




“Share pledging and accounting conservatism in India: The role of mandatory disclosure and regulatory oversight”

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SHARE PLEDGING AND ACCOUNTING CONSERVATISM IN INDIA: THE ROLE OF MANDATORY DISCLOSURE AND REGULATORY OVERSIGHT

Abstract

Promoters' share pledging represents a serious corporate governance problem in highly concentrated ownership environments, with substantial implications for firms' financial reporting integrity and investors' interests. This study examines the relationship between share pledging and accounting conservatism while evaluating the effectiveness of SEBI's 2019 disclosure mandate (Regulation 31(1)) in curbing opportunistic reporting. Utilizing a panel of 1,933 Indian non-financial firms from 2015 to 2022, we employ a fixed-effects model and a difference-in-differences framework to analyze an accrual-based proxy of conservatism. The empirical findings indicate a positive relationship between promoters' pledging and the accrual-based proxy, with firm-level (FL_Pledge) and promoter-level (PL_Pledge) pledging coefficients of 0.072 ($t = 5.72$) and 0.044 ($t = 6.43$), respectively, confirming that pledging firms engage in less conservative reporting. The difference-in-differences analysis reveals that the 2019 regulatory change reduced opportunistic reporting, as evidenced by a significant negative interaction coefficient of -0.010 ($t = -2.99$). Furthermore, the results show that post-regulation, the treated group's association with the accrual proxy remains positive at 0.014 ($t = 3.16$), suggesting a shift towards more conservative accounting practices following mandatory disclosure. These results indicate that India's disclosure-led regulatory frameworks serve as an alternative to the restrictive pledging caps observed in other emerging economies.

Keywords

share pledging, promoters, accounting conservatism, regulation change, India

JEL Classification

C33, M40, M41, M48

INTRODUCTION

Share-pledging, a practice where promoters use equity as collateral to secure personal or business loans, has become increasingly prevalent in emerging markets such as India, China, and Taiwan. According to Prime Database Group¹, the value of share pledging by promoters in NSE-listed companies surged 56% to Rs 2.77 lakh crore as of August 2020 (pledging of shares by promoters hits 3-year high in August 2020). As of 2017, the share-pledging activity among Chinese listed firm promoters has risen to 45%, of which 21% of the firms have a pledging ratio of more than 60% (Hu et al., 2021). Further, raising funds through share pledging in Taiwan is much more convenient and flexible than the mortgage, resulting in 30% of promoters in Taiwanese firms pledging their shares (Chan et al., 2018). Although share pledging provides liquidity, it also carries a substantial risk of involuntary ownership di-

¹ Available at <https://www.thehindubusinessline.com/markets/stock-markets/pledging-of-shares-by-promoters-of-nse-listed-firms-hits-3-year-high/article32603277.ece> (Pledging of shares by promoters of NSE-listed firms hits 3-year high, The Hindu Business Line, August 2020).

lution if promoters fail to meet the margin call threshold (Wang & Cao, 2022). This growing corporate practice has become a concern among regulators; for instance, the Financial Stability Report, published by the Reserve Bank of India (RBI), flags share pledging as a signal of potential financial distress and limited access to external financing in India (RBI, 2019, p. 47). Such financial distress suggests a fundamental conflict between the promoter's private leverage and the integrity of the firm's financial reporting practices.

Within the share-pledging context, the core scientific problem is the "opportunistic perspective," which posits that the threat of margin calls motivates promoters to withhold unfavorable news and inflate earnings to maintain share prices and retain control (Asija et al., 2014; Chauhan et al., 2021). In the Indian context, where promoters hold dominant board positions (Sarkar, 2023), the incentive to suppress bad news is particularly acute to prevent ownership dilution. However, the association between promoters' share pledging and accounting conservatism, particularly under the moderating impact of regulatory oversight, remains a critical gap in existing literature. The 2019 SEBI (Securities and Exchange Board of India) Regulation 31(1) introduces unique institutional setting to examine this promoter-led economy. This regulatory shift raises an important theoretical question: whether the mandatory regulatory disclosure of the "end-use of funds" curtails opportunistic reporting or encourages more transparent, conservative practices among pledging firms.

