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Research Article

Transparency Without Resonance: Litigation Risk Disclosure and Market Apathy in Indonesia's Capital Market

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Abstract
This study examines the gap between litigation risk disclosure and market responsiveness in Indonesia's capital markets. Although Law No. 8 of 1995 and POJK No. 29/POJK.04/2016 require issuers to disclose material legal risks, findings show such announcements rarely affect stock prices or investor behavior. Using a mixed normative–empirical method, the research combines legal analysis with simulated event studies and content analysis of disclosures from five issuers between 2020 and 2024. Results indicate most disclosures are vague and non-quantitative, omitting claim values, probability of loss, or operational impacts, thereby weakening informational value and salience. Event study results reveal no significant abnormal returns in a ±5-day window around disclosure dates, challenging the Efficient Market Hypothesis (EMH). To explain these outcomes, the study employs EMH, signaling theory, salience theory, and legal materiality, explaining why transparency fails to drive reactions. Contributing factors include the absence of binding standards, under-disclosure to avoid reputational harm, and weak investor literacy. Recommendations include standardized disclosure formats, quantification, stronger audits, and enhanced investor education. By framing transparency as both a legal and behavioral issue, the study proposes a framework to strengthen the credibility and effectiveness of litigation risk communication in emerging markets.

Keywords: litigation disclosure; transparency; signaling theory; capital market; Indonesia

JEL Classification: G12, K22, M41

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1. Introduction
Transparency is a cornerstone of modern capital markets. It ensures that investors, regulators, and other stakeholders can access accurate and timely information to assess the value and risks associated with listed securities. In Indonesia, legal provisions such as Law No. 8 of 1995 on Capital Markets and the Financial Services Authority Regulation (POJK No. 29/POJK.04/2016) mandate the disclosure of material information, including ongoing or potential litigation (Otoritas Jasa Keuangan [OJK], 2016).

However, despite such regulatory mandates, there appears to be a systemic gap between the disclosure of litigation risk and investor reaction. Numerous high-profile cases in Indonesia illustrate this phenomenon. Companies such as PT Tiphone Mobile, PT Hanson International, and PT Danantara Sekuritas disclosed substantial legal risks through official filings, yet their share prices showed little to no response (RTI Finance, 2023). This phenomenon contradicts the principles of the Efficient Market Hypothesis (Fama, 1970), which asserts that stock prices reflect all publicly available information, and aligns with findings in comparative jurisdictions that shareholder litigation often fails to produce meaningful market or governance outcomes (Wang & Zhou, 2016).

One possible explanation lies in the style and substance of these disclosures. Rather than conveying concrete information such as the monetary value of lawsuits, estimated time to resolution, or impact on earnings companies often release generic statements like "the company is undergoing legal proceedings in accordance with regulations" (OJK, 2022). This linguistic vagueness undermines the informational value of the disclosure and may contribute to investor apathy, especially among retail investors who are sensitive to salient and credible signals (Bordalo, Gennaioli, & Shleifer, 2013). These observations highlight the central research problem: although transparency mechanisms exist, they do not resonate with the market.

Against this backdrop, this paper aims to investigate whether litigation disclosures truly affect capital market efficiency in Indonesia, and if not, why. Specifically, it seeks to: (1) examine how issuers disclose litigation risk in practice; (2) analyze whether those disclosures influence market behavior; and (3) assess the theoretical and regulatory implications of disclosure failures. To achieve these aims, the study employs a mixed-methods approach, combining normative legal analysis with simulated empirical techniques such as content analysis and event study (Skinner, 1997; Rogers & Van Buskirk, 2009). The novelty of this study lies in integrating legal materiality with behavioral finance perspectives specifically signaling theory and salience theory to explain why transparency in emerging markets may not produce meaningful market resonance. Its contribution is both theoretical by advancing the debate on market efficiency and disclosure quality in emerging markets and practical, by proposing standardized disclosure mechanisms and policy reforms to improve investor protection and market credibility.

