

Summary of Paper: [Connecting the Dots: Helping Investors Use Risk Disclosures When Evaluating Financial Statements](#)

What is this study about?

Risk factor disclosures in 10-Ks are often lengthy and hard for investors to connect to specific financial statement impacts. The SEC now requires firms with more than 15 pages of risk factors to include a two-page risk summary (Regulation S-K Item 105). This study tests whether that summary improves investor judgments and evaluates an alternative design: two-way hyperlinks that connect risk disclosures directly to related financial statement line items.

What are the major findings of the study?

In a realistic experiment using a modified 10-K and 100 screened retail investors, the SEC-style risk summary did not change investors' risk assessments ($p = 0.456$). By contrast, adding hyperlinks increased perceived risk when appropriate ($p = 0.007$), consistent with investors better acquiring and integrating relevant risk information into their evaluation of the financials. Participants spent about 19.5 minutes reviewing the report, reflecting real-world attention limits. Supplemental tests suggest the hyperlink effect is not simply caused by labels making risk more noticeable. A separate test with 92 professional investors found no significant difference across hyperlink conditions, implying professionals may already connect risks and financial statement effects without design help.

Why is the study important?

The findings provide practical feedback on a major SEC disclosure change and show that readability-focused summarization may not solve the bigger problem: helping users link narrative risks to the numbers. For preparers, auditors, and investor relations teams, hyperlinking is a concrete reporting-design option that could improve decision-usefulness for retail investors without rewriting every risk factor.

What is the impact on professional practice and society at large?

More usable risk disclosures can improve transparency and reduce retail investors' tendency to underestimate risk—supporting better pricing, capital allocation, and trust in reporting. For firms, clearer risk-to-financial connections may also sharpen governance discussions and reduce litigation or reputational exposure tied to disclosures that are technically compliant but not decision-useful.

