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Investigating the Impact of Financial Reporting Quality on the Risk of Stock Price Collapse with Regard to the Moderating Role of Corporate Governance

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Abstract

The purpose of this study is to investigate the effect of financial reporting quality on the risk of stock price collapse, with a focus on the moderating role of corporate governance. The present study is an applied research in terms of its purpose, a descriptive post-event research method, a positive research in terms of its theoretical approach, an inductive research in terms of its reasoning, and a quasi-experimental research in the field of financial accounting research. The time period of this study is the six-year period from 2019 to 2024. The study's statistical sample was selected using a systematic (purposeful) elimination method, consisting of 110 companies. In this study, a multivariate linear regression model was used to test the hypotheses. The statistical method used in this study is the panel data method. The statistical analysis of the data was carried out using Excel and EViews 10. The results of the study show that the quality of financial reporting has a significant negative relationship with the risk of stock price collapse of companies listed on the Tehran Stock Exchange. Also, institutional ownership and the percentage of non-executive directors, as corporate governance criteria, do not moderate the relationship between the quality of financial reporting and the risk of stock price collapse.

Keywords: Financial reporting quality, Information transparency, Stock price crash risk, Corporate governance.

1 | Introduction

Globalization has been accompanied by the development and dynamism of markets and, at the same time, by increased instability and greater uncertainty among large companies. Financial scandals at the beginning of the third millennium and the consequences that followed are the main reason for paying more attention to

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the quality of financial statements [1]. Today, proper management, control, and supervision of corporate affairs are fundamental issues in the economic systems of various countries worldwide, including Iran. Given the developments in the current world, protecting the interests of investors, as providers of capital and the most important group of users of accounting information and financial reports, has become more necessary than ever [2]. Financial reporting covers a wide range of reports, of which financial statements are among the most basic. Financial reporting is one mechanism that can improve the performance of capital markets. The capital market, as the driving force of the economy, is based on information. The proper flow of information in this market leads to rational decisions by participants and ultimately to economic development and improved social welfare. Financial reports are among the most important sources of information, providing the necessary information for economic decision-making and meeting a large part of the capital market's information needs. The increase in fraud, combined with the bankruptcy of large companies, raised concerns about the quality of financial reporting [3].

The accounting profession has always considered the quality of financial reporting as a criterion for the correct performance of accounting activities. In fact, improving accounting quality means increasing the auditor's effort to detect potential errors and significant distortions in the financial statements. If restatement is made in the financial period, even if the distortions that led to the restatement in previous periods were discovered and reported by the auditor, it is clear that the quality of the accounting report was low [4]. In the world's stock markets, the main reason for financial crises is the lack of transparency in information and financial reporting, which has reduced public trust among investors. For more than a decade, financial reporting has become an effective factor in determining investor strategies. Transparent disclosure of companies' financial information through the publication of basic financial statements is an important factor in reducing information asymmetry between managers and owners and leads to an increase in the risk premium and expected return of investors; therefore, companies are forced to hold more cash to prevent their costs from increasing [5].

Reducing information asymmetry has reduced emotional news about companies, thereby reducing the volatility of company returns. In fact, sufficient information available to investors helps them avoid mistakes in predicting future profit flows and obtain more realistic stock prices [5]. To obtain scarce resources, realize their strategic goals, and maintain their survival, organizations must continually improve their financial performance and operations. It is considered very important for companies that compete with their competitors to achieve profitability and maintain the wealth of their shareholders; therefore, measuring and evaluating performance using accounting systems is a key and inevitable process. The development of the accounting profession is influenced by a wide range of factors, including institutional, political, cultural, and economic factors. Accounting information is one of the most important sources of information, serving as the main product of the accounting system and playing a fundamental role in the decision-making of various groups in the capital market. This information is measured and presented through a computational process that adheres to the principles and standards of the competent authorities. If it lacks the necessary transparency, the likelihood of the recipient making incorrect decisions increases [3].

