Collection of Scientific Works N.9

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CAUCASUS UNIVERSITY

გაზრდილი გამჭვირვალობა და ფინანსურ ინფორმაციაზე ხელმისაწვდომობა საქართველოში

INCREASED TRANSPARENCY AND FINANCIAL INFORMATION AVAILABILITY IN GEORGIA

თბილისი, 2019
Tbilisi, 2019

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საბუღალტრო აღრიცხვისა და აუდიტის მიმართულებით პირველი საერთაშორისო სამეცნიერო-პრაქტიკული კონფერენციის:

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From the First International Scientific-Practical Conference in the Field of Accounting and Finance:

Increased Transparency and Financial Information Availability in Georgia

კავკასიის უნივერსიტეტის გამომცემლობა

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წინამდებარე კრებულში წარმოდგენილია კავკასიის უნივერსიტეტში საბუღალტრო აღრიცხვისა და აუდიტის დარგში გამართული პირველი საერთაშორისო სამეცნიერო-პრაქტიკული კონფერენციის – „გაზრდილი გამჭვირვალობა და ფინანსურ ინფორმაციაზე ხელმისაწვდომობა საქართველოში“ – მასალები. კონფერენცია მიეძღვნა საქართველოში მიმდინარე ბუღალტერიისა და აუდიტის რეფორმას. კრებული ფარავს ქართველი და უცხოელი პროფესორებისა და დარგის ექსპერტების ნაშრომებს. მასში ასევე მოცემულია ქართველი ახალგაზრდა მეცნიერების ნაშრომების აბსტრაქტები.

კონფერენცია დაფინანსებულ იქნა შოთა რუსთაველის ეროვნული სამეცნიერო ფონდის მიერ (გრანტის ნომერი: MG-ISE-19-223; პროექტის ხელმძღვანელი: ერეკლე პირველი), მხარდაჭერილ იქნა ბუღალტრული აღრიცხვის, ანგარიშგებისა და აუდიტის ზედამხედველობის სამსახურისა და რეფორმების მხარდამჭერი ფონდის მიერ და გამართულ იქნა კავკასიის უნივერსიტეტის ბაზაზე.

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SHOTA RUSTAVELI NATIONAL SCIENCE FOUNDATION OF GEORGIA

კავკასიის უნივერსიტეტი
CAUCASUS UNIVERSITY

RSF

ბუღალტრული აღრიცხვის, ანგარიშგებისა და აუდიტის ზედამხედველობის სამსახური

MINISTRY OF FINANCE OF GEORGIA

The collection unites the materials from the first International Scientific-Practical Conference in the field of accounting and auditing held at Caucasus University – „Increased Transparency and Financial Information Availability in Georgia“. The conference was dedicated to the ongoing accounting and auditing reform. The collection covers the works of both Georgian and foreigner professors as well as field experts. It also contains abstracts of young Georgian scientists' works.

The conference was funded by the Shota Rustaveli National Science Foundation of Georgia (Grant Number: MG-ISE-19-223; Team Leader: Erekle Pirveli), was supported by the Service for Accounting, Reporting and Auditing Supervision and the Reforms Support Foundation and was held at the Caucasus University.

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MINISTRY OF FINANCE OF GEORGIA

Contents

Assessment of the Ongoing Accounting and Audit Reform in Georgia: Regulatory Base, Enforcement Level and the Quality of Financial Statements

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Abstract

Laws in general and accounting standards in particular are often elaborated based on the experience of the developed world. Under-developed economies, on the other hand, merely (have to) mirror those regulations. In the absence of a theory on how the 'copy-paste' approach of regulation affects the under-developed world, we are in need to consider countries on a case-by-case basis. This is because specific institutional basis within the under-developed markets warrants a close inspection. With this research project we aim to assess the efficiency of the currently ongoing international accounting standards' adoption in the light of an under-developed economy of Georgia.

In June 2014, the EU and Georgia signed an Association Agreement. In the context of the harmonization with the EU acquis, Georgian government enacted the Law of Georgia on Accounting, Reporting and Auditing on June 8, 2016. As such, for the first time in the history of Georgia, about 84.000 private sector entities have to go transparent by October 1st, 2019. Before this massive dataset breaks a transparency threshold, we are already now in need to have a valid estimation of what to expect. This change is unprecedented; and this research project is likely to also bear some outstanding merits as it will be dedicated to the assessment of these unprecedented changes. It is a unique possibility for the academia, but also the regulators in Georgia and within the EU to detect how successful and efficient the EU funded (overall budget: €5.85 million) reform is.

This research project aims to address three bulk sub-questions: a) how good is the quality of the enacted law – disclosure quality; b) how well is the law enforced – compliance level; and c) how well is the final target of the reform met – the quality of financial information provided within the reports.

Our data will be automatically collected from three sources. First, we will collect the descriptive data of the entities from the open public source of https://reportal.ge/" by using the "Link Clicker" and "Scrapestorm" techniques. Second, based on an official letter, we will withdraw the systematized financial information (all four financial statements) of the entities through the Ministry of Finance of Georgia. Finally, we will manually download the pdf formatted annual financial reports of the entities by Python programming language. We employ descriptive analysis to assess the disclosure quality and enforcement levels (including timeliness) and we will employ: time-series properties of earnings, earnings management (earnings smoothness and earnings discretion) and accounting conservatism to assess the quality of financial information. For the

purposes of analysis of the textual parts of the financial statements, we will additionally rely on Fog index, (key) word counts and text length or file size.

The lessons learned from Georgia would be crucial as today's affairs of Georgia are likely to be recalled tomorrow and a day after in other Eastern Partnership countries – also subject to current changes in accounting and audit field.

1 Significance of the Topic

Laws in general and accounting standards in particular are often elaborated based on the experience of the developed world (La Porta *et al.* 1998; Levitt 1998; Barth *et al.* 2008). Under-developed economies, on the other hand, merely (have to) mirror those regulations (Saudagaran and Diga 1997; Borker 2012; Albu *et al.* 2014). These regulations in some cases are insufficiently adjusted to country-specific institutional settings. Plus, private sector participants within the under-developed economies often lack professional skills to appropriately understand and follow the dictated rules (Pirveli 2015). In the absence of a theory on how the 'copy-paste' approach of regulation affects the under-developed world, we are in need to consider countries on a case-by-case basis. Even given a (corroborated) theory, we might still need to consider cases as soon as specific institutional basis within the under-developed markets warrants closer inspection (La Porta *et al.* 1998; Zimmermann and Werner 2013; Pirveli 2015). With this research project we aim to assess the efficiency of the international accounting standards adoption in the light of an under-developed economy of Georgia.

The following sheds the light why the case of Georgia and its reform of accounting and audit field is an extremely interesting case to analyze. In June 2014, the EU and Georgia signed an Association Agreement. The agreement entered into force on July 1, 2016 and implied the development of the existing Georgian legislation and its conformity with the EU acquis. The changes covered many fields, including the field of accounting and audit. In this context, Georgian government adopted the Action Plan for Financial Reporting and Auditing Reform which has resulted in the enactment of the Law of Georgia on Accounting, Reporting and Auditing as of June 8, 2016 (Law 2016). As such, for the first time in the history of Georgia, about 84.000 private sector entities have to go transparent by October 1st, 2019.

This change is unprecedented; and this research project is likely to also bear some outstanding merits as it will be dedicated to the assessment of these unprecedented changes.

2 Current Stand of the Literature

There is a long-standing literature on disclosure regulation, covering thoughts from accounting, finance, economics and law fields (Leuz and Verrecchia 1999; Admati and Pfleiderer 2000; Bushee and Leuz 2005). Disclosure regulation is an important field of research as it sets out the legal window, defining the forms, intensity and details to be provided within the financial statements (Jensen and Meckling 1976; Myers and Majluf 1984; Foster 1981; Merton 1987). The underlying theory on disclosure regulation traces back to the principle agent theory and states that the efficient disclosure regulation, through creating a level playing field among traders, addresses the adverse selection problem and reflects into the increased liquidity, lower cost of capital and increased firm value (Grossman and Hart 1980; Wagenhofer 1990; Verrecchia 2001; Francis *et al.* 2008; Wagenhofer 2011).

Since its independence from the Soviet Union, Georgia's accounting system has been rather chaotic. It has several times amended its regulatory base. Though, these reforms have been unsystematic and significant deviations from the international standards have remained (Kaciashvili 2003; Group 2007; Wumburidze 2013; McGee 2014; Pirveli 2014; Alagardova and Manuilova 2015).[1]

The corner stone was the enactment of the law of 2016. Entities have been categorized into 4 classes according to their size, profitability and number of employees. PIEs and groups of I and II categories had to publish their financial, managerial (activity review, corporate managerial report and non-financial report) and audit reports of the financial year 2017 immediately, but not later than October 1st, 2018. Groups of the III and IV categories shall report their consolidated financial statements of the financial year 2018 immediately, but not later than October 1st, 2019 (Law 2016). Financial statements of PIEs and I category entities shall be prepared according to IFRS, while II and III categories apply IFRS for SMEs and the IV category follows the "Simplified (temporary) Standard for Accounting for Small Enterprises"[2] (see **Figure 1**).

Figure 1: Legal Entity Categorization and Requirements

Requirements	Legal Entities by Categories				
	PIE (c.a. 125 Legal Entities)	I Category (c.a. 85 Legal Entities)	II Category (c.a. 420 Legal Entities)	III Category (c.a. 3.270 Legal Entities)	IV Category (c.a. 80.000 Legal Entities)
Assets		> 50 Mln. GEL	< 50 Mln. GEL	< 10 Mln. GEL	< 1 Mln. GEL
Revenues		> 100 Mln. GEL	< 100 Mln. GEL	< 20 Mln. GEL	< 2 Mln. GEL
Average Number of Employees		> 250	< 250	< 50	< 10
Financial Reporting	IFRS	IFRS	IFRS for SMEs	IFRS for SMEs	Simplified IFRS
Managerial Reporting	Obligatory	Obligatory	Obligatory	Voluntary	Voluntary
Audit	Obligatory	Obligatory	Obligatory	Voluntary	Voluntary
Primary Submission Dates	1.10.2018			1.10.2019	

Source: Copied from Pirveli and Shughliashvili (2019).

[1] The first assessment of the accounting and audit field in Georgia was done by the World Bank in 2007. World Bank report (2007) stated there was a need of considerable reforms in the field: a) an increased transparency and reach to entities' disclosures, b) a clearer definition of Public Interest Entities' status, c) entities' categorization by size and the consequent allocation of reporting requirements due to each category, d) establishment of audit registry and f) higher attention and resources dedicated to professional trainings as well as materials' translation and g) stricter enforcement of the law.

[2] The simplified standard has been approved by the resolution N9 of April 5, 2005 by the Committee of Accounting Standards at the Parliament of Georgia.

This implies about 84.000 entities to become transparent by the end of this year. It is a unique possibility for the academics, but also the regulators in Georgia and within the EU to detect how successful and efficient the EU funded reform is.[3] Before this massive dataset breaks a transparency threshold, we are already now in need to have a valid estimation of what to expect.