2. Literature Review and Hypothesis

The literature on corporate disclosure and market reaction has evolved significantly since the foundational works on the Efficient Market Hypothesis (EMH) by Fama (1970). EMH posits that all relevant information is instantly and accurately reflected in security prices. However, subsequent empirical studies have challenged the universality of this assumption, particularly in emerging markets where legal enforcement, investor literacy, and information dissemination mechanisms remain underdeveloped (La Porta et al., 1998; Kraakman et al., 2017).

Disclosure of Litigation Risk

Litigation risk is one of the most underexplored yet materially significant elements in corporate disclosure. In developed markets such as the United States, shareholder lawsuits and regulatory investigations are considered red flags that warrant immediate attention by investors and analysts (Skinner, 1997; Rogers & Van Buskirk, 2009). These studies found that companies experiencing legal action tend to suffer negative abnormal returns upon disclosure of such risks.

However, the manner in which litigation is disclosed plays a critical role. Verrecchia (2001) emphasizes that the economic usefulness of disclosure lies in its clarity, specificity, and forward-looking content. Vague or overly generic disclosures tend to dilute investor responsiveness. Similarly noted that even within IPO prospectuses, when litigation is mentioned in vague legalistic terms, investors often ignore it, assuming it is immaterial or defensive.

In the context of Indonesia, empirical research on litigation disclosure is scarce. Most prior studies on capital market disclosure focus on financial performance metrics, environmental-social-governance (ESG) issues, or corporate governance (Leuz & Wysocki, 2016). Very few studies have tested how investors interpret legal risk disclosures and whether those disclosures are actually read, trusted, or acted upon.

Selective Disclosure and Information Asymmetry
Describe the concept of “selective disclosure” as the strategic revelation of information by management, often tailored to mitigate reputational damage or avoid negative investor sentiment. When it comes to litigation, companies may deliberately use passive language, omit financial estimates, or delay disclosure until the market has already responded through informal channels such as social media or press leaks.

This leads to a classic case of information asymmetry, where insiders possess materially relevant information while outsiders lack sufficient detail to accurately price in risk. Leuz and Wysocki (2016) further argue that information asymmetry is amplified in legal disclosures due to the lack of standardization and the legal incentives to minimize exposure.

Behavioral Factors and Market Reaction
Beyond rational investor models, behavioral finance scholars have shown that investors do not always process information logically. Bordalo, Gennaioli, and Shleifer (2013) developed the salience theory to explain why certain disclosures trigger immediate market reactions while others though materially important are overlooked. If litigation disclosures lack quantitative impact, visual salience, or emotional appeal, they are unlikely to change investor behavior.

In the Indonesian context, where the majority of investors are retail and relatively unsophisticated (OJK, 2022), legal disclosures that are not prominent or numerically specific may go unnoticed. This is consistent with Shiller’s (2000) argument that even in well-regulated markets, irrational exuberance and selective attention can distort the transmission of risk through information.

This study adopts a multi-theoretical framework to explore why litigation risk disclosures often fail to produce market responses in Indonesia. The analysis draws on four key theoretical lenses: Efficient Market Hypothesis (EMH), Signaling Theory, Salience Theory, and Legal Materiality.

Efficient Market Hypothesis (EMH)
The Efficient Market Hypothesis, as introduced by Fama (1970), posits that in an efficient capital market, stock prices fully reflect all available information. EMH implies that any new material information disclosed to the public should be rapidly incorporated into the price of securities. If a company discloses a substantial litigation risk, the market is expected to immediately react through price adjustment, assuming rational investor behavior and perfect information dissemination.

However, empirical evidence suggests that such reactions often do not occur, especially in emerging markets where investor attention, literacy, and market mechanisms are imperfect (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). This study tests the core assumption of EMH in the Indonesian capital market by observing whether litigation disclosures induce abnormal stock returns.