The quality of financial reporting indicates the accuracy and veracity of financial reports in conveying information about the company's operations, especially expected cash flows, to inform investors. According to the Financial Accounting Standards Board (FASB) Concept Statement No. 1, financial reporting should provide useful information that helps actual and potential investors make financial decisions. The main goal of financial reporting is to provide reliable, trustworthy information to financial statement users. This information will be reliable if an independent and impartial person confirms its accuracy. Companies use the services of independent auditors to confirm financial statements and reports and to assure users about the reliability of financial information [6], [7] described financial reporting quality as the accuracy with which financial statements provide information about the daily business activities of the organization, especially about its projected cash inflows and outflows that provide insight to shareholders [8] explained that financial reporting quality can be determined through various quantitative and qualitative models identified by existing research. Such as: 1) accrual models, 2) value relationship model, 3) a model of specific elements in financial

statements, and 4) a model of qualitative characteristics of financial statements [9]. Based on empirical evidence, the most effective way of accountability is financial reporting. In recent years, following widespread financial scandals at the global level, the failure of large companies such as WorldCom and Enron, and the lack of confidence in accounting figures, which constitute the most important part of financial reports, have reduced investor confidence in the financial statements prepared by management. One area that can cause investor uncertainty is falling stock prices [10].

In addition to the significant losses it causes to investors' wealth, falling stock prices also reduce their confidence in the capital market. The loss of a large number of investors in the capital market has attracted the attention of many researchers to the issue of falling stock prices and their causes. In the absence of complete transparency in financial reporting, managers can hide negative information within the company to maintain their jobs and professional reputations, and this negative information accumulates. When the mass of accumulated negative information reaches its peak, maintaining it for a longer period will be impossible and costly. Finally, this negative information enters the market at once, leading to a decline in stock prices [5]. Falling stock prices are usually due to a bubble in the company's stock price. Management actions such as rushing to release good news and delaying the release of bad news, continuing projects with negative current values, as well as the lack of transparency of financial information, the use of accounting systems, and tax evasion, can be the reasons for the creation of bubbles in prices and the fall of stock prices [10].

In the absence of complete transparency in financial reporting, managers have an incentive to hide part of their losses to keep their jobs. This process, that is, not disclosing real losses, continues until the manager is in the company. After the manager leaves the company, a huge volume of undisclosed losses enters the market, leading to a fall in stock prices. In addition, in an environment where reporting is not transparent, investors cannot identify and discover the company's loss-making projects. The inability of investors to recognize and differentiate between profitable and unprofitable projects in the early stages leads to unprofitable projects continuing and accumulating within the company over time, and after their disclosure, the stock price drops sharply. Of course, disclosing information at an appropriate time reduces the risk of a stock price collapse, and companies with more capable management are less exposed to this risk. In recent years, corporate governance has become a major and dynamic aspect of business, and attention to it has increased exponentially, with progress in implementing corporate governance law growing globally. International organizations such as the Organization for Economic Cooperation and Development provide acceptable international standards in this field. In the United States and the United Kingdom, they continue to strengthen their corporate governance systems, paying special attention to shareholder relations, accountability, and the performance of boards of directors, auditors, and accounting and internal control systems [11].

They are concerned that companies are controlled and managed by these methods. In addition, component investors, institutional investors, accountants and auditors, and other players in the money and capital market scene are aware of the philosophy of existence and the need for continuous reform and improvement of corporate governance. Corporate governance is an important concept, and many definitions have been proposed. Still, it can be defined as the set of methods and processes by which companies are directed and controlled. One of the benefits of strong corporate governance is that it controls and reduces opportunistic management behavior. Corporate governance systems reduce risks and reduce management actions that harm shareholder wealth. As a result, an effective corporate governance system should lead to improved reporting levels. Financial. In particular, corporate governance systems are designed to reduce agency costs and preserve shareholder wealth [11].

Given the necessity of quality financial reporting by companies to provide useful information, support economic decision-making for users of financial statements, prevent management fraud in the presentation and disclosure of financial statements, create transparency in the capital market, and, consequently, enhance the country's economic progress and development. Given the great importance of quality financial reporting in financial and capital markets, attracting capital and financing companies, and enabling investors to make better, more useful decisions when choosing a company for profitable, safe investment, further research on

financial reporting quality is important. In some organized stock markets, procedures have been established to control changes in stock prices and are used by stock exchange officials, who set automatic stops. This type of stock price control causes the stock price to fail to reflect published information, making the market inefficient. According to the market efficiency hypothesis, any artificial interruption prevents the rapid adjustment of stock prices and intrinsic value [12]. Sudden changes in stock prices occur in two forms: crashes and jumps. Given the importance investors attach to their stock returns, the phenomenon of stock price crashes, which lead to sharp decreases in returns, is more often considered than jumps [13]. According to the above, the main question of the research is whether the quality of financial reporting has a significant effect on the risk of stock price crashes, while accounting for the moderating role of corporate governance.

