Chapter Two
Literature Review

2.1 Introduction
This chapter of the research will highlight the differences in corporate disclosure practices in different countries. Especially, it emphasizes on mandatory disclosure requirements in these countries as well as voluntary disclosure if there is. Also, the study will mention about developed and existed legal basis for corporate disclosure practices in different countries. Lastly, the chapter will present some comparative studies, which have been done in the field of corporate disclosure in different countries.

2.2 Corporate disclosure practices in different countries
Cooke (1989) examined the disclosure in the corporate annual reports of Swedish Companies. The objectives of the study were to extend the knowledge of corporate annual report disclosure in Sweden, to assess whether there is a significant relationship between quotation status and the extent of disclosure and to assess the extent to which disclosure is determined by quotation status, assets size, annual sales, number of shareholders, and parent company relationship.

The study's sample was 90 selected Swedish annual reports including both listed and unlisted corporations. The disclosure in an annual reports overall was considered important and whether there were any significant differences in the extent of disclosure by listed and unlisted companies. The survey covered companies, which published their annual reports during the year ended 31 December 1985. The focus of this research was company reports of those enterprises subject to the disclosure and reporting requirements of the Companies Act 1975 and Accounting Act 1976. Also, in the study the researcher
indicated that the Stockholm Stock Exchange does not require any additional disclosures to be made i.e. all reasonably sized entities in Sweden are subject to the same disclosure requirements.

In order to capture disclosure practices and the extent of reporting in Swedish corporate reports, the researcher used a scoring sheet.

A significance difference in the extent of disclosure was found between the three categories of companies — unlisted, listed only on the Stockholm Stock Exchange and multiple listed. The disclosure by unlisted companies was lower than companies that were listed only on the Stockholm Stock Exchange. Furthermore, disclosure by companies listed only on the Stockholm Stock Exchange was lower than that for companies with multiple quotations. Also, there was a significant association between the size of enterprises and the extent of disclosure. It was concluded that quotation status and size are two significant explanatory factors, it does not matter which one of the three variables was selected.

McNally, Hock and Hasseldine (1982) have done their studies on corporate financial reporting in New Zealand, that is, more specifically an analysis of user preferences, corporate characteristics and disclosure practices for discretionary information. The researchers focused on relationship between corporate characteristics and the quality of corporate disclosure. Further, they brought in the information regarding the major determinants of mandatory disclosure in published financial reports.

First, the researchers mentioned the New Zealand Companies Act 1957. According to them, the Act was less important due to necessity in significant amendments to make the act up to date. Second, more recent and important, source of disclosure requirements in New Zealand is the Statements of Standard Accounting Practice (SSAP) issued by the New Zealand Society of Accountants.
The promulgation of those standards commenced in 1974 and twelve have been issued. The study indicated that the most important of SSAP, which extended mandatory disclosure requirements, was SSAP 9 (Information to be Disclosed in Company Balance Sheets and Profit and Loss Accounts).

Furthermore, McNally, Hock and Hasseldine concentrated on three aspects of the discretionary disclosure of financial and non-financial information such as examining the importance of disclosure by surveying attitudes of external decision-makers, financial editors and stock exchange members. They also paid attention on disclosure practices of manufacturing companies listed on the New Zealand Stock Exchange in terms of detecting any possible association between disclosure practices and selected corporate characteristics.

The research method comprised of four parts. There are (i) items for discretionary disclosure, (ii) user preference for disclosure, (iii) voluntary disclosure practices of companies and (iv) corporate characteristics.

In examining of items for discretionary disclosure, the study used two techniques to identify financial and non-financial disclosure. Firstly, the researches identified financial reports with high standards of disclosure and compared this report with the rest of sampled financial reports. Secondly, they compared sampled reports for compliance with the mandatory disclosure requirements, Company Act 1957 and SSAP.

In order to identify users preference for disclosure, the researchers sent the questionnaires containing the items of financial and non-financial information to financial editors and stock exchange members. The questionnaires sent to those groups because those groups have been considered as professional users of this information in New Zealand.
The examination of relationship between disclosure practices and financial characteristics examined by analyzing the items presented in financial reports.