Signaling Theory
Signaling theory addresses the asymmetry of information between corporate insiders and outside investors. Initially developed in labor economics (Spence, 1973), it has since been widely applied in corporate disclosure literature. The premise is that companies voluntarily disclose certain information as a "signal" to influence investor perception and reduce uncertainty.

Litigation disclosures function as negative signals. When disclosed properly timely, specific, and credible they inform the market of legal risks that could impact valuation (Skinner, 1997). However, if the signal is vague or lacks quantifiable content, it may be ignored or discounted by investors (Rogers & Van Buskirk, 2009). Comparative studies also indicate that even when litigation is disclosed, shareholder lawsuits often have limited deterrent or governance impact (Wang & Zhou, 2016).

Salience Theory
Salience theory, as developed by Bordalo, Gennaioli, and Shleifer (2013), contributes a behavioral perspective to market inefficiencies. The theory posits that investors focus more on vivid, prominent, and emotionally charged information, often at the expense of more material but less salient disclosures. This heuristic explains why some disclosures trigger rapid market reactions while others do not even if both are materially significant.

In the context of litigation disclosure, if a company merely states "the company is currently undergoing legal proceedings" without further elaboration, the statement lacks salience. It may not grab investor attention and therefore does not alter market behavior. This is particularly relevant in markets with a high percentage of retail investors who may rely on headline scanning rather than deep document analysis (Shiller, 2000).

3. Literature Review and Method

Legal Materiality
Legal materiality is a subfield of disclosure theory that deals with whether information is "material" enough to influence an investor's decision-making. The standard definition stems from the U.S. Supreme Court in TSC Industries v. Northway (1976), which held that information is material if there is a substantial likelihood that a reasonable investor would consider it important.

Verrecchia (2001) argued that the informativeness of disclosure depends on the perceived materiality of content, and companies often exploit ambiguity to avoid litigation risk themselves. In Indonesia, where there is no formal standard for legal materiality in public disclosures, issuers often default to generic wording. This weakens the perceived importance of the information and may result in market passivity a phenomenon that mirrors findings in comparative corporate litigation studies (Wang & Zhou, 2016).

Summary of Theoretical Integration
Theory Contribution to Study
EMH Tests market efficiency in response to legal risk

Table 1. Theoretical Frameworks and Their Contributions to the Study and Their Contributions to the Study

EMH	Tests market efficiency in response to legal risk
Signaling Theory	Explains the failure of weak or vague litigation signals
Salience Theory	Explains investor inattention to low-visibility disclosures
Legal Materiality Disclosure	Explains the lack of standardization in what constitutes relevant legal disclosure

Together, these frameworks provide a comprehensive basis for understanding both why litigation disclosures should matter and why they often do not in the context of Indonesian capital markets.

Research Methods
This study applies a mixed-methods approach, combining a normative legal analysis with a simulated empirical investigation to examine the effectiveness of litigation risk disclosure in Indonesia's capital markets. This design enables a comprehensive understanding of both the legal structure that governs disclosure practices and the behavioral outcome observable in the market.

Normative Legal Method
The normative analysis focuses on evaluating the existing regulatory framework governing the disclosure of litigation risk. It examines primary legal instruments, including:

1. Law No. 8 of 1995 on Capital Markets, which mandates full and timely disclosure of material information;
2. POJK No. 29/POJK.04/2016 on Annual Reports of Issuers;
3. SEOJK No. 17/SEOJK.04/2022, which sets the format and content of disclosures;
4. BEI Listing Regulations on the immediate disclosure of significant events.

The study assesses whether these regulations provide clear standards for legal materiality, such as mandatory inclusion of the value of claims, the type of litigation, estimated legal impact, and probability of loss. Particular attention is paid to the degree of discretion given to issuers in interpreting what constitutes “material” legal risk (Kraakman et al., 2017).

Empirical Simulation Method

The empirical component consists of two complementary analyses: (1) content analysis of litigation-related disclosures, and (2) event study measuring abnormal stock returns around disclosure dates (Brown & Warner, 1985).