3 Research Gap and Research Aim

The objective of this research project is the provide a sound evaluation of the ongoing accounting and audit reform in Georgia. To do so, we have three bulk sub-objectives that we are willing to address in the framework of this work:

- **How good is the quality of the enacted law – disclosure quality;**
- **How well is the law enforced – compliance level;**
- **How well is the final target of the reform met – the quality of financial information provided within the reports.**

Since the amendment of the law (2016), we have seen the literature related to the quality of the law in Georgia. It has been highlighted that the new accounting law is well-aligned with the international standards and is of higher quality than any of its predecessor versions (Sabauri 2018; Pirveli 2019). The new law has addressed the previously existing deficiencies highlighted by the World Bank reports of 2007 and 2015 (WB Group 2007; Alagardova and Manuilova 2015). These changes covered: a) an increased transparency and reach to entities' disclosures, b) a clearer definition of Public Interest Entities' status, c) entities' categorization by size and the consequent allocation of reporting requirements due to each category, d) establishment of audit registry and f) higher attention and resources dedicated to professional trainings as well as materials' translation and g) stricter enforcement of the law. Pirveli and Shughliashvili (2019, p. 2) note that the currently ongoing changes align with the EU framework; "the processes are governed, managed, administered and financially supported by foreign authoritative parties. This may already represent a crucial tool to achieve sundry results." Only in 2017, Ministry of Finance of Georgia (SARAS) has enacted 10 normative acts, covering Professional Certification and Continuous Education standards. In 2018 SARAS's focus has shifted from the establishment of the regulatory base, towards the increase of the interested parties' awareness. As such, Pirveli and Shughliashvili (2019) cautiously predict that the *actively* led accounting reform is likely to bring yet unexperienced positive outcomes to the field.[4] As to on an already (at least partly) addressed dimension of the reform, we will stop less on the discussion of disclosure quality in this research proposal.

We have also seen a literature assessing the quality of the enforcement of the law. This literature, however, has been based on rather a limited sample – about 600 entities of I and II categories plus

[3] Overall budget of the STAREP program – under which accounting and audit field reform initiatives take place - is €5.85 million. See more details below.

[4] Interestingly, Pirveli and Shughliashvili (2019) also detect that less than half of the large Georgian entities used the audit service of 'big6' audit firms. This may indicate that even large Georgian entities do hesitate to use the costlier services of bigger audit firms (DeAngelo 1981; Francis 2004; Gvaramia 2014; Pirveli 2015). This finding is in line with the previous literature stating that in Georgia "corporate managers do not input particularly high efforts in providing highly decision-useful accounting information as the overall demand on accounting numbers is moderate" (Pirveli 2015). In the absence of functional capital markets, the demand is likely to shift towards the banks. Banks in Georgia, however, base their crediting decisions on the amount of collateral and website visits (Group 2007).

PIEs who had to submit their financial statements already by October 1 of 2018. Pirveli and Shughliashvili (2019) descriptively reveal that almost all the required entities (more than 90%) have submitted their reports of 2017. 68 entities have been sanctioned based on the first year of ‘going public’, from which 6 entities’ financial statements have not been audited, 6 of them have not fully published disclosure and 56 have not published the statements at all (Kvintradze 2019). Overall, the compliance indicator is high; higher than an average picture across the EU countries (Hope 2003; Pope and McLeay 2011; Hitz *et al.* 2012; Zaidi and Huerta 2014). Particularly so, if anticipating the fact that the reform has been implemented just a year ago. We, however, put our attention on the timeliness of the compliance. How timely was the enforcement? It is difficult to judge how timely entities have followed the requirements as SARAS itself played a mediator role and has published the reports publicly only after controlling the statements. We have seen that transparency has been increasing not only till October 1, 2018 but continued even after March 1, 2019 (Pirveli 2019). The Ministry of Finance has multi-times cultivated that the enforcement levels in Georgia has been above 90%, though the question of timeliness has been muted. Opposed to this, Pirveli (2019) highlighted that the reports *delivery* process was delayed in time; in some cases, either warning or sanctioning from the ministry have been used and only afterwards the rule compliance has been reached. As such, a systematic evidence how timely the reports have become publicly transparent lacks the evidence. Without assessing the timeliness, we are only at an immature level able to detect the proper levels of compliance.

Even though we bring some evidence on compliance, we are unaware whether a high level of enforcement among the large entities would recall a similar picture within the smaller entities (III and IV categories). Instead of about 600-700 large entities of I and II categories, plus the PIEs, we are now dealing with about 83.000 entities of small (III and IV category) entities. At a first glance we expect to have a considerably lower enforcement levels because of a) small entities are less informed about their corporate duties; b) small entities are less aware on how to prepare the financial statements according to a corresponding standard; c) lower sanctions apply against small entities; and d) their sample is much larger, spanned through different regions of Georgia and thus reducing the likelihood of proper informational reach. As such, we see a distinct research gap in terms of the enforcement dimension of the reform and we will test it at a much broader extent.

What we haven’t considered yet, is the assessment of the final goal of the reform: how high is the quality of the information provided within the disclosed financial statements. Or, to put it differently, did the Law of 2016 promote to the improvement of the accounting quality? Quality of financial information shows the extent to which accounting system accomplishes its objective — to help users of accounting information in decision-making (Board 2010). The quality of financial information embodies the principle that financial statements should be as helpful as possible to investors and other capital providers in making their resource allocation decisions. No matter how perfect the law is or how well it is obeyed, if the provided information is not worthy to readers, we are never allowed to call a reform successful. Our project will put its every effort to test this crucial dimension of the reform and fill up the gap.

4 Research Design

4.1 Data and Sample

Our team and the provided research project have a unique possibility to work with a non-yet examined data. Having a representative sample stands as our project's one of the strongest sides. Several reasons condition our advantage in terms of having an outstanding observing sample.

We have been the first who have collected the descriptive as well as financial information (financial statements) of the I, II category entities, plus the PIEs in Georgia. The descriptive data is separately given for each and every company at a public website: https://reportal.ge/. We have elaborated a time-efficient approach to obtain this information. As long as the 'reportal' website requires authentication, at first, we are using a "Link Clicker" to collect the website addresses separately for each entity, we then pool these addresses within the AI scraper ("Scrapestorm"). This approach enables us to timely collect all the necessary descriptive information such as entity categories, legal status, sphere of operation, year of registration, audit status, audit firm name and more. This is already a first step for a solid analysis. We, however, are never allowed to remain at a descriptive level as the questions we are willing to address require the use of much sophisticated econometric tools.

As next, we are obtaining the financial statements of all entities through the Ministry of Finance (SARAS). Financial statements cover balance sheet, income statement, cash flow statement and the statement of change in equity. These four statements should be available for all but the IV category entities which are only required to provide its balance. Three different financial statement types are requested as per financial, non-financial and insurance sector entities. This is a systematic information and is available in Excel format. This information is public in general, but can only be requested through an official letter written to the ministry, explaining the purpose of the usage. Coordinator of the project, based on his past working experience in SARAS group, brings close contacts to the ministry representatives. This streamlines the administrative procedures we are required to obtain the necessary information.

Finally, we use the Python programming language to automatically download the PDF financial statements of the entities. This would in addition enable us to detect if significant information is provided within the textual parts of the financial statements as against to only observing the numbers of the reports. Moreover, we can check whether the sentences communicate the financial numbers and whether the textual part of the financial statements includes sufficient verbal analyze of a firm performance.

4.2 Methodology

For the methodological purposes, we have two different approaches: at a descriptive level we will analyze the quality of the law as well its compliance level. At a more sophisticated level we will detect the quality of financial information. To assess the regulatory base's efficiency, we will step by step go over the existing deficiencies of the previous versions of the law and check whether each and every deficiency has been addressed. We will further check our law's conformity and the level of harmonization with the EU practice. To detect the levels of enforcement, we will observe the share of companies who have submitted proper financial reports by the required date.

Beyond of having a specific enforcement level as for October 1, 2019, we will additionally observe the change in submissions till April 1, 2020, with having a 1-month intervals (November 1, December 1, etc.). The enforcement matrix will have the following format for each month:

Figure 2: Enforcement Matrix

Legal Entity	**Reports Published Online**	**Reports in the Monitoring Process**	**Reports in the Submission Process**	**Reports not Submitted**
PIEs	X	X	X	X
Category I	X	X	X	X
Category II	X	X	X	X
Category III	X	X	X	X
Category IV	X	X	X	X
Total	X	X	X	X

Source: Author's own.

As for the detection of the quality of financial statements (accounting quality), the potential list of usable methodologies needs to be cautionary chosen and filtered. This is so for every sample, but particularly for the under-developed economies with hardly available and reliable datasets (Pirveli 2015). The accounting literature is aware of several dimensions of measuring the quality of accounting numbers: time-series properties of earnings, earnings management, accounting conservatism and value relevance. We drop the value relevance which requires stock market information and is irrelevant for the Georgian private sector.

Time-series Properties of Earnings

We test the time-series properties of earnings (additionally of cash flows and other components of balance or net income statement), following the basic OLS regression between the current and lagged earnings as suggested by Freeman *et al.* (1982) and extended by the firm-level characteristics as well as industry and yearly fixed effects:

$$NI_t = \gamma_0 + \gamma_1 NI_{t-1} + \gamma_2 \mathrm{SIZE}_{t-1} + \gamma_3 \mathrm{LEVERAGE}_t + \gamma_4 \mathrm{GROWTH}_t + \sum \gamma_5 \mathrm{FE\_YEAR}_t + \sum \gamma_6 \mathrm{FE\_INDUSTRY}_t + \varepsilon_t \qquad (1)$$ [5]

where:

NI_t = *current year's net income (scaled by the beginning year's total assets);*

NI_{t-1} = *previous year's net income (scaled by the beginning year's total assets);*

SIZE_{t-1} = *beginning year's total assets in year t;*

$\mathrm{LEVERAGE}_t$ = financial leverage (total liabilities under the book value of equity) in year t;

GROWTH_t = earnings' growth rate in year t;

$\mathrm{FE\_YEAR}_t$ = yearly fixed effects;

$\mathrm{FE\_INDUSTRY}_t$ = industry fixed effects.

5 The firm subscript *i* is intentionally omitted from all models.

Regressing current earnings on previous year's earnings enables us to know at what extent the current earnings could be explained by the previous year's earnings. Earnings persistence can be revealed by observing the coefficient of scaled earnings (γ_1) within the autoregressive model (1). The coefficient is mean reverting, varying between zero and one (Beaver 1970; Freeman *et al.* 1982). High values indicate highly persistent earnings, thus past (current) earnings' ability to accurately determine current (future) earnings. To test predictability, researchers focus on the variance of the residuals of a model. Highly volatile earnings show a high absolute value of the stochastic term. In this case, current earnings can scarcely proxy for subsequent earnings. Variance of the residuals is an inverse function of accounting quality. That is, the higher the variance of residuals, the lower is the predictability – indicating poor accounting quality.

Due to data availability reasons, we won't be able to extended this model by more than one-year lagged earnings model. However, as a robust test we will run a Sloan (1996) model that decomposes earnings in its two parts and enables us to address: (a) whether the decomposition of earnings into its two parts such as accruals and cash flows improves earnings persistence and predictability; (b) which component can better explain the next year's earnings around its mean; and (c) whether the cash-flow component of earnings can better predict future earnings in comparison to earnings itself. While we are limited in running solid time-series models, we are able to go into detailed components of accruals (for all but the IV category enterprises which reports only the balance sheet information).