2 | Literature Review

With the growing need for information about business operations, presenting financial statements in the traditional way does not meet all users' needs. Traditional financial reporting not only fails to provide complete information to support business activities, but also cannot adequately and appropriately present a company's economic performance and business value. In other words, as business activities expand worldwide, the use of traditional accounting systems today has made it difficult to measure and evaluate the external effects of the organization's operations. Traditional accounting systems evaluate the performance of a business unit from specific aspects, thereby failing to include the environmental and social effects of organizations [14]. Following the recent financial crises and the bankruptcies of large companies, which were accompanied by an increase in fraudulent activity, doubts and concerns have been raised about the quality of financial reporting. Providing information on time can reduce information asymmetry, prevent profit management, and, as a result, improve the quality of financial reporting. Given the nature of interim financial statements and the timeliness of the information provided in these reports, the research conducted, and the results obtained in the field of investors' attention to interim financial statements for useful economic decisions, it seems that more attention is necessary to the quality of interim financial reporting [15].

Financial reporting is a very important source for users, who use it to inform their decisions in economic and financial fields. The quality of financial reporting supports effective and efficient decision-making. The information published in financial reports must be presented on time. Timely financial information improves the quality of financial reporting. Information published late lacks value to investors and other users, leading to a lack of trust in financial reporting and a lack of investment in the company. Management has more information about financial statements than other users, which creates information asymmetry. Sometimes, management may manipulate and present the profit figure unrealistically to secure more benefits and bonuses, enhance reputation and public acceptance, etc., thereby affecting the quality of financial reporting. The more explicit companies are about the figures in their financial reports, the greater the transparency. The quality of financial reporting is to develop transparency and publish a quality annual report through comprehensive and complete disclosure. The quality of financial reports has always been and is a subject of interest to boards of directors, shareholders, researchers, and professional accountants themselves [16].

Financial reports are the final product of the financial reporting process. The financial reporting process includes the creation, dissemination, and assurance of the use of financial information by the users of these reports, and its scope extends from the implementation of financial reporting standards for the preparation of financial reports to their assurance, dissemination, and use. Users need useful information to make judgments and decisions in the capital market, evaluate contractual provisions, and manage their investments. The usefulness of information is a concept in information quality. The quality of financial reporting is also a specific concept of information quality. The quality of financial reporting is the extent to which financial reports fairly reflect the company's underlying economics. The quality of financial reporting is considered one of the most effective tools for demonstrating a company's performance and shareholder value. Therefore, it is expected that all companies will show shareholder value in the best possible way. However, some companies tend to present their unfavorable situations in different ways. Providing attractive information to all interested parties improves the quality of investors' decision-making. Financial reporting is considered important as the

final result of accounting information systems for users of financial information to present financial status and accountability, as well as in the role of management stewardship. Financial reports are the final product of the financial reporting process. The financial reporting process includes the creation, publication, and assurance of the use of financial information by users of these reports, and its scope extends from the implementation of financial reporting standards for preparing financial reports to their assurance, publication, and use. Financial reporting is the reporting of a firm's accounting information to users of that information. Therefore, financial reporting is considered a means of establishing communication between companies and their owners, beyond mere financial reporting. Management is responsible for disclosing financial and non-financial information [17].

The simple definition of disclosure is the transmission and presentation of economic information, whether financial or non-financial, quantitative or in other forms, related to the financial position and performance of the company. Disclosure implicitly refers to the presentation of minimum information in the company's reports in a way that enables an acceptable assessment of the risks and relative value of the company, and assists users of the information in this regard. The purpose of financial reporting is to meet the information needs and demands of external users. The main purpose of financial reporting is to express the economic effects of financial events on the position and performance of the business entity to assist external parties. According to the Accounting Standards Board, financial reporting includes not only financial statements but also tools and methods for providing information, and these tools deal directly or indirectly with information provided by accounting. That is, information about the company's resources, assets, liabilities, profits, and other financial data. The Iranian accounting standards committee states in its financial reporting theoretical concepts that making economic decisions by users of financial statements requires assessing the entity's ability to generate cash and the certainty of that ability. Assessing the ability to generate cash by focusing on the business unit's financial situation, financial performance, and cash flows, and using these to predict expected cash flows and measure financial flexibility, is facilitated. Factors such as the use of information technology in accounting and the separation of financial reporting for production lines are effective in improving financial reporting [18].