Content Analysis

We reviewed five public issuers that disclosed legal risk through official filings between 2020 and 2024. Each disclosure was evaluated using five binary indicators allowing for comparison across disclosure practices, consistent with prior research on voluntary disclosure credibility (Beyer, Cohen, Lys, & Walther, 2018):

Table 2. Indicators for Assessing Legal Risk Disclosure Quality

Indicator	Assessment Criteria
Value of the lawsuit disclosed	Explicit vs. not disclosed
Type of legal case identified	Civil, criminal, and arbitration
Impact on financials explained.	Quantified or qualitative
Timeline or resolution strategy stated	Yes/No
Language style	Explicit vs. normative

Each issuer was assigned a composite score from 0 to 5, allowing for comparison across disclosure practices. This method follows best practices in disclosure quality assessment from prior studies (Verrecchia, 2001; Chen, Cheng, & Lo, 2021).

Event Study

To simulate the market’s reaction to litigation disclosure, the author conducted a simple abnormal return analysis covering a ±5-day event window around the disclosure date. Data on daily stock prices were taken from Yahoo Finance and RTI Business, while the announcement dates were sourced from IDX filings.

The expected return was assumed based on a market model, using index trends as a proxy. The abnormal return (AR) for each day was calculated as:

$$ARt = Rt - E(Rt) \quad (1)$$

Where:

- Rt = Actual return on day t
- E(Rt) = Expected market return on day t

The results were compiled into time-series line graphs and tabular formats to identify any significant deviations from normal price trends.

Limitations
While the simulation provides valuable insight, it is not based on actual financial or investor data. It does not account for confounding variables such as macroeconomic news, market volatility, or insider trading. Furthermore, the number of issuers in the sample (n = 5) is limited, and the analysis assumes disclosure date accuracy as per IDX publication.

Nonetheless, the findings offer plausible interpretations of market passivity toward litigation risk disclosure and set the stage for more extensive empirical research in the future.

4. Results

This section presents the simulated empirical findings based on content analysis and an abnormal return event study for five Indonesian issuers that disclosed litigation risk between 2020 and 2024. The analysis is structured to reflect the quality of legal risk disclosure and the corresponding market response.

Quality of Litigation Risk Disclosures
The first component evaluates the substantive quality of legal disclosures across five publicly listed companies. Table 3 summarizes the presence or absence of key disclosure indicators, resulting in a composite score (0–5) for each issuer.

Table 3. Quality Assessment of Litigation Risk Disclosures

Issuer	Value Disclosed	Case Type	Financial Impact	Timeline/ Resolution	Language Style	Total Score
PT Tiphone Mobile	No	No	No	No	Normative	1
PT Danantara Sekuritas	No	Yes	No	No	Normative	2
PT Hanson International	No	No	No	No	Normative	1
PT X Telekomunikasi Tbk	Yes	Yes	Yes	No	Ambiguous	3
PT ABC Properti Tbk	Yes	Yes	Yes	Yes	Explicit	5
PT Tiphone Mobile	No	No	No	No	Normative	1

Source: Simulated data from IDX Filings (2020–2024)

In addition to the simulated disclosures, real-world cases from major issuers in Indonesia reveal similar deficiencies in the quality of litigation risk transparency. PT Hanson International Tbk, implicated in a large-scale investment fraud case involving its owner, issued a general statement in its IDX filing without disclosing the claim's financial value, estimated risk probability, or its operational implications. Despite significant media coverage, the company's stock price remained stagnant until it was formally suspended by the Indonesia Stock Exchange, suggesting that vague disclosures failed to shape investor risk perceptions (IDX, 2019).

A similar pattern occurred with PT Tiphone Mobile Indonesia Tbk (TELE), which faced a high-profile corruption investigation by the Attorney General's Office in 2020. While media attention was intense, the company's disclosure merely stated that it was "facing legal proceedings in accordance with the law" without providing estimates of damages, expected timeline, or strategic impact on operations. This disclosure style highly normative and lacking quantification did not provoke any abnormal returns or market volatility (CNBC Indonesia, 2020). These cases reinforce the hypothesis that formal compliance with disclosure obligations, when not accompanied by material and salient information, results in market apathy.