Earnings Management

Starting from the middle 1980s, earnings management has been measured through total accruals (Healy, 1985; DeAngelo, 1986). Elevated levels of absolute accruals are perceived as a "red flag" as regards the use of misleading accounting techniques, however they might be a natural result of business operation (e.g., Dechow et al. 1996). Firms with particularly high levels of absolute accruals were expected to be engaged in intentional earnings management. Later, Jones (1991) divided accruals into discretionary and non-discretionary parts, observing how earnings management could be better captured by focusing on discretionary rather than the total accruals. The Jones model has been criticized because of biased measures and model misspecification such as correlated omitted variables and measurement error, leading to Type I (i.e., rejection of null hypothesis on no earnings management when true) and Type II (i.e., failure to reject null hypothesis on no earnings management when false) errors (Ball and Shivakumar, 2008; Dechow et al. 2012).

$$TACCR_t = \gamma_0 * 1/ASSETS_{t-1} + \gamma_1(\Delta REV_t - \Delta REC_t) + \gamma_2 PPE_t + \varepsilon_t \qquad (2)$$

where:

$TACCR_t$ = *total accruals (calculated as:* $TACCR = \Delta CA_t - \Delta CL_t - \Delta CASH_t + \Delta STD_t - DEPR_t$*) in year t (scaled by the beginning year's total assets);*

ΔREV_t = *change in revenues in year t (scaled by the beginning year's total assets);*

ΔREC_t = *change in receivables in year t (scaled by the beginning year's total assets);*

PPE_t = *gross property, plant and equipment in year t (scaled by the beginning year's total assets).*

By adjusting the changes in sales by changes in receivables, Dechow et al. (1995) modified the original Jones model, and argued that the modified version (in comparison to its predecessor) is a more powerful test in detecting the intentional earnings management. The modified Jones model has been intensively used in the earnings management literature throughout the last decades. However, some of the studies have highlighted that the use of this model is not a particularly expedient way to detect the levels of manipulation at underdeveloped economies. This is particularly problematic because of not having enough number of observations for having a valid regressional analysis, but also because the accruals working process is more problematic within the under-developed economies. As Pirveli (2015) notes, earnings management might be a 'too advanced' bookkeeping strategy for as small country such as Georgia, where in the absence of functional capital markets and the consequent incentives (e.g., target meeting/beating), capital market demand on accounting information is rather moderate. While so, the demand is likely to shift towards the banks, however the banks either use personal channels to assess firms' reliability or visit their websites (Group 2007; McGee 2014; Pirveli 2015).

In the absence of valid time-series data, we rely on mean/variance analysis of the specific accounting (accruals) ratios. We follow the line of Leuz *et al.* (2003) and use earnings smoothness and earnings discretion as measures of accounting quality.

Earnings Smoothness - Corporate managers can use their accounting discretion to soften economic shocks in firm's operating cash flows. On the one hand, they underreport strong current performance to create reserves for the future. On the other hand, they fasten the reporting of future revenues or delay the reporting of current costs to hide non-alluring current performance. In both instances, accounting accruals buffer cash flow shocks and result in a strong negative correlation between changes in accruals and operating cash flows (Leuz *et al.* 2003). Corporate managers may also alter their earnings to misstate their firm's economic performance. For example, they can over- or understate reported earnings to achieve certain earnings targets. The target might be to show up as performing outstandingly well right before the equity placement at a market or outstandingly bad right before the fiscal year and income tax payment (Dechow and Skinner 2000). As such we will employ the following two ratios: a) [*Var (Operating NI) / Var (CFO)*] and b) [*Correlation (Change in TACCR, Change in CFO)*].

Earnings Discretion - Insiders can conceal changes in their firm's economic performance using either real operating decisions or the reporting choices. Focusing on insiders' reporting choices, our next earnings management measure captures the extent to which insiders reduce the variability of reported earnings by altering the accounting component of earnings, namely accruals (Leuz *et al.* 2003). Managers typically have incentives to avoid any losses. They however have limited reporting discretion and are consequently unable to report profits in the presence of large losses. On contrary, small losses lie within the bounds of insiders' reporting discretion. Thus, the ratio of small reported profits to small reported losses shows the extent to which corporate insiders manage earnings to avoid reporting losses (Burgstahler and Dichev 1997). In this regard, we will also observe the distribution histogram of the net income to graphically detect whether small losses tend to 'appear' as small gains. As such we will employ the following two ratios: a) [*Median TACCR / Median CFO*] and b) [*# of Small Profits / # of Small Losses*].

Accounting Conservatism

The use of conservative accounting policy may be reflected in assets, earnings, and/or accruals. Consistently, previous literature disentangles three major venues regarding how to gauge the extent of accounting conservatism, namely: net asset-, earnings/stock returns relation-, and accruals measures. The work of Wang *et al.* (2009) considers 84 studies on ACN, summarizing Basu's asymmetric timeliness (AT) (Basu 1997) to be the most frequently employed methodology concerning accounting conservatism. Basu measures the extent of accounting conservatism by earnings/stock returns relation. According to Basu (1997), negative news is recognized in a timelier manner and is more persistent relative to positive news. The Basu approach, however, requires market data (stock returns).

Ball and Shivakumar (2005) proposed a modification of Basu's approach (applying balance sheet information) which *accurately* suits companies with non-traded shares. This study targets to banish all other possible effects which may influence the levels of accounting conservatism. There is a long line of literature which theoretically and empirically shows that firm-specific factors such as size, profitability, financial leverage, growth rate and market to book value, as well as yearly and industry effects may substantially drive the reporting practices at a firm and industry levels.6 Therefore, while observing the country-level effects, the employed OLS regressions will control for these firm-specific factors as well as yearly and industry fixed effects.7 Ultimately, the following model is estimated:

$$TACCR_t = \gamma_0 + \gamma_1 CFO_t + \gamma_2 D\_CFO_t + \gamma_3 INTER\_CFO_t + \gamma_4 \mathrm{SIZE}_{t-1} + \gamma_5 \mathrm{PROF}_t + \gamma_6 \mathrm{LEVERAGE}_t + \gamma_7 \mathrm{GROWTH}_t + \sum \gamma_8 \mathrm{FE\_YEAR}_t + \sum \gamma_9 \mathrm{FE\_INDUSTRY}_t + \varepsilon_t \quad (3)$$

where:

CFO_t = *cash flow from operations for year t;*

D_CFO_t = *dummy variable for year t that is set to 1 if CFO < 0and to 0 otherwise;*

$INTER\_CFO_t$ = *interaction term between the dummy variable of CFO and CFO.*

PROF_t = *firm profitability (earnings under beginning year's total assets) in year t;*

$\mathrm{FE\_YEAR}_t$ = yearly fixed effects;

$\mathrm{FE\_INDUSTRY}_t$ = industry fixed effects.

The Asymmetric Accrual to Cash-Flow Measure (AACF), as it is termed, is intended for companies with unavailable market (price) information. The underlying concept of the AACF model is similar to that of Basu's AT; both models specify ACN as the difference between reactions caused by "bad" and "good" news. The sole difference between models concerns

[6] See Holthausen 1981, Zmijewski and Hagerman 1981, Watts and Zimmerman 1986, Moses 1987, Scholes *et al.* 1992, Ashari *et al.* 1994, Fama and French 1995, Penman and Zhang 2002, Dechow and Schrand 2004, Ashbaugh-Skaife *et al.* 2007, Frankel and Litov 2009.

[7] Unreported results show that exclusion of the firm-specific variables from the models does not significantly affect the conclusions reached in this paper.

proxies: AT takes stock return as its proxy for news, while AACF bases its calculations on operating cash-flows – thus, considers balance sheet information. In some context, AACF is considered as more robust model than the AT approach (Wang *et al*., 2009). Some criticism (e.g., the problem of simultaneity between earnings and stock returns, noted by Beaver *et al.* (2008)) which applies to Basu's approach is less applicable for the AACF. In the regression (model 3.2), the larger coefficient of the interaction term (dummy of cash-flows from operations multiplied by cash-flows from operations) denotes a higher response for negative news relative to positive news, which in turn refers to conservative accounting. Wang *et al.* (2009) posit that the frequency of the use of AACF, as an alternative method for measuring AT, is continuously growing in popularity and application by researchers. Consistently, accounting conservatism is calculated in this project by the AACF model which, additionally, is extended with firm-specific control variables.

Text Analysis

Hand by hand with studying the usefulness of numbers, we do also observe the textual parts within the financial reports. A stream of accounting research using textual analysis examines the readability of companies' annual reports or 10-K filings, by using the classic methods of content analysis such as Fog index, (key) word counts and text length or file size. In the early literature of computational text analysis, the focus was on literature and behavioral sciences which resulted in the Harvard psycho-sociological dictionary, with its word categories developed by Philip Stone. As claimed by Kearney and Liu 2014, p. 171), a promising research on textual analysis depends on "the availability of more accurate and efficient sentiment measures resulting for increasingly sophisticated textual content analysis coupled with more extensive field-specific dictionaries." Each domain/field requires its own language. In the context of accounting and finance, Loughran and McDonald 2016) similarly claim that a majority of words may be mis-classified. This may bias the reported results about firm fundamentals or information users' behavior. As such, Loughran and McDonald 2011) develop accounting and finance-specific word lists. These lists have become predominant in recent studies on textual analysis of corporate 10-K filings (Feldman 2013; Jegadeesh and Wu 2013; Huang *et al.* 2014). Li 2008) classifies thousands of texts into various categories and then trains a machine to classify a new text. Similarly, based on 10-K fillings, our approach will be to perform word-counts of already existing documents and then have a human select relevant words, possibly extending the lists with other words.

With the improvement of computer technologies, new methods based on machine learning have brought about a revolution in textual analysis. Methods such as the Naïve Bayes Method, Cosine Similarity, and Latent Dirichlet Allocation have become popular textual-analysis tools over the last decade (Blei *et al.* 2003). These new methods allow researchers to reexamine the classic questions of textual analysis in more accurate ways.[8]

In the 1960's Karen Spärk Jones noticed that in most texts certain terms - such as "a", "the" and "of" - appear very often and that the information content of these terms is therefore rather limited. For this reason, she proposed that the most frequent terms should be down weighted. Since the log-frequency count of terms appears to fit rather well a distribution in 1=z (Zipf's law), she

[8] See Loughran and McDonald 2011, Jegadeesh and Wu 2013, Hoberg and Phillips 2016, Buehlmaier and Zechner 2017, Bushman et al. 2017, Buehlmaier and Whited 2018.

proposed to use measure of total word counts as a proportion to the inverse of a terms' frequency. On the other hand, if a word occurs very often in a text, presumably this word is relevant for a text. This leads to the introduction of the *tf – idf* measure defined as:

$$tf - idf_{t,d} = tf_{t,d} \times idf_t.$$

where $tf_{t,d}$ is the count of a term in a document *d* and idf_t is the inverse document frequency of a given term in the entire corpus (Schütze *et al.* 2008, p. 119). Various transformations of the term count *tf* and the inverse distribution frequency *idf* exist with an attempt to marginalize for text size. In this project we will follow the measure proposed by Loughran and McDonald (2016, p. 1208), where:

$$tf - idf_{t,d} = \begin{cases} \frac{1+\log(tf_{t,d})}{1+\log(a_d)} \log \frac{N}{df_t} & \text{if } tf_{t,d} \geq 1, \\ 0 & \text{otherwise.} \end{cases}$$

Here, df_t represents the number of documents in the collection of documents containing the term *t*. *N* is the total number of documents in the collection. By a_d they represent the average word count in document *d*. In some earlier work, Loughran and McDonald (2011) find that this measure yields a better regression adjustment than other measures. The $tf - idf_{t,d}$ weighting scheme appears to satisfy the criterion that a term *t* gets highest weight in a document *d* if *t* occurs many times within a small number of documents. That is lower when the term occurs fewer times in a document, or occurs in many documents, and is lowest when the term appears in nearly all documents. The log transform renders the observations more uniform (Tetlock *et al.* 2008; Campbell 2014; Loughran and McDonald 2014).

In the Georgian private sector, firms operating in financial industry – because of the specific regulation and wording used in their reports – are subject of dropping from the sample. We will also exclude *stopwords* ('them', 'on', 'here', 'but', 'is', etc) as generated by the NLTK. Next, there is the issue about negation. Here, we follow Loughran and McDonald (2016) who notice that "in financial reporting it is unlikely that negative words will be negated (e.g., not terrible earnings), whereas positive words are easily qualified or compromised." The major challenge with our sample would be the fact that we face a Georgian language financial reports, for which the professional dictionary does not exist. We will be required to create our own dictionary to train the Georgian text. Overall, text mining approach would let us know whether the textual parts of the reports, in additional to the provided numbers, further improve a reader's understanding how good (bad) a firm is.