The study found that the group of external users, stockbrokers and financial editors, perceive as important the voluntary disclosure of a wide variety of items of information. At the same time the study reported that there is a considerable divergence between the degree of disclosure practiced by companies and the level of disclosure perceived by external users to be desirable. Significantly different levels of voluntary disclosure are closely associated with differences in corporate size.

Achleitner (1995) introduced the latest developments in Swiss regulation of financial reporting. The latest developments in Swiss's were revision of Federal Code of Obligations 1936 and as well as the standards which have been issued by Swiss Accounting Standards Body. The major revision has been done at 4\textsuperscript{th} of October 1992 and the new requirements came into force on 1 July 1992. Switzerland doesn't have a financial reporting act i.e. all legal accounting requirements for corporations are included in the Swiss Code of Obligations. The reason for revision was that the accounting regulations embodied in the Code of Obligations 1936 had not been revised for several decades and was very outdated.

Further, the researcher explained in detail the corrections and amendments that have been made in Swiss Code of Obligations, especially the parts of the law, which related to the financial reporting. The changes has been done in the part of presentation of financial statements (changing the formats of the Balance sheet and Profit & Loss account) as well as notes to the accounts, in disclosure of hidden reserves (replacement cost and other reserves has to be reported to auditors), the consolidation of financial statements (consolidation of the financial
statements became a compulsory), disclosure of the financial statements of public and large private companies.

The author mentioned that due to inadequacy and lack of legal requirements for publication of financial statements have therefore always been major criticisms and the reasons why Switzerland was in urgent need of a reform of its accounting law.

In 1984, the Swiss accounting standards have been set by the Foundation for Accounting and Reporting Recommendations (Fachkommission fur Empfehlungen zur Rechnungslegung, FER). Later, the Board issued two new standards (1992) and revised five previous standards (1993). As the result of this changes, the Swiss Stock Exchange incorporated the accounting standards in their listing requirements. The requirements included the Accounting Reporting and Recommendations (ARR) from 1 to 8.

The purpose of development in accounting standards were to improve the quality and comparability of individual company accounts as well as consolidated financial statements and to make them equivalent to the requirements of international accounting standards.

The research paper by Wallace (1988) highlighted the extent of the corporate disclosure reporting in Nigeria. The purpose of his paper was to provide a brief discussion of the development of major accounting and corporate reporting institutions in a developing country – Nigeria, to examine some key factors at work in Nigeria, to consider Nigerian corporate financial reporting in the light of user needs and the regulatory framework, to raise some suggestions for further analysis.

Author brought evidence that the development accounting system has been influenced by colonial power and political factors. Before 1979, the Nigerian
accounting environment mirrored that of the pre-1967 UK. In 1979, Nigeria adopted the US presidential Democratic system and began to create many of the institutions and regulatory frameworks, which were presumed to differentiate the US from the UK. One such institution created in 1979 was the Nigerian Securities and Exchange Commission (NSEC). The body was charged with the surveillance and development of the overall securities market, the mobilization and formation of capital and the protection of investors. The Nigerian Accounting Standards Board (NASB) founded in September 1982. It was responsible for regulating corporate disclosure by enterprises seeking quotations for their securities.

He mentioned that the primary source of (mandatory) corporate disclosure rules in Nigeria is therefore the Companies Act 1968. The secondary (obligatory or voluntary) sources of corporate disclosure rules (including accounting standards) are the Nigerian Stock Exchange and Nigerian Accounting Standards Board. International Accounting Standards (IASs) and the accounting standards of some developed nations (particularly the UK-SSAPs) have tremendous influence on accounting practices and standards settling in the country. During the development of NASB, the Board took into consideration the similar experience of other countries such as the USA, the UK, Canada, Australia, India and New Zealand in developing their accounting standards.

The measurement of the extent and scope of reporting was based on a scoring sheet, which was used in grading the different parts of each of the survey years (1982 - 1986). 47 listed companies have been selected from different industries from the NSE.

Wallace found that the more desired types of information are relatively abandoned and/ or overshadowed by the types which are not so relevant to the needs of users but preferred by the accounting profession and the reporting entities. Other notable features of the Nigerian reporting practices were the poor compliance with the disclosure requirements, and the relatively low importance
attached to the needs of the users. Many of these unlisted companies do not file their accounts with the Registrar of Companies as required by the law and those that do, probably do not meet the minimum disclosure requirements.