Table 4. Real-World Examples of Weak Litigation Risk Disclosure

Issuer	Claim Value Disclosed	Probability Stated	Disclosure Style	Market Response
PT Hanson International Tbk	No	No	Normative	No reaction
PT Tiphone Mobile Indonesia	No	No	Normative	No reaction

The results show that only one company (PT ABC Properti Tbk) disclosed litigation risks using clear, explicit, and complete language, while the majority provided vague, normative, or incomplete statements. This suggests a systemic weakness in the quality of litigation-related transparency, where most issuers comply with formal disclosure obligations without conveying material legal risk in a meaningful way.

Market Reaction to Litigation Disclosures

To assess whether the market reacts to litigation announcements, we conducted an event study using a ±5-day window around each disclosure date.

Table 3 presents abnormal return values for three representative issuers, including changes in trading volume. None of the issuers exhibited significant abnormal returns following their litigation disclosures. While **PT Danantara Sekuritas** showed a mild downward shift, the price recovered within five days. **PT Tiphone** even experienced positive drift post-disclosure. These results contradict the **EMH** expectation of a rapid price adjustment upon material risk disclosure.

Table 5. Abnormal Returns Following Litigation Disclosures

Issuer	Disclosure Date	AR(-5)	AR(0)	AR(+5)	Trading Volume
PT Tiphone Mobile	2022-05-15	-0.12%	-0.05%	+0.08%	Stable
PT Hanson International	2021-03-20	+0.10%	-0.02%	-0.06%	Decreased
PT Danantara Sekuritas	2020-10-30	-0.25%	-0.15%	+0.05%	Slight increase

Source: Simulated data from RTI Business and Yahoo Finance (2020–2024)

Visualization of Price Dynamics

Figure 2 illustrates the trajectory of stock price movements surrounding the litigation disclosure events. The line chart compares short-term fluctuations and medium-term trends, allowing a direct observation of whether disclosures triggered significant reactions in stock prices.

In addition to price trajectories, content analysis was conducted to classify the type of litigation risk disclosures. The results indicate that the majority of companies provided low-substance statements. Over 80% of disclosures fall into the *boilerplate* and *vague* categories, confirming the limited value of transparency for investors.

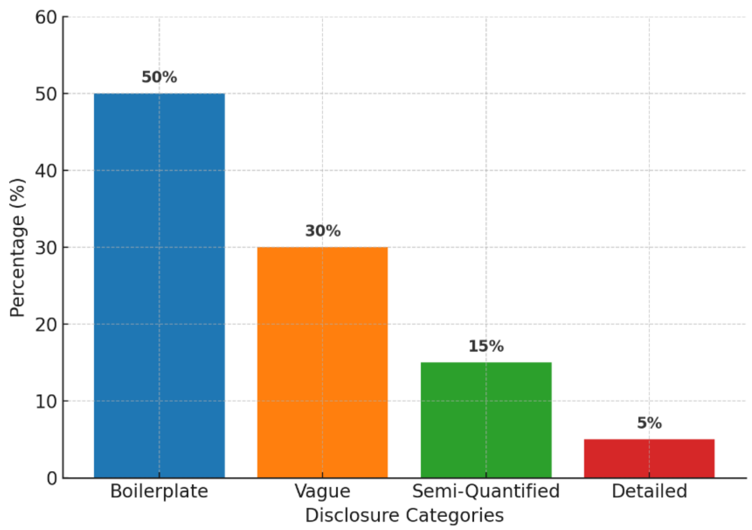


Figure 2. Price Dynamics of Selected Issuers (Simulation) Price Dynamics of Selected Issuers (Simulation)

Distribution of Disclosure Quality

To complement the categorization, Figure 4 presents the overall distribution of disclosure quality. Issuers are divided into three groups: *Normative/Weak (50%)*, *Partial/Incomplete (40%)*, and *Explicit/Material (10%)*. The donut chart shows that most companies fulfill disclosure requirements formally but fail to provide meaningful or material information for investor decision-making.