1. LITERATURE REVIEW AND HYPOTHESES

In the context of share pledging, promoters enter into a bilateral agreement with a financial institution that uses their shares as collateral for personal debt. However, this contractual agreement introduces a systemic vulnerability (Yan & Liu, 2023): if a promoter fails to meet the required margin call, lenders are entitled to liquidate pledged shares in the open market to recover the debt. This resulting pressure, coupled with the threat of involuntary ownership dilution, creates a strong incentive for promoters to alter financial reporting and corporate decisions (Chan et al., 2018; Liu & Yang, 2023). Specifically, to prevent share prices from triggering margin levels and to safeguard their voting rights, promoters are motivated to manage earnings and suppress unfavorable information, directly compromising the quality of financial disclosures (Bu et al., 2025; Zuo & Bai, 2024; Luo et al., 2024).

These observed phenomena are best understood through the tension between two key theories: signaling theory and bad news hoarding theory. While signaling theory accounts for promoters' motivation to transmit favorable information to the market (Subramanyam, 1996; Shi, Wang, & Ren, 2023), bad news hoarding theory elucidates a strategic inclination to conceal negative informa-

tion to avoid market correction (Cao et al., 2025). This latter theoretical lens posits that share-pledging compels promoters to manipulate financial reporting, circumvent margin calls, and preserve voting control (Zhou et al., 2021). Consistent with this, prior studies on the financial reporting implications of share-pledging confirm a negative (positive) relationship between promoters' share-pledging and accrual-based EM (real EM) (Asija et al., 2014; DeJong et al., 2018; Singh, 2018). Such opportunistic incentives often exacerbate information asymmetry and accentuate potential agency costs (Bu et al., 2025), particularly Type 2- conflicts (principal-principal conflicts) between promoters and minority shareholders (Luo et al., 2024; Liu & Jiu, 2022; Kao et al., 2004). However, despite these insights into EM, a significant gap remains regarding how these incentives distort accounting conservatism. The scientific problem is whether the mandate for timely loss recognition can survive in an environment where 'bad news' directly triggers the promoters' loss of control.

Accounting conservatism represents a prudent approach to financial reporting, which requires a higher degree of verification for recognizing good news than bad news (Basu, 1997). Under Watts's (2003) taxonomy, the 'Contracting mechanism' is a determinant of our investigation into how promoters' share-pledging incentives drive demand for conservative financial reporting. While some

literature suggests that EM and conservatism can co-exist (García Lara et al., 2020; Khalilov & Osmá, 2020), the discretionary nature of these choices in India remains unique. Thus, investigating the specific relationship between share-pledging and accounting conservatism is a relevant research question. We acknowledge that conditional and unconditional conservatism are lower among pledging firms (Avabruth et al., 2024); however, their reliance on the U.S.-centric C-score model limits its applicability to emerging markets like India, where institutional factors differ significantly (Khan & Watts, 2009). Their approach might not fully capture the nuances of accounting conservatism in the Indian capital market². Consequently, this study focuses on an accrual-based proxy to examine the reporting practices in the Indian capital market in more detail.

The fundamental nature of share-pledging in India differs from that in developed markets like the U.S., since strict trading policies, combined with the nature of collateralization, often lead regulators to view these loans as relatively lower risk (Chen & Hu, 2024). On the contrary, the fundamental nature of share-pledging in India differs from that in developed markets, as noted by the RBI. For instance, it is observed that a typical Indian company's promoters pledge shares to support the company's operations. In some cases, promoters engage in over-pledging, raising concerns among regulatory bodies and other market participants. This growing popularity and potential misuse have led to severe cases of financial misconduct in the past (<https://www.live-mint.com/news/india/unfolding-tragedy-of-loan-against-shares-11576690003524.html>). A notable example of the risks associated with this practice is the Satyam Computers Services Ltd fiasco in 2009, which led to a major corporate scandal and prompted the introduction of India's first regulatory framework for share-pledging disclosure. In January 2009, the Securities and Exchange Board of India (SEBI) implemented Regulation 8A, mandating firms to disclose the promoter's share pledging within 7 days of receiving information from the promoter group. The regulation requires quarterly disclosure when promoters' share-pledging