5 Implications of the project findings

This research, with a particular focus on an emerging market of Georgia, seeks to evaluate the accounting and audit reform efficiency. It is an interdisciplinary field of research on the crossroads of accounting and finance. Even though accounting and finance strongly border with each other, they use different methodological tools and research designs in their application. The understanding of accounting fundamentals for the capital market decisions is of utmost importance as long as decision makers (investors) necessitate trusty accounting information in order to implement efficient investment decisions. This research project – stands as the first in-depth assessment of the international standards' adoption in Georgia and contributes to the scientific as well as policy-making conundrums of Georgia and thus obtains a particular weight on Georgia's way towards its integration within the EU. Speaking at a country level and assessing a country-level reform, this work integrates macroeconomic merits. The findings reached within this work will be of high dimension within the policy-making circles of Georgia. Finally, from methodological and data collection perspectives, our project combines the fundamentals of a technological field. We rely on some of the artificial intelligence techniques to manually collect our data. We do also use the STATA and Python programming languages to analyze the data as well as textual parts of the financial statements. Overall, our work lies on the intersection of accounting, finance, macroeconomics, policy-making and technology.

The call for the fundamental science grant of SRNSFG aims at creating a new knowledge that would in the long-run foster the economic, socio-political, technological and cultural progress of Georgia. A sub-aim would stand for the creation of a competitive research environment within the country, by focusing on the involvement of Georgian young scientists into the projects and by the internationalization of local research culture.

Our research project belongs to Georgian studies – the problems we address through this work directly links to Georgia. The findings reached within the project will be of high contribution in several ways. At a scientific level, this study contributes to the existing literature on accounting and audit system's efficiency from an under-developed market's perspective. At a regulatory level, the findings are of importance for the regulators in Georgia (to formulate appropriate policies, currently debated in the Parliament of Georgia) and in Europe. One of the most crucial programs under which the accounting reform initiatives took the ground in Georgia and in its neighborhood countries in 2013 was a STAREP program. It was the regional program implemented by the World Bank professionals, and financed by the EU, the Austrian Development Agency and the Austrian Ministry of Finance, as part of the EU4Business initiative (Overall budget: €5.85 million). The program targeted in creating transparent and effective institutional framework for corporate reporting within Eastern Partnership countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The lessons learned from Georgia would be crucial as among the Eastern Partnership countries Georgia along the years has been taking a leader's position in transforming its accounting and audit field. Today's affairs of Georgia are likely to be recalled tomorrow and a day after in Armenia, Azerbaijan, Belarus, Moldova and Ukraine (CFRR 2018).

Moreover, financial information users such as banks, investors and tax regulators would gain insights at what level the firm's given fundamentals could be trusted within the Georgian private sector. This would heighten the trust of financial information users locally and internationally to direct their capital/investments to Georgia. Accounting reform of Georgia aims at developing capital and financial markets and improving the investment environment by ensuring transparency of reporting entities, which, in turn, protects the needs of external stakeholders relevant to the field. The reform targets to create reliable information source containing the financial and managerial data of the entities, which would also increase the credibility of audit. As such, a deep analysis of the reform outcomes would also promote the achievement of this goal. The derived results will be of value for investors interested to increase their capital flows towards the poorer economies. The findings will also contribute to the development of the joint conceptual framework of Financial Accounting Standards Board while formulating the overall objective of financial reporting (Gassen 2008; Board 2010).

To our best knowledge, this will be the first work that tries to grasp the efficiency of the reform outcomes in Georgia. As important is addressing the three bullet research questions/objectives of these work, as higher we believe the promised analysis would be. We also believe that this work will be provided either by us or will be neglected by the academia of Georgia. Why? Because, unfortunately not many research groups are professionalized in this very important field of research. We know only several Georgians with foreign PhD degrees in accounting, many of whom work in the private sector, not within the academia. As for the foreigners, they either are busy to study international and their local settings or are less aware in the institutional premises of Georgia; or maybe the funds available for Georgian studies seem rather limited anticipating the budgets of ERC grants from the EU.

The planned analysis is subject to several concerns. These concerns, as it come to no surprise, mainly relate to the limited and less reliable dataset as we are dealing with an under-developed economy. One of the limitations we will face is the inability of testing accounting quality before 2016. In the absence of the possibility to compare pre VS post period results, we would be in need of conducting time-series analysis so that to observe the development trends on the quality of financial information along the time. As such, finding the lower efficiency of the reform may indicate a negative information for Georgia, though we would only be able to label the reform as un-efficient if the trend of development is not positive.

The limitation concerns would relate to the need of conduction of time-series analysis in assessing the quality of financial statements. By the end of this research project (2023), we estimate availability of financial statements of 2018-2022 for III and IV category entities and 2017-2022 for I, II and PIEs. After the scaling, we will be left over by 4 and 5 years of information for smaller and larger entities, consequently. The mean/variance analysis will be based on 4 and 5 years. After the lagging procedures in time-series analysis model, we will be left over by 3 and 4 years, consequently. This does not stand for a luxury dataset. We will be able to conduct time-series analysis, but the statistical tests are likely to appear relatively weak. As such, we will focus more on mean/variance comparisons of accruals ratios as well as distribution of net income and industry-sectional analysis, rather than basing on regressional approaches.

In terms of text analysis, we will more heavily rely on Fog analysis as well as size and length of the text, plus the key words count, compared to more complicated approaches. The major challenge with our sample would be the fact that we the financial reports are Georgian language-based (with scanned audit verification pages), for which the professional dictionary does not exist. The elaboration of sophisticated approaches would require the creation of our own dictionary by which to train the program. This may indeed represent a self-standing other research project with its own budget, own team of professionals and about 3-4 years of working plan.

Our methodologies are based on the premise that conditional accounting conservatism accurately proxy for the perception of bad news against good news. In the application of accounting conservatism, we assume that the supply and demand sides of conservative accounting information are in equilibrium. In detecting the quality of accruals, we assume that the calculated accruals can adequately capture accruals working process within the Georgian private sector. While these assumptions are majorly based on the existing theory of the prior literature, if they do not hold, then the derived results will be invalid.

The above-given determinant models will utilize firm-level control variables as well as industry and yearly fixed effects as these random effects may potentially drive the *constructs* of accounting quality. Despite of it, if the models will fail to include additional variables that are causally related to the dependent variables of interest, while being correlated with the independent variables, an omitted variables problem would question the findings' biasness. To minimize such a risk, we will have to apply less biased panel data estimation methods and rationally include all the instrumental variables.

Third, our sample is likely to be significantly driven by the IV category enterprises, but only in terms of the balance sheet information. This is because the number of such firms significantly outperform the number of other category firms and the IV category only publishes its balance sheet. Therefore, even though we plan to cover a representative sample, the findings will need to be cautiously generalized across all the sample.

Other than this, we do not see any risks that may affect the sustainability of the work. Overall, we will do our best to derive non-biased and highly generalizable outcomes, but, indeed, the questions may remain as it would be the case for any other kind of research.

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Integrated Thinking and Reporting for SMEs: The Why and How. Why should SMEs consider integrated thinking and integrated reporting? How can SMEs start their integrated reporting journey?

Paul Thompson

Director at EFAA[9]

The world's largest companies are often regarded as leading the way for small- and medium-sized entities (SMEs). But that's not how it is or at least not how it has to be. The evidence, from government statistics through to academic research, demonstrates that SMEs not only have the greatest impact on economy and society but they are also the primary drivers of innovation and change. And, where SMEs lead in product and service innovation they can also lead in the innovation for integrated reporting.

There's a fast growing body of compelling evidence on the substantial benefits organizations gain from integrated reporting. But what about the benefits for SMEs? Perhaps most strikingly, the B20 (the G20's business arm) recommended promoting integrated reporting as a key means of improving SME reporting with a view to building trust around past and future performance. And some commentators and researchers have written on integrated reporting's relevance and value to SMEs.

There is a clear, concise and persuasive case why SMEs and their stakeholders, from owner managers through to end consumers, stand to benefit greatly from considering integrated thinking and integrated reporting. This article summarizes this case and goes on to provide a starter kit on how SMEs can best go about doing it with suggested initial steps and directions to helpful resources including illustrative examples.

Small- and Medium-Sized Entities

SMEs globally account for the majority of private sector economic activity, employment, social impact, and environmental footprint. In their midst are tomorrow's largest, most influential, and impactful companies. Amazon, Alibaba, Uber, and Didi Chuxing were yesterday's SMEs. But unlike many larger companies, SMEs often have the latitude to take a long-term view and pursue objectives above and beyond simply profit. Many SMEs are run by owner managers who see business as integral to and a reflection of their lifestyle and values. This lends itself to a way of thinking, and corresponding reporting, that stresses the long term over the short term, the future over the past, and principles over profit.

[9] ABOUT EFAA: The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

Integrated Reporting

Integrated reporting is a generally-recognized international framework that helps SMEs better understand and better communicate how they create value (see this short video for additional details). It provides a roadmap for SMEs to consider the multiple capitals and connectivity that make up its value creation story. This makes an integrated report much more than a conventional annual report—it's a more complete corporate report. But it need not demand much, if any, more effort to compile. And perhaps more importantly, it will help SMEs understand the core drivers of their business so they can implement a business model that will help them grow.

SMEs, like larger entities, leverage a range of resources and relationships to create value. The International Integrated Reporting Framework calls these "capitals". There are six capitals, including the familiar, financial, and the less familiar, manufactured, intellectual, human, social and relationship, and natural capital. Properly nurtured, these capitals can release value over time while simultaneously growing their capacity as a store of value. How these capitals can operate in an SME are detailed in IFAC's Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting.

The guiding principle of connectivity is critical to understanding and communicating the way SMEs create value. It's about the interplay between three aspects of value creation: the capitals, external environment, and significant internal factors. It prompts consideration of the effects of connectivity. For example, between the SME's strategy and business model and the specific risks and opportunities it's facing. Or between the nature and rate of change in technology and how this affects the capacity of the SME to continue creating value in future.

Integrated Reporting Benefits

The International Integrated Reporting Council (IIRC) summarizes compelling research findings in "How Valuable is Integrated Reporting? Insights from Best Practice Companies" and "Realizing the Benefits". But let's focus on what matters most to SMEs, which include improved risk management and decision making, strengthened internal dialogue and improved stakeholder communication.

Better Understanding, Better Management

An integrated reporting approach helps SMEs build a better understanding of the factors that determine its ability to create value over time. Using what's called "integrated thinking," SMEs can make better decisions that result in better outcomes. Integrated thinking is a connected view of the SME, including its use of and effect on all the capitals central to its business model and future strategies, that enhances strategy planning, execution, and evaluation.

Integrated thinking helps SMEs gain a deeper understanding of the mechanics of their business. This will help them assess the strengths of their business model, spot any deficiencies, and address them quickly. These insights facilitate a forward-looking stance and sound strategic decision making. This may sound familiar to SMEs already using elements of an integrated reporting approach in substance if not in form or name.

Better Reporting, Better Communication
We live in an age in which information can quickly and easily be collated, summarized, and communicated, and one in which society and stakeholders demand to know more of businesses, big or small. Businesses have a story to tell their stakeholders—from current and prospective equity investors, banks, and other providers of financial capital through to employees, customers, creditors, and other stakeholders—as to their purpose, prospects, profit, principles and planetary impact.

Furthermore, SMEs are increasingly in the business of providing services. Compared with their "mom and pop store" predecessors, these SMEs have few, if any, tangible assets you can see, touch, and hear. Instead, they might rent office space, equipment, and fast internet and pay salaries or consultancy fees to knowledgeable staff. As such, under conventional accounting rules, such as the IFRS for SMEs, their balance sheets, essentially a snapshot of financial capital, will fail to provide a complete picture as to its ability to create value. The other capitals, which manifest themselves as employee expertise, customer loyalty, and intellectual property, are missing. While past financials can be important where they exist, they are only one aspect of an SME's value creation story. The upshot is that many SME stakeholders are left with insufficient information to make an informed decision. This is where integrated reporting comes in.