According to the FASB, one of the goals of financial reporting is to provide information about the financial position, financial performance, and financial flexibility of the business unit, and another goal is the accountability of managers to investors and owners, which is the same as the relationship of attorney and client (agency theory). Also, according to the FASB, financial reporting is not limited to the preparation and presentation of financial statements, but also includes other ways of presenting and interpreting information that is directly or indirectly related to financial information, and financial statements are only part of financial reporting [19]. Financial reporting should provide information for evaluating the company, its performance, its sources of financing, and its profitability and ability to generate profits, available to all those who intend to examine the company for investment, lending, and other purposes. This information is of great importance for improving financial reporting quality, and such improvements can also lead to increased investment in the company [20].

Risk is anything that threatens the present or future of an asset or the ability to earn income of a company, institution, or organization. The risk of an asset is the possibility of a change in its future returns. If a company's stock return over a specific financial period is lower than the overall market index's return, the probability of a stock price decline increases, which is called the risk of a stock price decline [21]. A stock price decline is generally due to a bubble. The company is experiencing this due to management actions such as delaying the release of bad news and accelerating the release of good news, tax evasion, the continuation of projects with negative current value, lack of transparency in financial information, and low self-confidence. A stock price crash is an undesirable event characterized by doubt about the extreme profitability of stocks [7]. The stock price crash is a contagious phenomenon at the market level, and the decline in stock prices is not limited to a single stock but affects almost all companies in that industry or even all companies active in the capital market [22].

In all financial markets worldwide, one of the most important measures of stock exchange performance is the stock price index. The index for each country is obtained by summing the stock price movements of all companies or a specific class of companies in the market, using a specific model. It enables analysis of the direction and size of price movements in the stock market. In fact, the expansion of financial theories and innovations over the past two decades, grounded in the central role of market movement, has been accompanied by an increasing tendency to calculate and examine the trend of these indicators. The risk of a stock price crash is a sharp decline in the value of equity that reduces shareholders' wealth. This downward movement creates serious concerns for investors and companies, as the risk of a stock price crash affects risk management and decision-making [23].

Corporate governance is moving in a direction that shifts the management of companies from a traditional model to a sustainable, robust one. This desirable system of corporate governance will ensure that companies effectively manage their assets and provide benefits to stakeholders and, ultimately, to society. In general, corporate governance comprises legal, cultural, and institutional arrangements that determine the direction and performance of companies. The elements in this scene are: shareholders and their ownership structure; board members and their composition; company management, led by the CEO (Chief Executive Officer); and other stakeholders who can influence the company's direction. The goal of corporate governance is to ensure the existence of a framework that provides an appropriate balance between management freedom of action, accountability, and the interests of the company's various stakeholders.

2.1 | Research Background

In [24], a study was conducted to investigate the impact of sustainability, environmental, social, and governance reporting on the risk of future stock price declines for companies listed on the Tehran Stock Exchange. The study found that sustainability, environmental, social, and governance reporting had a negative and significant impact on the risk of negative skewness in the stock returns of the companies under study. In addition, the results indicated a negative and significant impact of sustainability, environmental, social, and governance reporting on the low-to-high volatility of stock prices of companies listed on the Tehran Stock Exchange.

In [1], a study investigated the effect of auditor selection on the quality of financial reporting. The study found that auditor selection does not have a significant effect on the quality of financial reporting. In other words, there is no significant difference in the quality of financial reporting between companies that use large auditors to audit their financial statements and other companies in the Iranian capital market.

In [25], debt and stock price crash risk were investigated in a weak information environment for Chinese listed companies. The results showed that stock price crash risk is negatively associated with the level of debt financing for Chinese companies. Regardless of the measures of financial leverage, the types of corporate ownership, and the debt maturity structures, they are reflected in stock prices. The findings showed that monitoring creditors reduces the impact of potential news.

In [23], the effect of debt on the risk of stock price collapse in a weak information environment is examined. The study found that debt has a positive, significant relationship with the risk of stock price collapse; that is, as debt increases, the risk of a company's stock price collapse increases. Debt also has a positive and significant relationship with the risk of stock price collapse in a weak information environment. Hence, increasing debt in such an environment increases the risk of stock price collapse.