exceeds the minimum threshold of 25,000 shares or 1% of the firm's total shareholding. However, Raju and Sapra (2010) identified information limitations existing with Regulation 8A. These limitations were addressed under Regulation 31(1), effective in 2019, to address the growing concern of promoters' share pledging. According to reports, dated April 26, 2019, 2,932 companies had pledged shares out of 5,000+ Bombay Stock Exchange (BSE) listed firms. SEBI mandates additional disclosure requirements under Regulation 31(1) on the promoter's share-pledging exceeding 20% of the total share capital or 50% of the promoter's holdings. Additionally, it requires companies to disclose the end-use details of the funds obtained through the pledging of shares. This regulatory change represents a significant shift in the monitoring environment for Indian-listed firms, making India an attractive setting for investigating the aftermath of promoters' share pledging. Unlike the restrictive regulatory approach observed in the Chinese setting, where direct limits on share-pledging have been found to improve financial reporting quality (Shi et al., 2023) and firm value (Su & Alexiou, 2022), the Indian regulatory framework relies on enhanced transparency. As argued by Zhang et al. (2023), increased oversight and the potential for reputational or regulatory penalties raise the cost of opportunistic behavior.

Unlike developed markets, promoters' share pledging is particularly prevalent in emerging market firms, such as those in India, which are characterized by high ownership concentration (Sarkar, 2023; La Porta et al., 1999). In this setting, promoters often hold dominant positions and extensively utilize this financing strategy. Thus, promoters with a significant portion of their shares pledged to face intense pressure to maintain the share price to avoid margin calls and retain corporate control. Similarly, promoters who have pledged their shares have a compelling motive to pursue short-term strategies to secure favorable financial reporting, which are likely to override the prudence advocated by accounting conservatism. While institutional investors generally demand higher conservatism (Ramalingegowda & Yu, 2012), the personal financial stakes of a leveraged promoter may

² In emerging economies, such as India, the information instilled/embedded in the stock prices is often limited. Consequently, stock prices may not accurately capture the underlying firm's performance, including its positive and negative developments. Given these considerations, we adopt an accrual-based proxy for conservatism instead of the traditional price-based metrics such as Basu's model or G-score.