The external communications resulting from integrated reporting, most notably an integrated report, invariably include key financials. But that information is kept in context alongside, and connected to, significant "non-financial" measures and narrative information. By providing the full picture—not just "the numbers" but a succinct story as to how the SME creates and will continue to create value—integrated reporting helps fulfill the communication needs of financial capital and other stakeholders. In so doing, an integrated report can optimize reporting.

Starting Out
For good reason, SMEs often complain that they are too busy to even consider taking on integrated reporting. But insufficient thought today about tomorrow's strategy means SMEs may end up simply here today, gone tomorrow. Integrated reporting can help ensure SMEs grow and prosper in a way that can have a positive impact in all senses of the word: economically, socially, and environmentally. And the integrated reporting journey, with the right road map, need not be a difficult one.

While integrated reporting may differ in an SME context as compared with a large listed entity, especially as to sophistication and extent, the goal of thinking in an integrated manner will be advantageous if not already embedded. The principle of connectivity should inherently be easier for SMEs. SMEs can use the concepts embodied within integrated reporting as a business improvement tool. It does not mean more reporting, rather better reporting: concise, relevant, and accessible. It does not mean more mandatory reporting but rather voluntary reporting that is responsive to the information needs of users. It does not mean yet another report, rather a basis for the rationalization and harmonization of existing reports and communications.

Ultimately, integrated reporting may be better suited to larger SMEs, which have a number of external stakeholders seeking a better understanding of the business and its value story through better communication. In this way, SMEs can lead integrated thinking and reporting's development rather than having to adopt as a result of supply-chain pressure. Let's start by burying a few misconceptions.

Removing Barriers to Integrated Reporting

Integrated reporting is *not* about more reporting or endless detail. While it's important for an integrated report to include sufficient context for a reader to understand your SME's strategy, governance, performance and prospects, it should not be burdened with less relevant information. Where appropriate, an integrated report can link to information elsewhere, like more detailed information (e.g., full statutory financials), relatively static information (e.g., a list of production sites), or external sources (e.g., economic forecasts on a government website).

Integrated reporting is *not* "just adding another report." The flexibility of integrated reporting means it can be used as a springboard to rationalize and harmonize other reports and communications. Depending on jurisdiction, in time an integrated report may replace some obligatory, but otherwise redundant, reporting requirements. For example, it may enable rationalization of reporting through merging financial, sustainability, and governance reports, and with savings in report production and distribution costs. It may also become part of the supply chain reporting suite demanded of SMEs by larger customers.

An evolutionary step-by-step approach might be the best approach to integrated reporting implementation, according to Stratton Craig. SMEs can transition from conventional annual reporting to integrated reporting over a few reporting cycles. This will enable SMEs to leverage and incrementally adapt existing reporting structures and processes and put new systems in place to engage with staff, stakeholders, and potential investors gradually.

Specific Applications of Integrated Reporting to SMEs

The table below looks at three specific applications of integrated reporting to SMEs.

Application 1: SME Seeks Buyer
A prospective buyer will be paying for future profitability and cash generation. As such, they are interested in knowing the value creation story: about the capital base available for trading and growth (financial capital); the tangible assets available for production (manufactured capital); the processes and intellectual property that can be used (intellectual capital); the expertise and know-how of employees and management that can be leveraged (human capital); the key connections it has with its customers and suppliers (social and relationship capital); and the proximity and access to resources like water, power, and infrastructure (natural capital). A buyer needs to understand the business beyond what can be gleaned from historic financials.

Application 2: SME Seeks Finance
SMEs may seek funds to acquire a competitor, adopt new technologies, spend on research and development, replace outdated equipment, expand into new markets, etc. It may seek these funds via

equity or debt, family, friends, venture capitalists, crowdfunding, banks, the markets, or other sources. Whatever the reason, type and source, the SME will need to convince finance providers of its ability to create *sufficient value to pay dividends or interest and repay capital. They'll also want to see evidence of how the business identifies and manages key risks. These financiers, like prospective buyers, need to understand the business beyond what can be understood from historic financials. For service providers with little in the way of tangible assets and for start-ups with little or no financial history, integrated reporting is potentially even more persuasive as it stresses capitals other than financial. According to the B20's Task Force on SMEs and Entrepreneurship, integrated reporting is expected to facilitate the ability of SMEs to raise finance.*

Application 3: SME Seeks Contract
Increasingly, government agencies and not-for-profit organizations seek commercial partners that can supply the goods and services needed and do so in a manner that's both reliable, ensuring continuity of supply in the long-term, and responsible, ensuring reputational risk is mitigated. Tendering processes often seek to understand the characteristics of the businesses that tender that may extend beyond its ability to reliably and cost effectively deliver to include its ethical stance, corporate social responsibility, and community ties. Integrated reporting can provide this.

Initial Steps

Embracing integrated thinking is the overarching theme: integrated reporting is dependent on, and helps achieve, integrated thinking. Connectivity is critical for the benefits of integrated reporting to be realized.

Let's now examine the initial steps SMEs can take as part of their integrated reporting journey.

Step 1: Issue a statement of intent. Advise stakeholders of your intentions: briefly explain the aims, ambitions, and rationale and consider reaffirming a commitment to good governance, transparency, long-term strategic thinking, and sustainability. It should also outline the implementation journey, including timeframe and key milestones.

Step 2: Conduct a stakeholder mapping exercise. Identify principal stakeholders, such as primary customers, staff, local community, and bank. SMEs need to understand who its stakeholders are and their expectations of the business today and tomorrow.

Step 3: Think about value *creation*. In what ways does the business create value? Does it manufacture goods or provide services? Does it invest in the local community? How does it look after its employees?

Step 4: Consider the business model. Are your stakeholders highlighting any risks or opportunities to be managed or leveraged? How well does your business model and strategy support value creation? Does your business model reflect your stakeholders' expectations? Do you need to adjust your business model and strategy?

Step 5: Determine what resources are needed. Now is the time to consider required resources to implement any changes to your business model and strategy. These include attracting and retaining new staff, enhancing product design and innovation, etc.

Step 6: Improve cross-organization communication. Are the right people talking to each other internally? Is enough being done to break down silos and encourage cross-organizational communication and engagement with business strategy?

Many businesses, especially SMEs, will reap most of the benefits of integrated reporting from the integrated thinking it demands. For some, if not most, SMEs the final report, if there is one, will be the icing on the cake. The final report will need to pass a litmus test for clarity and conciseness to ensure its benefits far exceed its costs. Yen-pei Chen outlines some key approaches to passing this test. These include focusing on material items both in terms of length and topics and using various presentation techniques to enhance navigability and readability, such as cross referencing and links to additional materials online. For the report to yield the greatest benefit, it will need to reflect the challenges and opportunities unique to the SME.

Survey of Non-Financial Reporting Requirements for SMEs in Europe

Richard Martin
Chair of EFAA's Accounting Expert Group

Paul Thompson
Director at EFAA

There is increasing interest in the performance of companies beyond the financial numbers. Small and medium-sized enterprises (SMEs) are the biggest component of corporate activity, employment and output in Europe.

EU Directives require reporting by companies beyond the financial statements (and these have been recently reinforced with additional requirements). Most member states covered by this survey have not extended these rules in content and have taken up the options to reduce the reporting requirements on SMEs. However, there is diversity and, perhaps, lack of harmonisation beyond this where countries have added 'national extras'.

The survey's findings may have implications for regulators and policy makers seeking to ensure harmonisation in the shape and form of SME reporting and to enhance the transparency of societal and environmental impacts of corporate activities across the European Union. These implications include:

- The experience of different countries in the reduction of transparency and context about SMEs, resulting from them being exempted from having to produce a management report, should be carefully considered in the light of reporting Non-Financial Information (NFI);
- The imposition of extra national requirements on SMEs reporting outside the financial statements may not represent an administrative burden for some SMEs. Consequently, there seems to be a case to reconsider the application of the principle of maximum harmonisation for management reporting;
- The more significant extra requirements, which come in the shape of national requirements for other reports, sometimes do represent a material burden; and
- If the EU wants corporate reporting to be a vehicle for gathering information and raising awareness of the issues about the environmental and other societal concerns from the SME sector, then including new disclosure requirements for the management report in the Accounting Directive is likely to be an effective way of doing so.

The survey's findings may also have implications for SMEs and small and medium-sized accountancy practices (SMPs) especially given the increasing emphasis on pursuit of the Sustainable Development Goals (SDGs) and the corresponding need to measure economic, social and environmental performance. Non-Financial Information Reporting (NFR), in so far as it can demonstrate alignment of an entity's vision and strategy with responsible business guidelines and measures environmental and social performance with the SDGs, can help SMEs access finance, secure new business partners, attract new consumers and clients, and attract and retain talent. SMEs that do not produce NFR may miss out on these benefits.

In the light of the survey findings and other evidence EFAA suggests some policy considerations, which will be further debated and developed, as follows:

- National regulators should be encouraged to refer to the NFRD when formulating NFI requirements for their SMEs as this will help enhance international comparability of NFI reporting by SMEs;
- SMEs should be encouraged to carefully consider voluntarily providing NFI as this may yield benefits to them, their stakeholders and the wider public; and
- Some elements of the Non-Financial Reporting Directive (NFRD) might be suitable for voluntary adoption by SMEs.

Background

In recent years there has been an increased interest and awareness of the importance of businesses reporting, not just on their financial performance, but also in terms of their impact on society and the environment in which they operate.

Statements of their financial performance and position are required from limited liability companies in Europe to be available via a public register, for the protection of shareholders and of creditors and other business partners. The financial statements on their own are not considered to provide enough information or sufficient context for these purposes and so further reporting of a variety of kinds is often suggested, and for this study these are collectively called Non-Financial Reporting.

Accounting Directive

The EU Accounting Directive (Directive 2013/34/EU) requires that a management report is prepared by some limited liability companies within its scope, in addition to the financial statements.

The management report is seen as a convenient way of gathering and publicising certain information about societal and environmental impacts of businesses that operate with limited liability (which account for a significant majority of private sector economic activity).

The content of the management report is set out in Article 19 of the Directive (see Appendix 1). The application of these requirements has been tempered by the view that such administrative tasks bear especially heavily on SMEs and might therefore not be justified for those companies. There are, therefore, member state options (MSO) to exempt small companies (and of course micro-entities) from preparing a management report, or from publishing the report even if they are required to prepare one for their shareholders. The absence of a published management report means that potentially for this large group of companies there is a loss of information on the public record, and therefore reduced transparency and a loss of context for the financial statements. There is also a MSO to exempt small and medium-sized companies from the requirement to disclose non-financial key performance indicators (KPIs). There is, however, no restriction on member states' requiring additional items in the report or indeed additional reports.

Non-Financial Reporting Directive

More recently the EU has enacted the Non-Financial Reporting Directive (NFRD). The NFRD only applies to large public-interest companies with more than 500 employees. This covers approximately 6 000 large companies and groups across the EU, including listed companies, banks, insurance companies, and other companies designated by national authorities as public-interest entities.[10]

This EU law requires those companies to disclose certain information on the way they operate and manage social and environmental challenges. This is intended to help investors, consumers, policy makers and other stakeholders to evaluate the non-financial performance of large companies and encourages these companies to develop a responsible approach to business. The minimum content of this Non-Financial Statement, which can be part of the management report, is set out in Article 19a (see Appendix 2).

Voluntary NFR

Beyond these EU requirements the Task Force on Climate-related Financial Disclosures of the Financial Stability Board (FSB) has recommended voluntary disclosures by businesses. There has been interest in how businesses are contributing to the UN's Sustainable Development Goals (SDGs). The International Integrated Reporting Council (IIRC) has also produced the International Integrated Reporting Framework, a generally-recognized and generally applicable, international framework for integrated reporting (<IR>). The B20 (the G20's business arm) recommended promoting <IR> as a key means of specifically improving SME reporting with a view to building trust around past and future performance. EFAA have published this article on the why and how of <IR> for SMEs to complement the IFAC paper 'Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting'.