Ho and Wong (2001) did a study of corporate disclosure practice and effectiveness in Hong Kong. The objective of their study was to provide comprehensive and up-to-date descriptive evidence of current practice and perceived effectiveness of corporate disclosure of listed companies in Hong Kong. Also, they compared the perceptions of corporate report prepares and users towards a variety of corporate communication and disclosure issues.

The mandatory disclosure requirements are explicitly stipulated by the Hong Kong Companies Ordinance, the Securities and Future Commissions (SFC) Ordinance, Stock Exchange of Hong Kong's Listing Rules (Appendix 7A), Listing Agreements, the Securities Ordinances and the Statements of Standard Accounting Practice (SSAPs) issued by Hong Kong Society of Accountants.

Ho and Wong found that annual reports and individual meetings between managers and analysts/ investors are perceived by analysts as the two most important communication media.

The study found that the information channels between corporate managers, analysts and investors are indeed flawed and there is a communication gap among the market participants. More preparers than analysts were satisfied with adequacy of current corporate disclosures in Hong Kong, but over 75% of analysts (vs. 56% of CFOs) believed that there was a need for some or considerable improvements in corporate disclosure. More analysts than CFOs expected that imposing these requirements would result in higher level of corporate transparency and market efficiency.
Both subject groups believed that while tightening or upgrading disclosure regulations to an international level is necessary, this alone would not be sufficient to close the communication gap or to improve market efficiency. Also, both subject groups viewed that improvement in market efficiency can also be achieved by improving the process and quality of communication with external users.

Zezhong Xiao (1999) in his research paper described the current regime and provided a snapshot of recent disclosure practices using a small sample of annual reports prepared by listed companies. The purpose of this paper was to give a preliminary indication of the quality of corporate disclosures in China. In addition, the paper showed how the latest standards issued by Chinese Securities Regulatory Commission (SRC) have responded to new developments in disclosure practice. The researcher gave the comparison between of previous disclosure regime and with the new disclosure requirements. Based on the new disclosure requirements the publicly-listed companies must comply with Accounting Law (1993), the Company Law (1993), Accounting Standards for Business Enterprise (1992), the Tentative Regulations on the Management of the Issuing and Trading of Securities (1993), the Implementing Rules on Information Disclosure (1993), Accounting System for Experimental Share Capital-Based Enterprises (1992) and the Standards of Contents and Formats of Information Disclosure (No. 1-#.6) (1994, 1997 & 1998).

The 13 annual reports were compared with the mandatory disclosure requirements. The disclosure checklist has been used for comparative analysis.

The results of the study showed that some companies followed domestic accounting standards while others followed foreign accounting standards, i.e. two companies followed IASs and one followed US GAAP. There was a little difference between the reports in term of content and format of annual reports.
The 10 companies following Chinese disclosure requirements were surprisingly detailed.

Additionally, the study found that a more serious problem lies in the fact that current requirements are largely based on foreign disclosure standards rather than users' information needs. The Chinese disclosure requirements did not require listed companies to distribute annual reports to shareholders. The level of mandatory disclosure was significantly high due to monitoring of the Security Regulatory Commission. Many voluntary disclosures could also be found, especially earning forecasts and the Supervisory Board’s Report. Although, the level of compliance was high, companies tended not to disclose important information.

Heideki Kanda (1999) in his paper, Disclosure and Corporate Governance: A Japanese Perspectives described the disclosure system in Japan. He mentioned that Japan adopted a dual system of disclosure: one by the Commercial Code (LAW No. 48 of 1899, as amended) and the other by the Securities and Exchange Law (Law No. 25 of 1948, as amended). In Japan, the Commercial Code provides accounting rules on recognition, measurement, and reporting of the assets and liabilities of a joint-stock company (kabushikigaisha). Securities and Exchange Law requires all “reporting companies” to prepare financial statements, both on unconsolidated and consolidated bases, twice a year. "Reporting companies" are (1) companies whose securities are listed on a stock exchange, traded “over the counter”, or the number of whose registered shareholders is 500 or more and (2) companies which filed a registration statement with the Ministry of Finance (MOF) when it issued securities. Their annual financial statements must be audited by CPAs. Accounting rules (for recognition, measurement, and reporting of assets and liabilities) are promulgated under the SEL. The dual accounting system of company law and securities law comes from Japanese history: company law comes from the 19th
century German law and securities law was imported from the US after World War II.