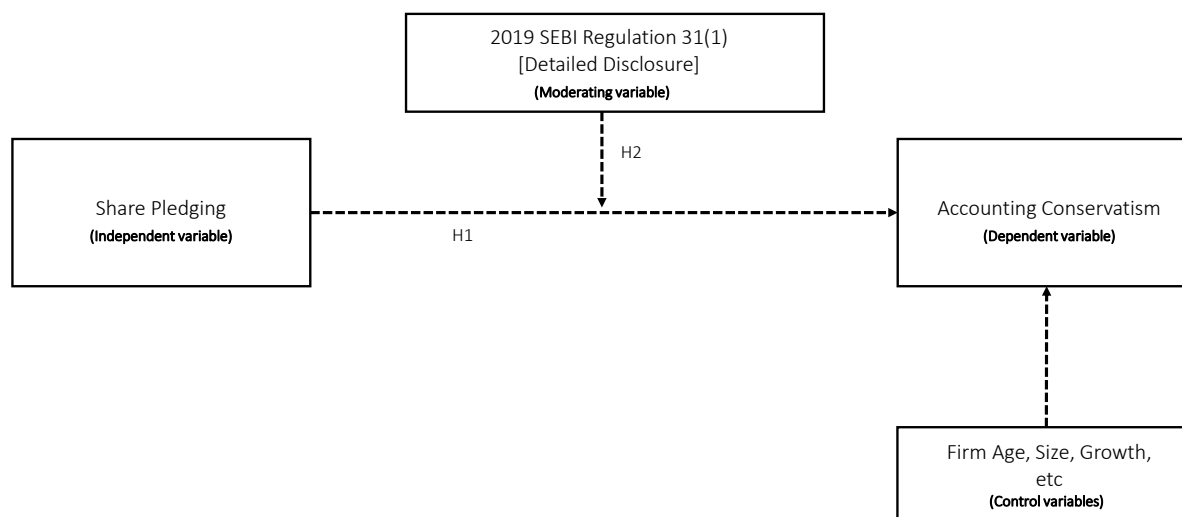


Figure 1. Conceptual framework illustrating the relationships examined in the study

override this demand, leading to the suppression of negative information to safeguard corporate control. This suggests that without external oversight, pledging incentives are likely to be negatively associated with timely loss recognition. However, the 2019 SEBI regulatory change introduces a critical governance monitoring mechanism by mandating detailed disclosure of promoters' share-pledging practices and increasing transparency into promoters' private financial motives. This heightened oversight may shift the promoters' incentives; instead of hoarding bad news, the threat of regulatory penalties may compel pledging promoters to adopt more prudent reporting standards to signal creditworthiness and mitigate the risk of margin calls. Thus, while pledging itself creates opportunistic incentives, the 2019 regulatory intervention is expected to curb aggressive accounting practices and restore reporting discipline. Based on these competing theoretical arguments, an institutional gap remains regarding the impact of share-pledging on accounting conservatism, particularly with respect to the moderating role of the 2019 regulatory change. This study, therefore, aims to examine the effect of promoter share-pledging on accounting conservatism among the Indian listed firms and to investigate whether the 2019 regulatory change attenuates the opportunistic reporting behavior associated with such pledging. Consequently, to address this gap, the following hypotheses are proposed:

H1: Promoters' share-pledging behavior is negatively associated with accounting conservatism, ceteris paribus.

H2: The 2019 SEBI Regulation 31(1) moderates the relationship between promoters' share-pledging and accounting conservatism, ceteris paribus.

To recapitulate, Figure 1 shows the conceptual framework for the study: the direct effect of share pledging on accounting conservatism, as shown by H1. Additionally, the research introduces the 2019 regulatory change (H2) to illustrate the moderating effect of share pledging on accounting conservatism.

2. METHODS

The study examines how promoters' share pledging impacts the accounting conservatism practices during the period 2015 to 2022. The sample size and data for the non-financial firms were obtained from the Center for Monitoring Indian Economy (CMIE) ProwessIQ database. Given the unique regulatory framework for financial firms, we limit our analysis to non-financial firms, excluding 908 financial firms from the main sample. The final dataset comprises 1933 non-financial firms from various industries, providing a reliable representation of non-financial sectors in India. To investigate the moderating role of regulatory oversight, we divide the sample into two distinct periods based on the implementation of the SEBI Regulation 31(1) in 2019: The pre-regulation period (2015-2018) and the post-regulation period (2019-2022).

Following Givoly and Hayn (2000), we measure our dependent variable, accounting conservatism (*CONS_ACC*), using an accrual-based proxy. According to Ball and Shivakumar (2006), conditional conservatism is an integral property of accrual accounting. It is calculated as the difference between income before extraordinary items plus depreciation expenses and cash flow from operations, deflated by average total assets. To mitigate the impact of temporary, large, reversible accruals and to capture a sustained reporting strategy, it is averaged over three years, centered around year *t*. The negative values of *CONS_ACC* indicate greater accounting conservatism, underlying the intuition of persistent negative accruals over the years. Traditional price-based metrics, such as Basu's (1997) model or the C-score, are inappropriate conservatism measures for countries other than the U.S., where contracts and other litigation liabilities are easily circumvented (Khan & Watts, 2009). The C-score model developed by Khan and Watts (2009) is rooted in the U.S. institutional context and may not apply to countries with different regulatory frameworks other than the U.S., as its use in emerging markets like India, where institutional factors differ significantly from those in the U.S., could potentially limit the scope of the study.