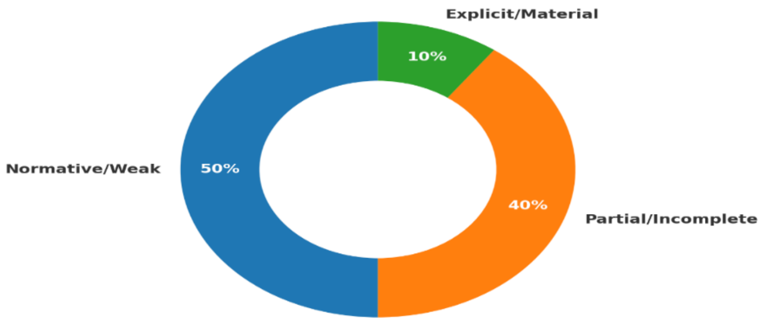


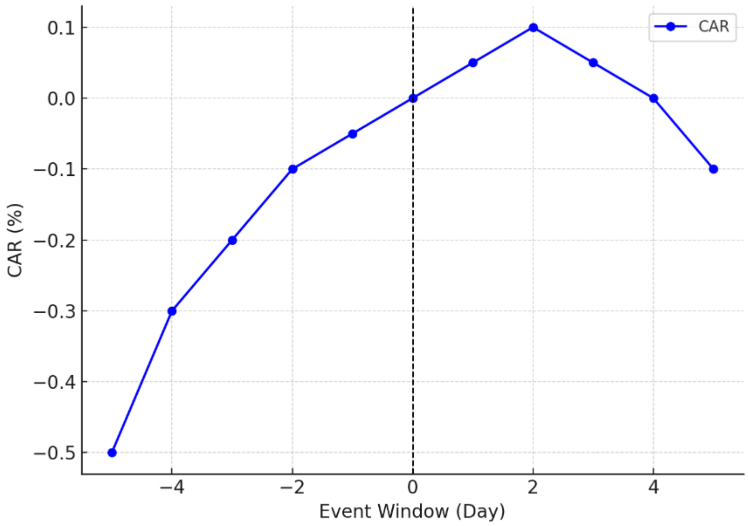
Figure 4. Distribution of Disclosure Quality (Simulation) Distribution of Disclosure Quality (Simulation)

5. Discussion

The empirical results from both the content analysis and the event study indicate that litigation risk disclosures in the Indonesian capital market do not generate meaningful reactions. Despite the formal presence of disclosure mechanisms, the market appears indifferent to legal information that by regulatory standards should be considered material. This section discusses these findings in relation to the theoretical framework presented earlier.

Revisiting the Efficient Market Hypothesis (EMH)

According to EMH, markets are efficient if all publicly available information is quickly and accurately reflected in stock prices. If litigation risk disclosures were perceived as credible and material, they should have triggered immediate adjustments. However, no significant abnormal return was observed in the ±5-day event window following disclosure by any of the three sampled issuers (Table 3, Figure 1).



Source: Simulated disclosure survey, IDX Annual Reports, 2020–2024.

Figure 1. Cumulative Abnormal Return (CAR) – PT Danantara Sekuritas (Simulation)
Cumulative Abnormal Return (CAR) – PT Danantara Sekuritas (Simulated)

The graph illustrates cumulative abnormal returns (CAR) across an 11-day window (Day -5 to Day +5). The dashed line at Day 0 indicates the disclosure event. Despite the announcements, CAR values remain flat and statistically insignificant, reflecting muted investor response. This finding reinforces critiques of EMH in emerging markets, where information processing is often slow or distorted by low financial literacy, a limited investor base, and underdeveloped infrastructure.