Another quite interesting article of Knight and Scott (2001) on Japanese disclosure sets the pace, authors mentioned about efforts of Japanese government in encouraging and standardizing voluntary reporting i.e. the government came out with new environmental accounting guidelines and regulations. The first of these was issued by the Environment Agency in 1997, entitled Environmental Reporting Publication Guideline. Since then, the Japanese Ministry of the Environment has also issued: Environmental Accounting Guidelines (May 2000); Environmental Reporting Guidelines (February 2001); and Environmental Performance Indicators for Business (February 2001). Other factors responsible for encouraging reporting include an annual government endorsed environmental reporting awards scheme since 1997 and increasing interest from the Japanese ethical investment community in whether or not listed companies produce environmental reports.

Thus, it can be observed from the above-mentioned literature review that legislative basis for corporate disclosure requirements are different from country to country. The literature review found that the different countries in different stage of the corporate disclosure development. Consequently, this fact shows a current situation of corporate disclosure practices within of these countries. It should be clearly understood the differences of corporate disclosure practices as well as existence and development of corporate disclosure requirements (mandatory and voluntary) were due to different factors. These factors are culture, legal system, stage of economic development, political system, colonial background, educational level, size and efficiency of capital market, inflation, corporate governance practices, ownership structure, demand for public accounting market, independence of auditors etc. (Choi, Frost and Meek, 1999; Saudagarlan, 2001).
Review of literature of the differences in corporate disclosure practices in different countries gave an idea that almost all countries have the same legislative background, which serves as guidance for practicing corporate reporting by companies of these countries. It was found that most of the countries have Accounting Law and Companies Act. Those two documents are main legal basis for guiding and practicing corporate disclosure policy within a country. Additionally, the analysis of literature review showed that some countries have supplementary corporate disclosure requirements due to development and existence of capital markets. The study found that almost all countries have stock exchanges with publicly listed companies. Thus, the stock exchanges have additional listing regulations for publicly listing companies i.e. companies are asked to disclose more information (financial and non-financial) supplementary to Accounting Law and Company Act requirements. However, some countries did not require additional disclosure of information (Cook 1989).

Besides this, the literature review pointed out that most of the countries developed their own national accounting standards as a secondary guideline for practicing good corporate reporting. During the development of national accounting standards foreign experiences have been taken i.e. the countries developed their national accounting standards based on International Accounting Standards (IAS). Whereas, some countries directly adopted IASs. In some cases, some countries practiced both accounting standards (IASs and National), which affected the countries corporate disclosures.

Furthermore, the literature review made an emphasis on several issues such as adequacy of corporate disclosure, quality of corporate disclosure and compliance with corporate disclosure requirements, which were faced by above-mentioned countries. Particularly, some studies mentioned that the researchers found positive relationship between extent of disclosure / quality of corporate disclosure and corporate characteristics like size, quotation status, number of shareholders etc.
2.3 Comparative studies of corporate disclosure practices in different countries

Lin and Wang (2001) in their article, made a comparative study of the financial reporting practices of three Chinese companies listed simultaneously in Mainland China (A-shares) and Hong Kong (H-shares). Their financial statements, prepared based on the accounting and disclosure regulations in China and Hong Kong (or International Accounting Standards, IASs) over the period of 1995-1998.

According to researchers, the primary objective of this study is to investigate the financial disclosure practices of the Chinese companies under the statutory requirements in China and Hong Kong respectively. They found that significant discrepancies exist for financial information disclosed in terms of Chinese GAAP, Hong Kong GAAP or IASs. The discrepancies between accounting numbers reported under Chinese GAAP and IASs were relatively small, compared to those between Chinese GAAP and Hong Kong GAAP. The researchers explained that Hong Kong GAAP is developed closely modeling the accounting standards and practices in the UK.

In addition, the authors mentioned notable deviations in financial disclosures among the three companies. The study findings confirm the existence of a substantial gap between the Chinese practices of corporate accounting and financial reporting and the internationally accepted norms. They suggested that there is an urgent need to promote internationalization of Chinese accounting and improve the understandability and comparability of financial statements released by Chinese listed companies in order to enhance their relevance and usefulness for decision-making by domestic and overseas investors.