In [26], a study examined auditor gender and the risk of stock price collapse. The results showed that female auditors reduce the risk of stock price collapse, and this effect is stronger in companies with high agency costs.

In [27], a study examined the effect of financial reporting quality on the risk of stock price collapse, with emphasis on the role of environmental uncertainty among companies listed on the Tehran Stock Exchange. The study found that financial reporting quality negatively and significantly affects the risk of stock price

collapse. On the other hand, environmental uncertainty has a positive and significant effect on the relationship between financial reporting quality and the risk of stock price collapse.

In a study, [28] examined the effect of financial reporting quality on the risk of a stock price crash, and the moderating role of audit quality. The study found that financial reporting quality affects the risk of a stock price crash. Audit quality also affects the relationship between financial reporting quality and the risk of a stock price crash.

2.2 | Hypotheses

According to the theoretical foundations and the stated background, the research hypothesis is as follows:

H1: There is a significant relationship between the quality of financial reporting and the risk of stock price collapse.

H2: Corporate governance moderates the relationship between financial reporting quality and stock price crash risk.

3 | Research Method

The present study is an applied research in purpose, a descriptive post-event research in method, a positive research in theory, an inductive research in reasoning, and a quasi-experimental research in the field of financial accounting research. This study examines the effect of financial reporting quality on the risk of stock price collapse, with the moderating role of corporate governance in companies listed on the Tehran Stock Exchange. The time period of this study is six years, from 2019 to 2024. The study's statistical sample comprises 110 companies selected using a systematic (purposeful) elimination method. In this study, a multivariate linear regression model has been used to test the hypotheses. The statistical method used in this study is the panel data method. For statistical analysis, Excel and EViews 10 have been used. PLS has been performed. For this purpose, the statistical sample of this study is those companies listed on the Tehran Stock Exchange that meet the following conditions:

I. Not be a bank, financial institution, investment, holding, or leasing company.

II. The company must be listed on the stock exchange by the end of 2018 and remain listed through 2024.

III. To ensure comparability, the company's fiscal year must end on 29 March of each year.

IV. The company must not have changed its fiscal year between 2019 and 2024, and the company's financial statements and information must be available.

3.1 | Independent Variable: Financial Reporting Quality

According to the research of Jones [29] and Iqbal et al. [30], it is calculated through the Jones adjusted accruals index as follows:

$$\frac{\mathrm{TAit}}{\mathrm{Assete_{i,t-1}}} = \alpha_1 \frac{1}{\mathrm{Assete_{i,t-1}}} + \alpha_2 \frac{\Delta \mathrm{REV_{it}} - \Delta \mathrm{REC_{it}}}{\mathrm{Assete_{i,t-1}}} + \alpha_3 \frac{\mathrm{PPE_{i,t}}}{\mathrm{Assete_{i,t-1}}} + \varepsilon_{it} \quad (1)$$

where:

$\mathrm{TA_{i,t}}$: total assets at the end of the current period.

$\mathrm{Assete_{i,t-1}}$: total assets at the end of the previous period of the company i in the year t-1.

$\Delta \mathrm{REC_{i,t}}$*change in the amount of accounts receivable at the end of the company's i current period in* year t.

$\Delta \mathrm{REV_{it}}$: change in income at the end of the current period, company i in year t.

$\mathrm{PPE_{i,t}}$: net property, plant and equipment at the end of the current period, company i in year t.

3.2 | Dependent Variable: Risk of Stock Price Crash

To measure this variable, the criteria of Hutton et al. [2] and Kim et al. [31] have been used. The aforementioned researchers used two criteria to calculate the dependent variable, stock price risk: the probability of a stock price crash (Crash) and the measure of Negative Skewness of Stock Returns (NCSKEW). The first criterion is the main criterion of the research, which, due to its fictitious nature, logistic regression has been used in the tests. The second criterion, being a continuous quantity, has been used solely to conduct an additional test and to further confirm the result obtained from the first regression model; therefore, linear regression has been used to examine it. For example, Hutton et al. [2] estimate the following regression model whose residuals show the specific returns of each company:

$$\mathrm{Ri,t} = \beta 0 + \beta 1\ \mathrm{Rm,t-2} + \beta 2\ \mathrm{Rm,t-1} + \beta 3\ \mathrm{R\,m,t} + \beta 4\ \mathrm{R\,m,t+1} + \beta 5\ \mathrm{R\,m,t+2} + \epsilon \mathrm{i,t} \quad (2)$$

Hutton et al. [2] and Kim et al. [31] consider periods of price collapse for a stock as periods of the year in which the numerical value of specific returns (Wi) is less than 3/2 of the standard deviation minus their mean in that year. Therefore, if, in the year under study, the value of one or more of the Ws obtained is less than 3/2 of the standard deviation below the mean, it indicates that a stock price collapse occurred in that year. In that case, the variable is a crash indicator.