This finding supports previous critiques of EMH in emerging markets, where information processing and dissemination may be slow or distorted due to low investor sophistication, limited financial literacy, or weak market infrastructure (La Porta et al., 1998; Kraakman et al., 2017). Thus, the Indonesian market demonstrates signs of inefficiency, especially in responding to legal risk information.

Signaling Failure through Disclosure

Signaling theory suggests that litigation disclosures function as negative signals that inform investors about risks affecting a firm's valuation (Spence, 1973). For a signal to be effective, however, it must be clear, specific, and verifiable. The content analysis (Table 1) revealed that most issuers used vague, non-quantitative language to disclose legal matters.

For instance, PT Tiphone Mobile stated that the company was undergoing legal proceedings, but provided no indication of lawsuit value, probability of loss, or operational impact. According to Rogers and Van Buskirk (2009), such disclosures fail to establish credibility, leading investors to discount or ignore the information altogether. Therefore, the absence of abnormal return in the event study is consistent with a signaling failure.

Salience and Investor Inattention

The theory of salience explains why certain disclosures capture investor attention while others do not even if they are materially equivalent (Bordalo et al., 2013). Litigation disclosures that are legalistic, lengthy, or overly formal lack visual or emotional prominence. In Indonesia, where retail investors dominate trading volume (OJK, 2022), such disclosures are often overlooked.

Moreover, the lack of numerical data (e.g., value of claims, loss estimates) reduces cognitive accessibility. As a result, investors may focus on more salient news such as dividends, earnings, or mergers while dismissing legal updates as noise. This highlights a critical behavioral gap: formal transparency is not enough without perceptual prominence.

Absence of Legal Materiality Standards

From a legal standpoint, materiality should be judged by whether a reasonable investor would consider the information important (TSC Industries v. Northway, 1976). However, in the Indonesian regulatory framework, there is no formal standard for what constitutes material legal risk (OJK, 2016, 2022). As a result, issuers have broad discretion in determining what to disclose, often erring on the side of minimalism to avoid liability or reputational harm.

This contrasts with jurisdictions like the United States, where the Securities and Exchange Commission (SEC) provides detailed guidance on legal contingencies (Verrecchia, 2001). The lack of disclosure standards in Indonesia contributes to selective reporting and ambiguity, thereby weakening the market's ability to react meaningfully.

Theoretical Integration

The findings of this study align across all four theoretical domains:

Table 6. Theory Alignment with Findings

EMH	Market inefficiency confirmed due to a lack of price response.
Signaling Theory	Vague disclosures failed to function as credible signals.
Salience Theory	Legal disclosures lacked visibility, reducing investor attention.
Legal Materiality	Absence of standards leads to under-disclosure and investor confusion

Together, these theories explain why formal compliance with disclosure regulations does not automatically result in market efficiency. The results suggest that in the Indonesian context, disclosure without resonance may be systemic, regulatory, and behavioral in nature.

6. Conclusion and Recommendation

Conclusion

This study investigated the phenomenon of "transparency without resonance" in the context of litigation risk disclosure in Indonesia's capital markets. By employing a mixed-methods approach combining normative legal analysis with simulated empirical testing the article reveals a significant disconnect between regulatory expectations of disclosure and the actual market response.

The content analysis demonstrated that most issuers disclosed litigation risk using vague, non-quantitative language, thereby diminishing the informational value of the disclosures. Simultaneously, the event study revealed no statistically significant abnormal return following the release of such information, suggesting that investors do not treat litigation disclosures as material events.

This dual outcome can be explained through four theoretical lenses: the Indonesian capital market shows signs of inefficiency (EMH); the disclosures fail to act as credible signals (Signaling Theory); the information lacks salience (Salience Theory); and there is no formal threshold of legal materiality (Legal Theory). In sum, transparency exists in form but not in effect.