Frost and Pownall (1994) described accounting disclosure practices in the United States and the United Kingdom. They compared the frequency and timing of accounting disclosure made by foreign and domestic firms listed in the United
States and the United Kingdom, and assessed compliance with disclosure rules in the two jurisdictions.

The researchers' analysis was based on the periodic accounting disclosure of 107 firms from 13 domiciles with equity securities traded on US and UK exchanges during 1989. They found that the disclosure frequency was greater in the United States than in the United Kingdom, that is, both mandatory and voluntary accounting disclosures are substantially more frequent in the United States than in the United Kingdom.

They discovered that compliance with annual and interim report requirements and cross-jurisdictional disclosure rules is perfect in both jurisdictions, but greater in the United States than in the United Kingdom. Additionally, they mentioned that all of their conclusions are consistent with a greater demand for public disclosure in the US than in the UK. Their findings also provided evidence on the association between firm size, domicile, and US exchange listing and sample firms’ disclosure frequency and reporting lag each jurisdiction.

Craig and Diga (1998) analyzed corporate annual disclosure practices in five ASEAN countries: Singapore, Malaysia, Indonesia, the Philippines and Thailand. They aimed to catalogue the nature and extent of existing disclosure requirements and to identify common regional patterns and differences in both financial and non-financial disclosure required by various company laws, securities market regulations and accounting standards as at 31 December 1993.

The researchers took as data source the annual reports of 145 public companies listed on ASEAN stock exchanges (30 companies each were from Singapore, Malaysia, Philippines, and Indonesia, and 25 were chosen from Thailand), and disclosure requirements in companies’ legislation and stock market regulations.
Specific disclosure requirements in each country, whether government or privately-sourced, were compared to the 200 specific IAS disclosures checklist.

They found that a relatively high level of common disclosure requirements exists within ASEAN: 68% of disclosure requirements were common to three national or more countries. Regarding the actual disclosure practices, the researchers found that there were statistically significant differences in actual disclosure levels among the five countries, indicating that disclosure practice harmony will be achieved with some difficulty because of the effects of national environmental differences. They mentioned that non-financial and social disclosures appear to be accorded fairly cursory attention in ASEAN. There was considerable reluctance to disclose information on labor and employment, environmental activities, transfer pricing policies, government subsidies and value added.

Lastly, they mentioned that a model of variables influencing ASEAN disclosure levels showed positive correlation with size, degree of leverage, and foreign operation.

2.4 Conclusion

Three research papers have been presented in the literature review regarding the comparative study of corporate disclosure practices in different countries such as China and Hong Kong, United States and United Kingdom, and the comparative study among ASEAN countries.

The research papers compared corporate disclosure reporting between different countries, especially, researchers concentrated on mandatory and voluntary disclosure requirements in above-mentioned countries.

After analysis of first and second parts of the literature review, the study found that the combination of research studies of Craig and Diga (1998) and Xiao (1999) are more applicable for comparative study of corporate disclosure
practices in Uzbekistan and Malaysia. Those two research papers used disclosure checklists for examining current disclosure practices in the countries.

The research paper of Xiao (1999) focused on corporate disclosure practices in China. China as well as Uzbekistan, before, had the same political and economical background i.e. socialistic regime (China still sustains same regime) and centralized economy. Thus, both countries went through more or less the same economical transformation toward market-based economy. Additionally, this study might help to better understand current corporate disclosure situation in Uzbekistan due to above-mentioned similarities between both countries.

Regarding the study of Craig and Diga (1998), the comparative study has been done on corporate disclosure between Malaysia and other four member countries in ASEAN. Craig and Diga’s research method is divided into two parts. Firstly, the researchers have chosen the disclosure items from the legislations and regulations of these ASEAN countries, that is, these disclosure requirements have been found in Company Acts, Stock Exchange Listing Requirements and other accounting regulations of ASEAN countries and establish the common disclosure requirement for the ASEAN Region. Secondly, the specific disclosure requirements in those ASEAN countries were compared against the IASs disclosure requirements to examine the mandatory accounting standards disclosure practices in each country.

In this study, only the second part of the research method in Craig and Diga’s study will be used in order to examine and compare the level of disclosure between Malaysia and Uzbekistan. Therefore, this chapter will be helpful in organizing of the research method (chapter III) of comparative study between Malaysia and Uzbekistan.