

## **Impact of Related Party Transaction Disclosure on Firm Valuation: Evidence from Licensed Finance Companies Listed in Colombo Stock Exchange Sri Lanka**

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### **Abstract**

This study was conducted to identify the impact of related party transaction disclosure on firm valuation for Licensed Finance Companies (LFCs) listed in Colombo Stock Exchange (CSE) Sri Lanka. Related party disclosures significantly affect the decisions made by potential investors and other stakeholders of the listed LFCs as a company can manipulate the company's financial performance by non-disclosure of significant related party transactions. Listed entities must comply with the rules and regulations in Sri Lanka and they are monitored by the Central Bank of Sri Lanka (CBSL). As a result, LFCs disclose related party transactions in the financial statements to comply with LKAS 24 Related Party Transaction Disclosure (RPTD).

The study used a sample of 22 of LFCs listed in CSE Sri Lanka and used the Purposive / Judgment sampling method to select the sample from the population. The secondary data were obtained from audited financial statements and annual reports for a period of 5 years from 2015 to 2020. In addition, Related Party Transaction Disclosure (independent variable) was measured using the evaluation scheme of KPMG (KPMG, 2019) based on IAS 24 with slight modifications to improve comparisons across companies, avoid conflict. The dependent variable firm value was measured using Tobin's Q ratio (Nekhili & Cherif, 2011). The panel data were analyzed using E-Views.

The study found that there is a negative relationship between Related Party Transaction Disclosure and firm valuation in the LFCs listed in CSE Sri Lanka. It is expected that the outcome of this study will lead to a better decision-making process for the potential inventors and stakeholders.

**Key words:** *Related Party Transaction Disclosure, Firm Valuation, Licensed Finance Companies, CSE.*