3.3 | Moderator Variable: Corporate Governance

In this study, corporate governance components are entered into the Model as moderating variables, including institutional ownership and the proportion of non-executive directors.

3.4 | Control Variables

I. Company size ($Size_{it}$): calculated as the natural logarithm of total assets.

II. Return on assets (Roa_{it}): the ratio of net profit to total assets of the company at the end of the fiscal year.

III. Financial leverage (Lev_{it}): calculated as total liabilities over total assets.

3.5 | Research Hypothesis Test Models

$$\mathrm{CRASHi,t+1} = \alpha 0 + \alpha 1\mathrm{FRQ} + \alpha 2\ \mathrm{ROA} + \alpha 3\mathrm{Lev} + \alpha 4\mathrm{Size} + \varepsilon \mathrm{i} \quad (3)$$

$$\mathrm{CRASHi,t+1} = \alpha 0 + \alpha 1\mathrm{FRQ} + \alpha 2\mathrm{TazG} + \alpha 3\mathrm{Inst} + \alpha 4(\mathrm{FRQ} * \mathrm{TazG}) + \alpha 5(\mathrm{FRQ} * \mathrm{Inst}) + \alpha 6\ \mathrm{ROA} + \alpha 7\mathrm{Lev} + \alpha 8\mathrm{Size} + \varepsilon \mathrm{i} \quad (4)$$

CRASH: risk variable for stock price crash.

Financial Reporting Quality (FRQ): This study uses accruals, which include discretionary and non-discretionary accruals. Accruals are the difference between operating profit and cash from operating activities.

TazG: number of non-executive members: the number of people who are not on the board of directors but who have a role in the company's stock price.

Inst: percentage of institutional investors (institutional ownership).

4 | Analysis of Findings

4.1 | Descriptive Statistics of Research Variables

Descriptive statistics of the research variables, including mean, median, maximum, minimum, standard deviation, and skewness, are presented in *Table 1*.

Variable	Skewness	Standard Deviation	Minimum	Maximum	Median	Mean
FRQ	2.2310	0.2170	0.7301	2.0391	-0.0152	0.0183

TAZG	-1.0645	0.2345	0.0000	1.0000	0.8000	0.6584	
SIZE	1.4308	1.3985	10.8166	18.6896	13.4356	13.5860	
ROA	0.2073	0.1043	-0.3127	0.4207	0.0772	0.0934	
LEV	0.0846	0.1782	0.2310	1.1437	0.6481	0.6395	
INST	-0.2476	0.2994	0.0000	0.9603	0.5542	0.5001	
CRASH	0.2638	0.4967	0.0000	1.0000	0.0000	0.4346	

Table 1. Descriptive statistical results.

To test for non-collinearity among the research variables, the correlation matrix is presented in *Table 2*. A correlation coefficient of less than 0.7 (Pearson) between the variables indicates non-collinearity and the accuracy of the final specified models. The results indicate that most variables are not linearly related to one another.

Table 2. Correlation results for the data collinearity test.

	FRQ	TAZG	SIZE	ROA	LEV	INST	CRASH
FRQ	1						
TAZG	0.0759738	1					
SIZE	0.1291681	-0.1163511	1				
ROA	0.1908323	0.1402261	-0.0128082	1			
LEV	-0.0531581	-0.2460781	0.1867747	-0.6061265	1		
INST	0.1415592	0.0667952	0.0245254	0.0438183	0.1414072	1	
CRASH	0.0980231	-0.0046053	-0.0083744	-0.1971656	0.0707824	0.0068052	1

4.2 | Inferential Analysis of Research Data

The results of the Mann test for the variables, including test statistics and significance levels, are presented in *Table 3*.

Table 3. The results of the Manai test for the variables - the test values and the significance level observed for each of the variables.