The key independent variable is share-pledging. Prior research has predominantly measured share-pledging as a dummy variable to capture the presence or absence of promoters' pledging in year *t*. This study exploits the detailed disclosure requirements in the Indian capital markets to construct

continuous measures of share pledging at both the promoter (*PL_pledge*) and firm (*FL_pledge*) levels. This granular approach enables a nuanced examination of the relationship between promoters' share pledging and the quality of their financial reporting. Table 1 provides detailed descriptions and operational definitions of all independent and control variables used in this study.

We estimate the following basic regression models:

$$CONS_ACC_{i,t} = \alpha_0 + \alpha_1 PL_Pledge_{i,t} + \alpha_2 X_{i,t} + \varphi + \omega + \varepsilon_{i,t}, \quad (1)$$

$$CONS_ACC_{i,t} = \alpha_0 + \alpha_1 FL_Pledge_{i,t} + \alpha_2 X_{i,t} + \varphi + \omega + \varepsilon_{i,t}, \quad (2)$$

$$CONS_ACC_{i,t} = \alpha_0 + \alpha_1 Pledge_{i,t} + \alpha_2 X_{i,t} + \varphi + \omega + \varepsilon_{i,t}, \quad (3)$$

where $X_{i,t}$ represents the control variables as mentioned above; also, in equations (1), (2), and (3), we include industry (φ) and year (ω) dummy variables to control for industry and year-fixed effects.

Further, to establish the causal association between the 2019 regulatory change (Regulation 31(1)) and the financial reporting behavior of share-pledging firms, we employ a Difference-in-Difference (DiD) framework. We categorize *Treated_firms* as a dummy variable, with a value of 1 for firms that

Table 1. Variable definitions

Variable	Description
I. Dependent Variables	
CONS_ACC	Using Givoly and Hayn's (2000) model of conservatism. It is calculated as the three-year rolling average of the difference between income before extraordinary items plus depreciation expenses and cash flow from operations, normalized by total assets.
II. Independent Variables	
Pledge	The indicator variable equals 1 if any promoter reports a share pledge and 0 otherwise.
PL_Pledge	The percentage of total shares pledged by promoters is divided by the total shares held by the promoters.
FL_Pledge	The percentage of total shares pledged by promoters is divided by the firm's total shares outstanding.
III. Control Variables	
Age	The number of years relative to the year of incorporation of the firm.
Size	The natural logarithm of the firm's market capitalization.
Mtb	Market-to-book ratio.
Promoter_Own	Promoters' ownership equals the total shares held by promoters divided by the total outstanding shares as of the year-end.
Debt	Total debt, inclusive of short-term and long-term borrowings.
Growth	The percentage change in sales between the current year and the prior year.

engage in share pledging and 0 otherwise. *Reg_change* is a time dummy variable that takes the value 1 for years after 2018 and 0 otherwise. The interaction variable *Reg_change*Treated_firms* is also referred to as the treatment variable in model (4). It captures the change in accounting conservatism ($CONS_ACC_{i,t}$) before and after the regulation change among the treatment group (share-pledging firms) and the control group (non-share-pledging firms). Follows the difference-in-difference estimation model:

$$\begin{aligned}
 CONS_ACC_{i,t} = & \alpha_0 + \alpha_1 Reg_change_{i,t} \\
 & + \alpha_2 Treated_firm_{i,t} \\
 & + \alpha_3 Reg_change_{i,t} \cdot Treated_firm_{i,t} \\
 & + \alpha_4 X_{i,t} + \varphi + \omega + \varepsilon_{i,t}.
 \end{aligned}
 \tag{4}$$

3. RESULTS

Table 2 presents the descriptive statistics for the sample. The mean value for the accrual-based proxy of accounting conservatism (*CONS_ACC*) is 0.058, indicating that the financial reports among the sample observations are not conservative. The mean value of *CONS_ACC* in our study falls within the range reported in previous seminal studies: Ahmed et al. (2002) reported a mean accrual-based conservatism of 0.003, while Ahmed and Duellman (2007) reported a mean of 0.010.