Importance of SMEs to NFR and of NFR for SMEs

SMEs have not been the target of the EU rules, nor the primary target of the various voluntary NFR initiatives. However, the evidence, from government statistics through to academic research, clearly shows that SMEs, in Europe and globally, account for the majority of private sector economic activity, employment, social impact, and environmental footprint. The UN has stated that: "In designating 27 June as the annual Micro-, Small and Medium-sized Enterprises Day the UN General Assembly has recognized the importance of these enterprises in achieving the Sustainable Development Goals (SDGs) – especially by promoting innovation, creativity and decent work for all (SDG 8)…" The UN acknowledges that SMEs' roles matter in achieving the 'Transforming our World: the 2030 Agenda for Sustainable Development' ("the 2030 Agenda") "because they constitute about 90% of all business and play an important role in employment initiatives."

[10] In November 2017 CSR Europe and GRI with the support of Accountancy Europe published, 'Policy & Reporting: Member State Implementation of the Directive 2014/95/EU'.

NFR is of growing importance and relevance for SMEs not least because of the heightened prominence of the sustainability agenda and the crucial role SMEs play in achieving the SDGs. NFR, in so far as it demonstrates alignment of an entity's vision and strategy with responsible business guidelines and measures environmental and social performance with the SDGs, can help SMEs access finance, secure new business partners, attract new consumers and clients, and attract and retain talent. Nevertheless, the Global Reporting Initiative (GRI) has investigated the incidence of sustainability reporting by SMEs and concluded that: "Sustainability reporting by large and multinational companies has become commonplace over the last decade, however among small and medium enterprises (SMEs), the practice of sustainability reporting is not as widespread." This prompted GRI to release a publication, 'Small Business Big Impact', to inspire SMEs to take action and establish their role in a more sustainable future by reporting on their main sustainability impacts.

There is the risk of trickle-down effects in the shape of SMEs coming under pressure to supply NFI to those companies that are required to comply with the NFRD, or simply seeking to demonstrate their contribution towards the SDGs, and hence need information from their customers, suppliers and business partners.

Finally, SMPs may have an important role to play in advising on, compiling and providing assurance on NFR.

Objectives

This survey seeks to examine the extent, nature and impact of NFR requirements for SMEs in Europe. More specifically the aim of this survey is to provide a picture of:

- reporting and publication requirements of non-financial information by SMEs in Europe currently in place;
- the comparability between member states on these matters;
- different approaches to NFR by size and country; and
- the extent of any 'trickle down' effect from what is expected of larger or listed companies to smaller ones, that EFAA found to be present with financial reporting by SMEs as reported in its 2017 study 'The Trickle Down Effect - IFRS and accounting by SMEs'

Scope

This report looks at what is required of micro-entities and small and medium-sized companies, using the transposition of the thresholds for those categories in the countries in question. It has excluded any requirements of listed companies of whatever size and any special reporting required of SMEs in regulated sectors such as banks and insurers.

The report covers fourteen European countries, eleven of which are EU member states. Countries that are candidate members of the EU and those that are in partnerships with the EU must develop regulations of comparable effect.

The countries covered in this survey are:

- Austria
- Belgium
- Bosnia
- Germany
- Hungary
- Ireland
- Kosovo
- Macedonia
- Netherlands
- Portugal
- Romania
- Slovenia
- Spain
- United Kingdom

Method

EFAA member bodies (and other professional accountancy bodies) in each of the countries were asked to complete a survey questionnaire in the latter half of 2017. The survey covered four key areas:

- the extent to which the management report is required to be prepared or published by SMEs;
- application of the NFRD to SMEs;
- content required for management reports over and above those specified in the EU directive; and
- any further regular reports required from SMEs (beyond financial statements, managements reports and tax returns).

Findings

The full responses from each country are shown in Appendix 3. Key findings are set out below.

Management Report Preparation and Publication

In Macedonia all companies are required to produce a management report but, its content is not specified in any way except for listed companies, nor are they required to be published.

Of the other thirteen countries in the survey, none required management reports to be prepared or published by micro companies. There were only five that required the preparation of a report by all small companies (Ireland, Portugal, Romania and the UK). Portugal and the UK clearly considered that the aim of the report was not necessarily to inform the public, as the reports are not obliged to be filed on the public record. Austria requires preparation and publication of a management report from all companies incorporated as an Aktiengesellschaft (AG) irrespective of size, but not from other small companies.

	Yes	No
Are micro companies required by national law to prepare or publish management reports?	1	13

Application of the NFRD to SMEs

The NFRD requires large listed companies to report on environmental, employee and social issues. No countries in the survey chose to apply the NFRD to even medium-sized companies nor were any elements of the NFRD visibly 'trickled down' to them in any other form. Indeed, the survey finds little if any evidence of the trickle-down effect.

	Yes	No
Are medium sized companies exempted from including non-financial performance information in the management report?	14	0

Management Report Requirements for SMEs Over and Above the Directive

There is a more mixed picture here. Eight of the fourteen states do not add anything in terms of specific national content (Austria, Kosovo, Spain, Germany, Hungary, Macedonia, Portugal and Romania).

The other six did have some extra national content and most of these 'extras' applied only to medium-sized companies and varied in subject matter. For example, Slovenia asks for disclosures in the report about corporate governance, management remuneration, shareholders' rights and internal controls. The Netherlands requires national issues to be complied with the only the exceptions of diversity and non-financial issues. In Belgium medium-sized companies are required to disclose their main risks, together with certain environmental and social matters. They must provide a list of shareholders, directors and auditors and details of any shareholdings in other companies. The UK requires a strategic report, plus other specific items such as dividends, post balance sheet events and overseas branches. For Bosnia the information concerns employee numbers and salaries.

	Yes	No
Does national law require any other content to be included in the management report for medium or small companies?	6	8

There are some 'extras' required of small companies as well – for example Ireland makes little distinction between small and medium and asks for donations and dividends, but also about completeness of information to auditors and the maintenance of books and records. Slovenia requires the details of profit distribution of small companies that others only apply to medium-sized.

Further Regular Reports Required of SMEs
As noted above the assumptions are that all companies are required to prepare financial statements and tax returns, so that the extra reports being considered here are any beyond the management report already discussed. The picture is again mixed.

Seven of the countries do not require further reports – Austria, Hungary, Ireland, Kosovo, Netherlands and Portugal. Romania has reports from regulated sectors such as banking and insurance, which may well in fact be widely required in other countries where such affected entities qualify as SMEs. However as noted above these are outside the scope of this survey.

	Yes	**No**
Are there any other reports that they are routinely required to prepare for governments or for publication?	7	7

Some countries are using company reports as a way of collecting national statistics, for example in Bosnia and Slovenia. The content may include employee statistics, but in Slovenia cover extensive financial information and some of the reports may be on a quarterly basis. The provision of these is considered a significant burden.

In Belgium a social report is required from all SMEs, except there is a special version for micro-entities. The social report contains information on employment, such as the number of new employees, employees enrolled due to a government program, employees leaving etc.

In the UK medium-sized entities are required to disclose their policy in relation to modern slavery in their activities and supply chain. This raises major issues for some companies and to comprehensively report may have a significant impact. As a relatively new requirement it is too early to assess the full impact.

Implications and Conclusions
In most of the countries covered by the survey the national regulations on the reporting of information outside of the financial statements go no further than the minimum required by the EU Directives. The requirement for management reports from small companies and micro-entities have largely been waived as a member state option. Significant harmonisation has, therefore, been achieved across Europe, both within the Union and, also, to neighbouring states. But this harmonisation will have been at the expense of reduced information being placed on the public record. In this way there is less transparency about small and micro companies which are by far large majority of companies in Europe. The NFRD has not been applied beyond the scope envisaged by the EU. For management reports from medium-sized companies the EU minimum

content has been applied as the maximum demanded. In half of the included countries no additional regular corporate reports are required.

There is, however, diversity and lack of harmonisation beyond this where countries add ‘national extras’. The requirements vary in content as well as in application to small and medium-sized companies. Much of the content is in effect providing information that could be said to be supplementary to the financial statements – for example about profit distribution. Currently, the required information more often relates to employees than information on social or environmental impacts.

As far as the SME sector is concerned, arguably in contrast to the approach with larger listed companies, corporate reports cannot be used as the means to gather information and raise awareness about the impact on key societal concerns, for example sustainability.

In some countries there is significant reporting for statistical purposes and these were the cases which were reported as giving rise to significant burdens.

The survey findings have potential implications for regulators and policy makers:

- The experience of different countries in the reduction of transparency and context about SMEs, resulting from them being exempted from having to produce a management report, should be carefully considered in the light of reporting Non-Financial Information (NFI);
- The imposition of extra national requirements on SMEs reporting outside the financial statements may not represent an administrative burden for some SMEs. Consequently, there seems to be a case to reconsider the application of the principle of maximum harmonisation for management reporting;
- The more significant extra requirements, which come in the shape of national requirements for other reports, sometimes do represent a material burden; and
- If the EU wants corporate reporting to be a vehicle for gathering information and raising awareness of the issues about the environmental and other societal concerns from the SME sector, then including new disclosure requirements for the management report in the Accounting Directive is likely to be an effective way of doing so.

The survey’s findings may also have implications for SMEs and small and medium-sized accountancy practices (SMPs) especially given the increasing emphasis on pursuit of the Sustainable Development Goals (SDGs) and the corresponding need to measure economic, social and environmental performance. Non-Financial Information Reporting (NFR), in so far as it can demonstrate alignment of an entity’s vision and strategy with responsible business guidelines and measures environmental and social performance with the SDGs, can help SMEs access finance, secure new business partners, attract new consumers and clients, and attract and retain talent. SMEs that do not produce NFR may miss out on these benefits.

In the light of the survey findings and other evidence EFAA suggests some policy considerations, which will be further debated and developed, as follows:

- National regulators should be encouraged to refer to the NFRD when formulating NFI requirements for their SMEs as this will help enhance international comparability of NFI reporting by SMEs;
- SMEs should be encouraged to carefully consider voluntarily providing NFI as this may yield benefits to them, their stakeholders and the wider public; and
- Some elements of the Non-Financial Reporting Directive (NFRD) might be suitable for voluntary adoption by SMEs.

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- Camera Auditorilor Financiari din Romania (CAFR) for Romania;
- Chamber of Accountant Services (GZS) for Slovenia;
- Consejo General de Economistas (CGE) for Spain; and
- the Association of Chartered Certified Accountants (ACCA) for the United Kingdom and Ireland.

Appendix 1: Article 19 – Contents of the Management Report

1. The management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces.

The review shall be a balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, consistent with the size and complexity of the business.

To the extent necessary for an understanding of the undertaking's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.