Variable	The Significance Level	The Value of the Test Statistic
FRQ	0.0000	-28.2013
TAZG	0.1897	52.0305
SIZE	0.0468	115.941
ROA	0.0127	110.509
LEV	0.0294	120.421
INST	0.5212	94.6028

As can be seen, for all variables except the percentage of non-executive directors and institutional ownership, the probability (p-value) in the unit root test is smaller than 0.05, indicating that the variables are stationary. It means that the mean, variance, and covariance of the variables remain constant over time. As a result, using these variables in the Model does not lead to spurious regression. For the non-executive director and

institutional ownership variables, stationarity is examined at the first-difference level. The results are presented in *Table 4*.

Table 4. The results of the Manai test for the variables - the test values and the significance level observed for each of the variables.

Variable	Probability	Statistic
TAZG	0.0164	51.3652
INST	0.0007	136.841

Furthermore, the results of the LM ARCH heteroscedasticity test are reported in *Table 5*, indicating no evidence of heteroscedasticity in the estimated models.

Table 5. Results of the LM Arch heteroscedasticity test.

Model	Description	The Value of the Test Statistic	Significance Level	Test Level
1	F-statistic	0.204617	0.6514	0.05
	Obs*R-squared	0.206045	0.6499	0.05
2	F-statistic	0.147917	0.7009	0.05
	Obs*R-squared	0.148983	0.6995	0.05

4.3|Examining the Relationship between Research Variables

First hypothesis: examines the relationship between the quality of financial reporting and the risk of stock price collapse among companies listed on the Tehran Stock Exchange. According to the results of the test of *Model (1)*, shown in Table 7, the F-statistic, which indicates the significance of the entire regression, is 0.0021, indicating that the Model is significant at the 95% confidence level. The adjusted R2 coefficient of determination is 0.348748, indicating that approximately 35% of the variation in the dependent variable is explained by the independent and control variables in the Model. To test for the absence of autocorrelation in the Model, the Durbin-Watson statistic is used. If this statistic falls within the range of 1.5 to 2.5, it indicates the absence of autocorrelation in the residuals. This statistic equals 2.014 based on the table's findings, indicating the absence of an autocorrelation problem, and is acceptable. As shown in the table, the coefficient for the financial reporting quality criterion is -0.32488. Considering the T-statistic and the significance level of this variable, the results indicate that this coefficient is significant at the 5 percent error level. These findings show that the quality of financial reporting has a significant negative relationship with the risk of stock price collapse of companies listed on the Tehran Stock Exchange. In other words, increasing the quality of financial reporting reduces the risk of stock price collapse. As a result, the research hypothesis H0 is rejected.

The second hypothesis examines the moderating effect of corporate governance criteria on the relationship between financial reporting quality and the risk of stock price collapse among companies listed on the Tehran Stock Exchange. *Table 8* shows the results of the test of *Model (2)*. As shown, the F statistic's p-value, which indicates the significance of the entire regression, is 0.0102, indicating that the Model is significant at the 95% confidence level. The adjusted coefficient of determination is 0.37135, indicating that approximately 37% of the variation in the dependent variable is explained by the independent and control variables in the Model. The Dorbin-Watson statistic is used to test the absence of autocorrelation in the Model. If this statistic falls within the range of 1.5 to 2.5, it indicates the absence of autocorrelation in the residuals. This statistic equals 2.0160 based on the table's findings, indicating the absence of an autocorrelation problem, and is acceptable. As shown in the table, the coefficients for the corporate governance criteria, including Institutional Ownership (INST) and the percentage of non-executive directors (TAZG), are 0.019191 and -0.002564, respectively. Considering the T-statistic and the significance level of this variable, the results indicate that this coefficient is not significant at the 5 percent level. In other words, institutional ownership and the percentage of non-executive directors as corporate governance criteria do not have a moderating role in the relationship

between the quality of financial reporting and the risk of stock price collapse of companies listed on the Tehran Stock Exchange; as a result, the hypothesis H_0 of the research is confirmed.

The first hypothesis examined the relationship between financial reporting quality and stock price crash risk. The results indicate a negative, significant relationship between financial reporting quality and stock price crash risk at the 95% confidence level. That is, it decreases as another variable increases. In the second hypothesis, the effects of institutional ownership and the percentage of non-executive directors as corporate governance criteria on the relationship between financial reporting quality and stock price crash risk for companies listed on the Tehran Stock Exchange were examined. The results indicate that these coefficients are meaningless at the 5% error level. In other words, institutional ownership and the percentage of non-executive directors, as corporate governance criteria, do not moderate the relationship between financial reporting quality and stock price crash risk.