The sample firms in the study exhibit an average share-pledging level (Pledge) of approximately 40% (38.4%), which aligns with the prevalence of share pledging among non-financial firms. This finding reflects the current state of share-pledging practices in the Indian capital market. Moreover, the mean *Promoter_Own* in our sample is 53.2%, indicating the promoters in Indian firms maintain high ownership concentration. Lastly, except for dummy variables, all key variables are scaled by lagged total assets and winsorized at the 1st and 99th percentiles to minimize the influence of outliers in the study.

Following Gujarati and Porter (2009), we consider a correlation coefficient of ± 0.80 as a threshold for multicollinearity. As reported in Table 3, all the explanatory variables appear to fall below the threshold; we conclude that multicollinearity is not a significant concern in our models. Lastly, we conducted a Variance Inflation Factor (VIF) test; the results indicate no multicollinearity, with all VIF values below 5.

Table 4 presents the association between promoters' share pledging and accounting conservatism (*CONS_ACC*). The estimated coefficients in columns (1) and (2) are significantly positive at a 1% level. Specifically, the coefficients on *PL_Pledge* and *FL_Pledge* are 0.044 ($t = 6.43$) and 0.072 ($t = 5.72$), respectively, indicating that promoters'

Table 2. Descriptive statistics

	Mean	Std dev	Min	Max
CONS_ACC	0.058	0.016	-0.022	0.187
Pledge	0.384	0.427	0.000	1.000
PL_Pledge	0.072	0.202	0.000	1.000
FL_Pledge	0.036	0.106	0.000	0.989
Promoter_Own	0.532	0.190	0.000	1.000
Age	32.662	17.538	3	130
Growth	4.643	2.688	-4.605	13.050
Size	4.631	2.550	-3.507	9.361

Table 3. Correlation matrix

	Pledge	Age	SIZE	Mtb	Promoter_Own	Debt	Growth	VIF
Pledge	1.00							1.07
Age	-0.01**	1.00						1.02
Size	0.02**	0.09***	1.00					1.16
Mtb	-0.01**	-0.01*	0.02**	1.00				1.02
Promoter_Own	0.04**	0.05**	0.16***	0.01*	1.00			1.00
Debt	0.08***	0.02*	0.18***	0.00	0.02**	1.00		1.03
Growth	-0.03**	-0.06***	0.01**	0.01*	0.03**	-0.01*	1.00	1.00

share-pledging is associated with a less conservative financial reporting strategy. These results remain consistent, with the coefficient on the Pledge (dummy variable) also being positive and statistically significant at a 1% level. These findings support the opportunistic perspective, suggesting that pledging promoters opt for less conservative financial reporting to artificially stabilize share prices. Consequently, promoters mitigate the immediate risk of margin calls and stock price crashes, thereby safeguarding corporate control and the continued receipt of dividend income. Given these results, which show promoters' share-pledging behavior is associated with less conservative financial reports.

Table 4. The impact of promoters' share-pledging on accounting conservatism

Variables	(1) CONS_ACC	(2) CONS_ACC	(3) CONS_ACC
PL_Pledge	0.044*** (6.43)		
Fl_Pledge		0.072*** (5.72)	
Pledge			0.024*** (7.25)
Age	-0.000*** (-4.56)	0.000*** (-4.36)	0.000*** (-4.68)
Size	-0.034*** (-52.63)	-0.034*** (-53.13)	-0.034*** (-52.22)
Debt	0.000 (-1.17)	0.000 (-5.98)	0.000 (-5.67)
Promoter_Own	0.121* (1.66)	0.125* (1.68)	0.125* (1.69)
Mtb	-0.000*** (-5.10)	-0.000*** (-5.14)	-0.000*** (-5.16)
Growth	0.034** (2.13)	0.037** (2.11)	0.037** (2.09)
Constant	0.273*** (23.34)	0.273*** (23.80)	0.275*** (23.73)
Ind	Yes	Yes	Yes
Year	Yes	Yes	Yes
Firm-year observations	10228	10228	10228
Adj. R ²	0.397	0.398	0.402

