the quality of disclosure, factors such as regulatory frameworks and corporate transparency culture have been important. This is in line with other literature that has emphasized the value of strong regulatory and ethical standards to advance the quality of financial reporting (Ramzy Ramadhan, & Ramadhan, 2022). This study underlines the necessity of

strategic disclosure practices that go beyond mere compliance with regulatory requirements for the improvement of transparency in financial derivatives reporting (Toerien et al., 2023). For companies, such perspectives are of utmost importance, both in terms of regulatory compliance and investor confidence (Agyei-Mensah, 2019).

Studies show that the great value of audit committees, especially balanced in composition, is to act as effective governance mechanisms which could indeed significantly help improve the quality of disclosures. This can enable organizations to greatly enhance their financial position, along with the assurance of the people (Ha, 2022). As an example, there was a lot of buzz over corporate governance mechanisms in quite a number of research works that tackled disclosure practices within emerging markets (Mahmudi, 2024; Miras-Rodríguez et al. 2018). In the study of Saha and Kabra (2021), it was revealed that some voluntary disclosure turns into reality due to the change in certain attributes of the board, such as board size and board gender diversity. In other words, gender diversity and a risk management committee are likely to contribute to the positive outcomes described above. Additionally, another study by F. f (2023) explored an integral country-specific aspect, the rule of law, at the firm level influences disclosure quality with board size, board meeting frequency, and also audit committee size, in India, the working of the composition of audit committees in enhancing financial disclosures is superbly noted by Halder & Raithatha (2017). A study

on sustainability reporting by So et al., (2021) pointed out that a very high influence of both human governance and Islamic corporate governance exercised over the disclosure practices of Indonesian Islamic companies with human governance being the biggest driver.

Other studies have consistently shown that corporate size and listing status are highly associated with the level of disclosure in annual reports. The association between disclosure and other factors such as leverage, profitability, and audit firm size are not conclusive. Meta-analyses have confirmed positive associations between the intensity of disclosure levels and corporate size, listing status, and leverage. Umaru et al., (2021) found a significant association with disclosure and audit firm size. Interestingly, while firm size is generally positively linked to disclosure, part of the literature has found that smaller firms disclose more comprehensively, often under regulatory pressure or because they are seeking investment; this thus runs contrary to the traditional assumptions made in much of the literature. Third, the financial experience of members of the audit committee was reported to be positively associated with voluntary disclosure, especially in the banking sector. In general, this study suggests that governance factors are important in shaping the nature of disclosure practices that define emerging markets.

Although the studies have offered some evidence, several gaps remain in the literature. One such gap has been that, despite the existing evidence, evidence with respect to disclosure and the association with leverage, profitability, and audit firm size remains relatively under-researched, and findings remain inconsistent on this relationship. On the one hand, while firm size is generally positively related to disclosure, evidence supporting the direction that smaller firms disclose more fully continues to be a fertile area for further research. This study bridges this gap by trying to address these aspects. The value that the study will bring about policy-making groups and corporate heads will be immense as they will find this approach which covers the whole-of-disclosure approach not only betterizes regulatory compliance but also fortifies integrity and strengthens confidence in the financial statements presented to the investor.

CONCLUSION

The study has analyzed, in-depth, accounting disclosure and reporting practices of financial derivatives within the context of India, focusing on the specific issues of how firm size, profitability, and audit committee characteristics influence these practices. Consequently, the above results have established that when reporting on the use of financial derivatives, there exists a positive relationship with likelihood, and as such, most profitable firms will have many profits. The research has further challenged that, in the case of quality of disclosures, regulation frameworks, and the culture of corporations towards transparency and market development, are of equal importance, whereas the characteristics of the firm are inapplicable to profitability or the size of cutbacks in the audit committee. This suggests that such strategic original disclosure rather than just a legal compliance approach given the complexity of the derivatives portfolio of firms is the right one. The study helps fill an extremely important gap in the extant literature as it discusses governance factors regularly without adequately exploring the particular effects of the firm characteristics on the already existing derivatives disclosure.

There have also been studies earlier, like Saha and Kabra (2021), even depicting the role of corporate governance, especially board diversity and audit committee structure, in voluntary disclosure. However, this insight alone does not extend the available knowledge about Indian derivatives disclosure practices. From organizational attributes disclosure practices, research studies have shown that well-composed audit committees serve to try to ensure quality disclosure, possibly because of the quality oversight and also specialist knowledge accruing within them. That is to say that firms wishing to engender confidence in investors or enhance transparency should take into account profit objectives as well as the structure of their audit committees. Based on the overall findings of the research, it was established that firm-specific and governance-related factors were of concern, and appeals were made in favour of the balanced

approach to disclosure by registering the provision of useful and qualitatively good financial reports whose use extended beyond the forms of regulations to enhance the corporate image and credibility. Other industries and other geographic regions in the future might pursue such dynamics to afford a richer and more holistic understanding of what drives the quality of disclosure, especially in this emergent field of derivatives reporting and how it influences corporate governance. In this sense, it is evident that the beneficiaries of the companies suffer as corporate structures use such disclosure practices to avoid economic integration rather than using compliance rationale. The findings of this study have serious implications for scholars, practitioners, and policymakers in that corporate governance and transparency practices ought to be aligned step with each other to help boost investor confidence and the reputation of a market.

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