2. The management report shall also give an indication of:

(a) the undertaking's likely future development;

(b) activities in the field of research and development;

(c) the information concerning acquisitions of own shares prescribed by Article 24(2) of Directive 2012/30/EU;

(d) the existence of branches of the undertaking; and

(e) in relation to the undertaking's use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss:

(i) the undertaking's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; and
(ii) the undertaking's exposure to price risk, credit risk, liquidity risk and cash flow risk.
Source: Directive 2013/34/EU

Appendix 2: Article 19a - Non-financial statement
1. Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:
(a) a brief description of the undertaking's business model;
(b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
(c) the outcome of those policies;
(d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
(e) non-financial key performance indicators relevant to the particular business.
Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.
Source: Directive 2014/95/EU

Appendix 3: Detailed Survey Responses

Austria	Belgium	Bosnia	Germany	Kosovo	Netherlands	Portugal		Slovenia	Spain	United Kingdom	Ireland	Romania	Hungary	Macedonia
	Q1. Are small companies required by national law to prepare management reports based on Art 19 of the directive?													
Joint stock companies (AG) that are small must, others are not required to do so.	No, only Public interest entities, and groups or companies with more than 500 employees and a result of more than €17M and a turnover of more than €34M • a turnover of more than €34M • a result of more than €17M • a turnover of more than €34M	Not required	Not required	Not required	Small companies are exempt from preparing management reports.	Micros are exempt, but small companies must prepare a report		Small and micro exempt from preparing reports	No only as required by the directive	Yes, but not micro – by the Companies Act as amended.	Micro - exempt, Small - slightly reduced report, Medium - full report	Yes, but in a more simplified form than the medium and large entities or PIE.	Not required	Yes, it is required. No exemption based on the size of the company
	Q2. If so, what are the reasons for this?													
					Administrative burden reduction for these companies.							Transparency	N/A	
	Q3. If small companies are required to prepare them, do they have to publish them?													
Yes, published on the register for those that must be prepared	No	N/A	N/A	No publication requirement even for financial statements	N/A	The small company reports need not be published		N/A	N/A	Small companies do not have to publish them by filing with the registry	Small need to file and so publish the report	Yes, small companies have to prepare and publish them in the trade register	N/A	Requirement to publish is only for the company whose stock is listed on the stock exchange.
	Q4. If so, what are the reasons for this?													
Transparency	N/A	N/A	N/A	N/A	N/A	Reduce bureaucratic burden		N/A	N/A	Lower levels of transparency are considered appropriate for small companies given the typical coincidence of management and ownership.	Lower levels of transparency are considered appropriate for small companies given the typical coincidence of management and ownership.	Transparency and completeness of financial information	N/A	N/A

Austria	Belgium	Bosnia	Germany	Kosovo	Netherlands	Portugal	Slovenia	Spain	United Kingdom	Ireland	Romania	Hungary	Macedonia

Q5. Are medium sized companies exempted from including non-financial performance information in the management report?														
Yes exempted	If they are under the above criteria they are exempted from the requirements of the directive	No obligation by law	Yes exempted	Yes exempted	Yes exempted	Yes exempted	Yes exempted	Yes exempted	Yes exempted	Yes exempted	Micro-entities and small entities are not required to submit non-financial information. These provisions do not apply to medium-sized companies. However, exceptions are not valid if the micro-entity or small entity is a PIE	Medium-sized companies are exempted. However, if the owner asks for a management report, it will be an own decision. Though even in this case non-financial performance information are not included.	The content of the management report is specified only for listed companies
Q6. What are the reasons for exemption or for not allowing the exemption?														
Burden reduction		N/A	Burden reduction	Burden reduction	Administrative burden reduction for these companies.	Reduce bureaucratic burden	Administrative burden reduction for these companies.	Not given	Administrative burden reduction for these companies.	Administrative burden reduction for these companies.	Administrative reporting burden reduction	There is no obligation for medium-sized companies to prepare a management report	Not given
Q7. Were any further matters to be covered by the report added for medium-sized or small companies from the non-financial statement requirements of Article 19a?														
No	No	No	No extra matters required of small or medium-sized companies	No other matters	No extra matters required of small or medium-sized companies	No	No extra matters required of small or medium-sized companies	None of these matters are required of small or medium-sized companies	None of these matters are required of small or medium-sized companies	No extra matters	No	No	No

z	Belgium	Bosnia	Germany	Kosov	Netherlands	Portugal	Slovenia	Spain	United Kingdom	Ireland	Roma	Hungary	Macedonia
Q8. Does national law require any other content requirements to be included in the management report for medium or small companies?													
No	Medium-sized companies have to include main risks and environmental and social matters, plus others	Yes	There are no content requirements for medium-sized companies that go beyond those listed in Art. 19. Small companies do not have to prepare a management report.	No further requirements	Medium-sized companies must adhere to all national law requirements, except for 1) non-financial statement requirements and 2) diversity information.	No extra matters are required to be included	Medium sized companies, that are obliged to have an audit, also need to prepare a Corporate Governance Statement (as a part of the management report) where it should disclosed: information about Corporate Governance Code (CGC) used, any deviation from CGC and the reason for this, key internal controls and risk management procedures in connection to financial reporting, information about General Meeting of Shareholders, information about the corporate bodies and commissions, ownership information, information on voting rights restriction, rules on changes in members in corporate bodies and changes in Articles and Memorandum of Association, management authorisation especially in relation to own shares.	No other content requirements	Medium-sized companies must prepare a strategic report.	Yes, some company and other law requirements.	No	No, even where the SME chooses to prepare annual financial statement.	No
Q9. Please provide an outline of the extra requirements from Article 19a or other requirements													
No extra requirements	List of shareholders, directors and auditors if any. Shares in other companies	For small companies - injuries at work and registration of disabled employees. For medium-sized companies also details of dividends. There is a business report which includes nine acts		No	Small companies are fully exempted and there are no extra or other requirements (other than required by local law) for medium-sized companies.	N/A	SMEs need to report in addition to the financial information in the financial statements. The information for micro and small that needs to be published is information about profit distribution or loss coverage. In addition, for medium-sized companies (1) amounts received by management, supervisory board and employees on individual contracts. (2) average number of employees in classes (e.g., educational classes etc.)	No extra requirements	For small companies the names of directors, directors' indemnity cover, completeness of information to auditors (if any), political donations if over £2000 and policy on disabled employment (if over 250 employees). Additional requirements for medium-sized are dividend, significant post balance sheet events and involvement with employees (consultation, share incentives etc.) where >250 employees. The report required of medium-sized companies is framed as a Strategic Report in order to encourage better and more informative reporting by those companies rather than their fulfilling the bare list of specific items from Article 19 and the list above.	For small and medium companies: • Names of directors • Completeness of information t auditors (if any) • Political donations • Confirmation of maintenance of books and records • Dividends	N/A	No	N/A

Austria	Belgium	Bosnia	Germany	Kosovo	Netherlands	Portugal	Slovenia	Spain	United Kingdom	Ireland	Romania	Hungary	Macedonia
Q10. What are the reasons for these requirements beyond those of the directive?													
N/A	Employment concerns and evaluation of the employment policy	Statistics		N/A	N/A		More detailed understating and transparency of companies' operations and financial position.		Some are meeting societal concerns e.g. employment and disabled persons and political donations.	One is addressing an historical weakness generally in the maintenance of the books and records.	N/A		
Q11. SME companies are required to prepare financial statements, tax returns, and they may be required to prepare a management report. Beyond these are there any other reports that they are routinely required to prepare for governments or for publication?													
None	A 'social report' with information on employment.	Yes, some specific report like report of number of employees, salaries amounts, ratios - they are prepared for Federal Statistics.	No further reports or publications from small or medium companies	No further requirements	No further reports or publications from small or medium companies	No further reports or publications from small or medium companies	Some SME companies are also required to prepare statistical reports for Agency of the Republic of Slovenia for Public Legal Records and Related Services, Bank of Slovenia and other government institution. SME needs to prepare statistical reports in cases when for example they operate in specific industry, are part of the sample defined by the institution, have transaction or balances of certain type, or exceed defined threshold.	No further reports or publications from small companies	No further reports or publications for small. For medium-sized the Modern Slavery Act requires companies to publish a statement of their position in relation to slavery or comparable conditions.	No further reports or publications for small or medium	There may be a series of reports / statistics required by the state authority, regulators or supervising authorities, depending on the field of activity (e.g., data disclosures and statistical information to the National Bank of Romania, reports required to insurance companies by the Financial Supervisory Authority regarding solvency compliance; issuers admitted to trading send to the Stock Exchange a series of current reports such as dividend payments, share value, mergers / divisions etc.)	Only tax returns	No further requirements for SMEs
Q12. Do any of these apply to entities that are not companies covered by the directive?													

N/A	Micro-entities may use a micro version of the management report	It is applied to all kind of companies.	N/A	N/A	N/A	No	No	N/A	The modern slavery requirements apply to any business with income over £36m.	N/A	Applicable to all categories of entities included in the supervised / oversight area of the competent authority.	No	N/A

Austria	Belgium	Bosnia	Germany	Kosovo	Netherlands	Portugal	Slovenia	Spain	United Kingdom	Ireland	Romania	Hungary	Macedonia
Q13. Please provide an indication of the content of these reports													
N/A	No. of new employees, employees enrolled due to a government program, leaving employees etc.	The scope of reports is too big to be described here.	N/A	N/A	N/A	N/A	Most frequent repots for SMEs are for (1) Bank of Slovenia being the SN report – equity investment of residents and non-residents, the BST report - exchange of goods and services and current transfers/capital transfers with non-residents, KRD report – operational receivables/liabilities and financial investments and liabilities with non-residents (2) Agency of the Republic of Slovenia for Public Legal Records and Related Services: include (a) ČPPS report – information from balance sheet, profit and loss, capital investments in fixed assets and investment property and other information about quarterly performance (b) SFR report – data about financial and other assets and liabilities with clients and vendors classified in different sectors (c) Zap/m report – information about salary expenses, working hours, number of employees. (2) Statistical office. There are different type of statistical reports. Usually companies are chosen to be part of the survey and reporting requirement due to operating in a specific business industry. Some reports are required to be submitted on a yearly, monthly or quarterly basis. The list of the available reports is published here (not in English language): http://www.stat.si/StatWebArhiv/en/mainnavigation/methods-and-classifications/questionnaires		The content could include the company's policy and procedures in its business and in its supply chain. Can be a website publication.	N/A	Depending on each industry the content is established by the regulations issued by the authority that supervises / regulates the respective field of activity	N/A	N/A
Q14. Is meeting the requirements outlined in response to Q9 or Q13 perceived as a significant burden?													
N/A			It is not perceived as a significant burden.	N/A	N/A		Yes, especially because there are many types of statistical reports and the frequency is often on a monthly or quarterly basis.		Some cost, but not highly significant	No	It is largely perceived as a form of submission of financial statements.	N/A	

Austria	Belgium	Bosnia	Germany	Kosovo	Netherlands	Portugal	Slovenia	Spain	United Kingdom	Ireland	Romania	Hungary	Macedonia
Q15. For the management report the auditors (if any) of the SME company have to report on the consistency with the financial statements and compliance with the law and any material misstatements that are evident from their audit. Are any further obligations placed on auditors?													
No further responsibilities	No	No additional responsibilities	No further responsibilities	No further responsibilities	No further responsibilities	No further responsibilities	No further responsibilities	No further responsibilities	No further responsibilities	Confirmation that information and explanations were provided, that books of account were kept, and that the financial statements are in agreement with the books of account. Certain negative assurance on the disclosure of certain transactions with directors.	No	No	The Report by the Certified Auditor shall contain opinion related to the consistency of the annual report with the annual account and the financial statements, i.e. the consolidated annual report with the consolidated annual account and the consolidated financial statements for the same business year
Q16. If so, please outline what these are.													
N/A			N/A		N/A		N/A	There was a public consultation in January 2017 about a draft of project of law in which was transposed the content of the Directive to Spanish legislation. There was no further news about it. On 1 September 2017 came approval of project of the law but it has yet to become law. The above responses are based on it assuming no changes in its content. What it is included in this project of law is exactly what is required by the Directive, with any additional requirements. Once it becomes law it will be required to be applied to all information after 1 January 2017.	N/A	See above	N/A	N/A	

Pacing Institutional Change Patterns in BRICS Countries – The Case of Accounting Regulation

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Abstract

The aim of this study is to understand the trends in accounting regulation in BRICS countries (Brazil, Russia, India, China and South Africa) in the past 25 years. The paper examines the evolution of the countries' accounting systems by quantifying regulatory action in disclosure and enforcement. The development pattern differs: disclosure regulation leads enforcement regulation, and disclosure changes stronger than enforcement. We attribute this finding to the difficulties arising from institutional voids that affect enforcement regulation stronger. Moreover, we show a positive relation between regulatory action and GDP growth rates.