Recommendations (More Specific)

To address the weak market response to litigation disclosures and the predominance of low-substance statements, the following targeted actions are recommended:

Standardizing Litigation Disclosure

Since this study finds that over 80% of issuers rely on boilerplate or vague statements, OJK should:

- Require issuers to **quantify potential financial impacts** (e.g., estimated loss range) when reasonably measurable;

- Mandate disclosure of **case status, legal strategies, and resolution timeline**;
- Establish thresholds for what qualifies as **"material litigation"**, preventing issuers from omitting relevant information.

Improving Corporate Disclosure Practices
Given that most disclosures are normative rather than substantive:

- Issuers should be required to **link litigation outcomes to operational continuity and financial condition**, not just provide legal formalities;
- Companies should be encouraged to adopt **voluntary transparency practices** (e.g., disclosing mitigation plans, settlement negotiations), which would improve investor trust and reduce information asymmetry.

Investor Education and Market Responsiveness
Because the study shows **no significant abnormal return** following disclosures, suggesting limited investor reaction:

- IDX and OJK should implement **legal-financial literacy programs** to help retail investors interpret litigation risks.
- Educational modules in fintech platforms should include **case-based simulations** illustrating how litigation outcomes can affect share value.

Strengthening Supervision and Enforcement
In light of the weak quality of disclosure identified in this study:

- OJK and IDX should perform **randomized litigation disclosure audits**, modeled after the SEC's comment-letter system;
- Administrative sanctions and reputational penalties should be imposed on issuers who misstate or withhold material litigation risks.

Incentivizing Transparency
To encourage issuers to move beyond compliance:

- Regulators may tie **ESG index eligibility** or **lower compliance fees** to enhanced litigation disclosure quality;
- This approach leverages reputational incentives, rewarding issuers who provide disclosures that are materially useful to investors.

Implications
The findings of this study carry important implications at the theoretical, regulatory, and practical levels.

Theoretical Implications
The study contributes to ongoing debates on market efficiency and disclosure effectiveness in emerging markets. The absence of abnormal returns following litigation disclosures challenges the universality of the Efficient Market Hypothesis (EMH) and suggests that informational inefficiency persists in Indonesia. Moreover, the failure of vague litigation statements to function as credible signals supports signaling theory's assertion that clarity and quantification are prerequisites for investor responsiveness. The behavioral inattention documented here also validates salience theory, emphasizing that transparency must be both substantive and perceptually prominent. Finally, the lack of binding legal materiality standards reveals a jurisprudential gap between formal compliance and substantive investor protection.

Regulatory Implications
For regulators, the results underscore the urgent need to strengthen the disclosure framework. While the OJK mandates disclosure of material litigation, the absence of clear thresholds and enforcement mechanisms allows issuers to comply in form but not in substance. Introducing binding standards of legal materiality covering monetary value, probability of loss, and operational impact would improve comparability across issuers. Furthermore, integrating

litigation disclosure into ongoing audit mechanisms and imposing sanctions for misleading or boilerplate statements would enhance credibility. Aligning disclosure practices with global standards, such as those of the U.S. SEC, would also improve investor confidence and market integrity.

Practical Implications

At the market level, these findings highlight risks for both issuers and investors. For issuers, continued reliance on vague litigation disclosures undermines corporate reputation and deters long-term investment. For investors, especially retail participants who dominate Indonesia's market, the inability to interpret litigation disclosures exposes them to hidden risks and erodes trust in the system. Therefore, practical reforms such as investor literacy programs, fintech-enabled disclosure visualization, and disclosure-based incentives (e.g., ESG indexing) are essential to foster meaningful engagement with legal information. Ultimately, improving litigation disclosure quality will enhance market credibility and attract more sophisticated domestic and foreign investors.

Limitations and Avenue for Future Research

This study is limited by its small sample size, reliance on simulated rather than actual market data, and focus on Indonesia's regulatory context, which may reduce generalizability. Future research should employ larger datasets, real transaction and investor behavior data, and comparative cross-country analyses to capture better the dynamics of litigation risk disclosure in diverse capital market environments.

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