Note: The p-value is calculated from the t-statistics and reported in parentheses and is significant at *, **, and ***, indicating statistical significance at 10%, 5%, and 1% levels, respectively.

While omitted variables and measurement errors raise concerns about endogeneity, the difference-in-differences (DiD) approach provides a robust framework for causal inference within this quasi-natural-experimental design. The 2019 regulatory

change seeks to provide investors and other stakeholders with comprehensive information about the promoter's financial obligations, including the use of pledged proceeds for personal or reinvestment purposes. Prior studies have stated that effective regulatory change is more likely to alter the incentives of promoters among share-pledging firms (Dou et al., 2019; Liu & Yang, 2023; Shi, Li, & Liu, 2023). Thus, we postulate that relatively stricter regulations will discourage promoters from abandoning the conservative approach, thus improving the quality of financial reports and information disclosure.

Table 5. The impact of regulation change on the association between share-pledging and accounting conservatism

Variables	(1) CONS_ACC
Reg_change	-0.013*** (-4.93)
Treated_firms	0.014*** (3.16)
Reg_change*Treated_firms	-0.010** (-2.99)
Age	-0.003*** (-3.28)
Size	-0.010*** (-8.22)
Debt	-0.000 (-0.27)
Promoter_Own	0.129* (1.74)
Mtb	0.000 (0.42)
Growth	0.020** (27.46)
Constant	0.231*** (8.14)
Ind	Yes
Year	Yes
Firm-year observations	10228
Adj. R ²	0.186

Note: The p-value is calculated from the t-statistics and reported in parentheses and is significant at *, **, and ***, indicating statistical significance at 10%, 5%, and 1% levels, respectively.

The variable of interest is the interaction between *Reg_change*Treated_firms*, also known as the treatment effect. The DID method estimates the causal impact of the regulatory change on accounting conservatism, controlling for pre-existing differences between the treated (share-pledging

ing firms) and the untreated (non-share-pledging firms). The sign of the interaction variable captures the slope change of equation (4) estimation and indicates whether the regulation change has discouraged promoters from abandoning conservative financial reporting among the share-pledging firms. Table 5 reports that the estimated coefficient of the interaction variables is negative at 5% significant level in column (1) at -0.010 ($t = -2.99$), stating that regulation change encourages promoters to produce conservative financial reports since the incentive to manage earnings weakens due to the mandatory disclosure of share-pledging under Regulation 31(1) coupled with heightened monitoring of financial institutions leading to greater accountability for their actions. Additionally, the positive association between the *Treated_firms* and *CONS_ACC* at 0.014 ($t = 3.16$) affirms our baseline results.

4. DISCUSSION

Our baseline results indicate that share-pledging promoters in India demand less conservative financial reports, as evidenced by the higher average accruals (*CONS_ACC*). This aligns with the findings of Xu (2019) and Avabruth et al. (2024), suggesting that accounting conservatism is used strategically as a financial disclosure tactic. Therefore, the delaying of expense recognition and withholding negative information, promoters aim to prevent stock price crashes that would trigger margin calls during the pledge period. While our findings corroborate the results observed in the Chinese capital market (Xu, 2019), this study differs in its measurement approach. Whereas Xu (2019) used a dummy variable, the present study leverages the granular disclosure norms of the Indian market to construct continuous measures of share pledging at both the firm (*FL_Pledge*) and promoter (*PL_Pledge*) levels, enabling analysis of pledging intensity. Moreover, the empirical results confirm the propositions by Wu et al. (2022) and Zuo and Bai (2024) regarding “market value management.” In the Indian context, where promoters hold dominant board positions, the negative relationship between share pledging and stock prices is not accidental, but rather a result of intentional reporting strategies. These strategies include EM and an inclination to disclose positive informa-

tion to offset unfavorable news. By reducing conservatism, promoters prioritize self-serving motives over the interests of minority shareholders.