Table 6. Results of the F-limer test.

Model	Test Level	Significance Level	Degree of Freedom	The Value of the Test Statistic	Description
1	0.05	0.9771	51.204	0.621361	Cross-section F
2	0.05	0.9632	51.202	0.653455	Cross-section F

Table 7. Regression test results.

$CRASHi, t+1 = \alpha 0 + \alpha\ 1FRQ + \alpha 2\ ROA + \alpha 3Lev + \alpha 4Size + \varepsilon i$						
Dependent Variable: Risk of Stock Price Crash						
Variable	**Relationship Type**	**Significance Level**	**T-status**	**The Standard Deviation**	**Coefficient**	**Significant Probability**
FRQ	Significant negative	0.0187	-2.358703	0.013773	-0.032488	%95
ROA	Significant negative	0.0004	-3.565224	0.372226	-1.327071	%95
LEV	Meaningless negative	0.2648	-1.117528	0.218221	-0.243867	%95
SIZE	Meaningless negative	0.8137	-0.235859	0.022251	-0.005248	%95
C	Positively significant	0.0228	2.290183	0.310312	0.710652	%95
Model Indicators						
0.348748	Adjusted coefficient of determination				0.363439	Coefficient of determination
2.01434	Watson camera				4.318155	f statistics
					0.002135	f Significant probability

Table 8. Regression test results.

$CRASHi,t+1 = \alpha0 + \alpha1FRQ + \alpha2TazG + \alpha3Inst + \alpha4(FRQ * TazG) + \alpha5(FRQ * Inst) + \alpha6\ ROA + \alpha7Lev + \alpha8Size + \varepsilon i$						
Dependent Variable: Risk of Stock Price Crash						
Variable	**Relationship Type**	**Significance Level**	**T-status**	**The Standard Deviation**	**Coefficient**	**Significant Probability**
FRQ	Significant negative	0.0190	-2.351773	0.005770	-0.013571	%95
TAZG	Meaningless negative	0.9848	-0.019081	0.134403	-0.002564	%95
INST	Positive meaningless	0.8547	0.183251	0.104726	0.019191	%95
ROA	Significant negative	0.0005	-3.540266	0.377672	-1.337062	%95
LEV	Meaningless negative	0.2694	-1.106846	0.228745	-0.253185	%95
SIZE	Meaningless negative	0.8194	0.228506-	0.022423	-0.005124	%95
C	Positively significant	0.0387	2.078601	0.340923	0.708642	%95
Model Indicators						
0.348748	Adjusted coefficient of determination				0.363439	Coefficient of determination
2.01434	Watson camera				4.318155	f statistics
					0.002135	f Significant probability

5 | Conclusion

The findings of this study indicate that financial reporting quality has a significant and negative effect on the stock price crash risk of companies listed on the Tehran Stock Exchange. In other words, higher financial reporting quality enhances information transparency, prevents the accumulation and sudden release of bad news, and consequently reduces the likelihood of a sharp decline in stock prices. This result is consistent with theoretical foundations related to information asymmetry and the role of timely disclosure in mitigating extreme market fluctuations. Furthermore, the results reveal that corporate governance variables, including institutional ownership and the proportion of non-executive directors, do not significantly moderate the relationship between financial reporting quality and stock price crash risk. It may suggest that corporate governance mechanisms in the studied sample lack sufficient effectiveness to influence managerial behavior and improve the quality of information disclosure, or that the selected proxies do not fully capture the dimensions of corporate governance. Overall, it can be concluded that improving financial reporting quality is one of the most important tools for reducing risk in capital markets. Enhancing transparency, strengthening reporting standards, and enforcing effective oversight of disclosure practices can increase investor confidence and enhance market stability. Finally, future research is recommended to employ more comprehensive measures of corporate governance and to incorporate additional variables, such as economic uncertainty, audit quality, and ownership structure, to achieve a deeper understanding of the factors affecting stock price crash risk.

Author Contributions

Four times, authors contributed to all stages of the research, including design, analysis, and writing, and have approved the final version of the manuscript.

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Data Availability

The data used in this study are available to the authors and can be provided upon request.

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