The DiD analysis provides a comparative perspective between the Indian and Chinese regulatory landscapes. The results indicate the 2019 SEBI regulation was followed by an improvement in financial reporting quality, which aligns with the outcomes observed by Shi et al. (2023) in the Chinese market. However, a distinction exists in the regulatory mechanisms employed; while the Chinese authorities implemented a restrictive approach by imposing direct caps and quantitative limits on the pledging volumes, the Indian framework followed a disclosure-led approach. By mandating transparency regarding the specific “reason for encumbrance and the end-use of funds,” the SEBI framework increases promoters’ accountability to financial institutions and the broader capital market through information disclosure rather than administrative restriction.

Based on the empirical findings, we propose actionable recommendations for both practitioners and regulatory authorities. First, the results suggest that internal governance remains a primary line of defense; firms may benefit from strengthening internal supervision and control mechanisms. This involves encouraging shareholders, directors, and supervisors to actively regulate promoters’ pledging behavior by exercising their voting rights. Such measures are intended to align the promoter’s incentives with the interests of minority shareholders. Second, financial institutions and media play a crucial role in external supervision. They should be encouraged to improve their monitoring of listed firms to better protect investors’ interests (Wu et al., 2022; Kao et al., 2004). Finally, regulators and policymakers must undertake timely regulatory interventions and ensure strict compliance to mitigate potential risks associated with equity encumbrance. While disclosure-led frameworks provide transparency, policymakers should also consider supporting financially constrained firms that resort to share pledging for liquidity (Shi et al., 2023). Moreover, the diverse regulatory framework across economies, notably India, China, and the US, provides a basis for policymakers to evaluate different approaches to capital markets oversight and stability.

CONCLUSION

This study examines the relationship between promoters' share pledging and accounting conservatism in the Indian capital market, focusing on the impact of SEBI's 2019 disclosure mandate. The empirical results indicate that share pledging practice is associated with a decrease in accounting conservatism, with significant positive coefficients observed at both firm and promoter levels. Following the implementation of Regulation 31(1), the difference-in-difference analysis reveals a statistically significant shift towards more conservative reporting practices among share-pledging firms. The countervailing effects suggest that the additional disclosure requirements could have increased financial institutions' scrutiny of promoters' financial reporting, thereby making it more difficult for promoters to manipulate their financial reports. This study sheds light on the complex interplay among promoters' incentives, regulatory changes, and financial reporting choices in the context of share pledging. Consequently, the Indian regulatory framework provides a documented case for other emerging markets on the role of disclosure requirements in alleviating share-pledging risks.

While this study provides evidence on regulatory efficacy, certain limitations should be acknowledged; therefore, directions for future research are suggested. First, the study focuses on non-financial firms listed in India, limiting the generalizability of the findings across sectors with varying capital requirements and risk profiles. Additionally, while the study examines the impact of the 2019 regulatory change, future research could consider the distinction between personal and corporate use of pledged funds. Such a distinction would allow for a deeper understanding of how specific promoters' motives differentially influence financial reporting quality and long-term performance.

AUTHOR CONTRIBUTIONS

Conceptualization: Rohith Radhakrishnan, E. Geetha.
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DECLARATION OF INTEREST STATEMENT

All authors declare no conflicts of interest regarding this study.

DATA AVAILABILITY STATEMENT

The data supporting this study's findings are available on request from the corresponding author (G.E.). The data are not publicly available as they are part of an ongoing research project.

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