Introduction

With their industrialization, emerging economies need access to deep and liquid capital markets and compete with developed countries for investor attention (Armijo, 2007; Ghio & Verona, 2015; Zeghal & Mhedhbi, 2006). As investors value comparability in their investment decisions and feel more confident in an environment they understand and trust (Meser, Veith, & Zimmermann, 2015), emerging economies face a demand for comparable and decision-relevant accounting information. We posit that emerging economies provide such information in a specific way: they first adapt their disclosure system and then follow up with changes in enforcement. A spotlight is the adoption of international reporting standards without adequate enforcement (Ball, 2006; Daske, Hail, Leuz, & Verdi, 2013). Augmented enforcement is associated with difficulties, as highlighted by the study of Carneiro, Rodrigues, and Craig (2017). We therefore expect that enforcement activity is not only slower but also weaker than disclosure efforts. Decision-relevant information first requires its disclosure – and then relevance of disclosure can be promoted via better enforcement. Hence, over time, enforcement follows disclosure regulation.

We focus on BRICS as newly industrialized countries[11], since they provide a unique setting. The BRICS countries play a central and crucial role in the global flows of goods and services (Fagiolo, Reyes, & Schiavo, 2010). A further common characteristic for these countries are their institutional voids, sometimes culminating in a total absence of regulation (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017). In this study, we analyze how accounting regulation has changed in emerging countries over time. We conduct this examination in two steps: First, we identify the special circumstances regarding the countries' institutional settings and second, we use a scoring model to assess regulatory changes in disclosure and enforcement regulation of BRICS countries.

We measure accounting regulation beyond the applicable standards. We do so because previous studies show that not only the formal adoption of accounting standards itself such as the adoption of IFRS is important for investors for making investment decisions in the overall accounting regulation process but also disclosure characteristics like inside ownership, executive compensation or enforcement items like the level of government involvement in supervisory authorities and sanction of management influence the level of accounting regulation (Bushman, Piotroski, & Smith, 2004; Holthausen, 2009; La Porta, Lopez-De-Silanes, & Shleifer, 2006). We use ten items for disclosure and enforcement, each building on prior literature (Meser et al., 2015; Zimmermann & Tideman, 2017). The mean value of all ten items per year is aggregated into a score that shows differences between countries. All ten disclosure and enforcement items are fulfilled at a level of 1 and 0 otherwise. With this method, we make the regulatory effort of a country quantifiable. We then map the causal relation between accounting regulation and the annual GDP growth rate of the BRICS countries within a pooled OLS regression. Interpreting our results, we find that (i) the degree of disclosure and enforcement regulations become higher over time (ii) the average level of enforcement regulation is smaller than disclosure regulation and (iii) regulatory action in accounting has a significant impact on the GDP growth rate.

Our study is most closely linked to those of Carneiro et al., (2017) and Ghio and Verona (2015) but still differs considerably. Carneiro et al., (2017) showed the different processes of IFRS adoption in a Group of Latin American Accounting Standards Setters (GLASS) countries. They found that different institutional settings in these countries make the degree of international accounting regulation more difficult. More precisely, achieving material convergence will be problematic due to various reasons, like a lack of trained accountants or an unreliable enforcement system. Although the process of convergence and adoption of IFRS has commenced in many emerging markets, our study explores the effective degree of compliance with disclosure regulations. Therefore, we are able to extend their findings. We also extend previous findings by Ghio and Verona (2015), who examined the evolution of the BRIC's accounting systems in a three-dimensional framework based on political, economic and cultural elements over time. They found that the path of accounting regulation in these four countries evolve individual because of their economic and social environments. We extend their findings by making them quantifiable and comparable using a scoring model. We are then able to identify to what degree changes in accounting regulation have taken place over time.

[11] Newly industrialized countries can be defined as "low-income, rapid-growth countries using economic liberalization as their primary engine of growth" and can be generally classified as either developing countries in Asia, Latin America, Africa and the Middle East or as emerging economies as in China or the former Soviet Union (Hoskisson, Eden, Lau, & Wright, 2000).

The aim of this study is to contribute to the debate on accounting regulation in emerging economies, given that there is still a lack of a holistic view on accounting regulation in these countries. We add to existing literature in mainly two ways: First, we are the first leximetrically measure regulatory differences between emerging countries (e.g., BRICS countries). Accounting literature has limited the scope to developed countries so far (Baker & Barbu, 2007; Ding, Hope, Jeanjean, & Stolowy, 2007; Meser et al., 2015; Zimmermann & Tideman, 2017). Second, we provide evidence that BRICS countries increased disclosure and enforcement regulations, but in a different extent. To our knowledge we are the first who give a holistic work for accounting regulation for both disclosure and enforcement for emerging markets.

The remainder of this paper is structured as follows: Chapter 2 reviews the extant literature on the institutional settings and accounting regulation in BRICS countries. Furthermore, we develop our expectations of the development of disclosure and enforcement levels in BRICS countries. Chapter 3 addresses the data sources and describes the measurement of disclosure and enforcement scores. Our empirical analysis and its discussion is presented in Chapter 4, and Chapter 5 concludes.

Literature Review

2.1 Institutional settings and Isomorphism

The BRICS countries diverge in their cultural backgrounds[12] (Cowperthwaite, 2010; Gray, 1988; Hofstede, 1980), do not share a common language and their economic structures differ as well (Ghio & Verona, 2015). However, they share a common driver that justifies the BRICS as an analytical category of nations - concerning their economic development they exceeded growth compared to developed markets (Biggemann & Fam, 2011). But besides their growth opportunities, BRICS countries also commonly lack a stable institutional environment (Schuster, 2006). The absence of stable and developed institutions is one of the key characteristics in distinguishing between emerging markets and developed markets (Doh et al., 2017).

Khanna and Palepu (1997) in this context pointed out that in emerging markets the institutional settings are often underdeveloped or totally missing. Studies provide evidence that the existence of formal institutions matters for economic performance and affect the propensity of investing in a specific country (Acemoglu, Johnson, & Robinson, 2001, 2002; La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1997; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Gaps in the legal system lead to a lack of reliable disclosure mechanisms, indicate poor investor protection and less effectual enforcement mechanisms (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999, 2000; La Porta et al., 1998). Consequences show in a loss of investors trust because of reduced financial transparency (Fan, Wei, & Xu, 2011) or higher corruption levels (Houqe & Monem, 2016). A poor institutional environment therefore imposes additional costs for investors and higher risk premiums (Khanna & Palepu, 1997; Shleifer & Vishny, 1993). Risk premiums also associate ceteris paribus with investment flows, and many papers have revealed rather a

[12] According to (Cowperthwaite, 2010) "Culture is to society as personality is to the individual. Each society has a core set of values that it has developed as a response to its own physical and economic situation and to the need to ensure survival. Those values enable people to differentiate between opposites such as good and evil, beauty and ugliness, normal and abnormal, safe and dangerous."

positive relationship between the quality of a country´s institutional setting and investment flows (Aizenman & Spiegel, 2006; Alfaro, Kalemli-Ozcan, & Volosovych, 2005; Hyun, 2006; Wei, 2000). As a consequence, the institutional setting in terms of accounting regulation in emerging markets matters for their economic performance.

There are numerous theories that have been used to explain the adoption of international accounting regulations by developing countries. For example Mir and Rahaman (2005) used institutional theory to explain the adoption of international accounting regulation in Bangladesh. Kim (2016) used the neo-institutional framework to explain the impact of international accounting regulations on the reporting quality of Russian firms. Venard and Hanafi (2008) also rely on neo-institutional theory and focus on the link between corruption and organizational isomorphism in financial institutions in emerging countries. A holistic view is given in Doh et al. (2017), they explain that in emerging markets institutional voids matters for the quality of adaptational processes in accounting. Equity theory was used by Rodrigues, Schmidt, and Santos (2012) to explain the influences on the development of accounting regulations in Brazil. Peng and van der Laan Smith (2010) used teleology theory to investigate the changes in Chinese GAAP over time. Another theoretical point of view is given in the study of Lassou and Hopper (2016), who built on political economy as underlying theory in explaining the accounting reform in an ex-French African colony. Brown, Preiato, and Tarca (2014) on the other hand used capital markets theory and focused on audit and accounting enforcement and the effect on the quality of financial information available in capital markets. Ball, Robin, and Wu (2003) show that financial reporting quality is low in four East-Asian cities despite high-quality reporting standards because of their institutional settings that provide incentives to issue low-quality reports.

Besides the different focal points in the above-named studies, the variety of theories indicates that every country has a different motivation regarding the adaption of accounting regulations. These different motivations may be based on diverse institutional environments, like legal and financial systems or the welfare state (Oehr & Zimmermann, 2012; Zimmermann & Werner, 2013; Zimmermann, Werner, & Volmer, 2008). The discussion of every theory is not a scope of this paper. But closely related to the observation and explanation of institutional processes of change is the concept of path dependencies, which is used in particular as an explanatory approach for the sustainability of institutions or institutional arrangements. The core idea of the concept is the history matters thesis by North (1990). He pointed out that past processes or decisions are relevant for subsequent (further) development processes of economic, political and/or social institutions. The concept of path dependency thus fundamentally distances itself from an ahistorically shaped institutional point of view (Druschek, 2010).

We draw on institutional theory as elaborated by Scott (1987), North (1990) and DiMaggio and Powell (1983) among others, as a theoretical lens for the institutional process of accounting in BRICS countries, because institutional theory provides explanation for the adaptation of particular organizational practices within a specific organizational field (Deegan, 2014). North (1990) defines institutions as the ‘rules of the game’ in a society that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. In this respect, the institutions forming the socio-economic system are the most fundamental and relatively stable rules to which we focus on in our analysis. Institutions develop to solve predominant coordination problems within economic systems. As a consequence from an institutional perspective, accounting itself can be regarded as a complementary institution which co-evolves with the more general or underlying institutional structure (Zimmermann & Werner, 2013). Institutional change shapes the way societies evolve over time and hence is the key to understanding historical change. E.g. exogenous shocks or challenges can trigger processes of change that lead to the elimination or reduction of differences that exist between institutional arrangements. The process of adjustment between different institutional arrangements can culminate in a complete structural equality of the systems. DiMaggio and Powell (1983) adapt the term isomorphism from the natural sciences to describe and explain such approximation processes in the organizational environment.

The basic assumption of isomorphic change is that organizations do not adopt the structures, practices or goals of other organizations for reasons of efficiency enhancement, but because their organizational characteristics have proven to be particularly legitimate and socially accepted (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). The term describes a process of change in organizations that is characterized by the fact that organizations adapt to other organizations in their characteristics (e.g. structure and practices). Isomorphic change accordingly defines the alignment of different organizational paths. In the broader sense, isomorphism is also equated with the concept of convergence (Rodrigues & Craig, 2007), although convergence defines a result rather than a process. According to DiMaggio and Powell (1983), isomorphism is supposed to characterize a transfer and diffusion process of organizational properties that can lead to convergence.

Isomorphism has three types: coercive, mimetic, and normative isomorphism (DiMaggio & Powell, 1983). Exchange and interdependence relationships between organizations are seen as the cause of coercive isomorphism. The pressure exerted by one organization on another is the cause of their convergence (DiMaggio & Powell, 1983). A decisive factor in mimetic processes is uncertainties that can arise from a changing institutional environment. The degree of uncertainty determines the degree of imitation of other, central actors whose structures or procedures have proven to be more robust or legitimate than their own or are perceived as such in the organizational field (Rodrigues & Craig, 2007). Normative isomorphism arises from the process of professionalization. This process is driven in particular by the goal of disseminating one's own routines, practices or standards as well as a common cognitive basis. In addition, professionalization also serves to legitimize one's own professional sovereignty. The establishment and development of network structures plays an essential role in this process in order to advance the process (DiMaggio & Powell, 1983).

We are not able to make a general statement about the reasons for the adoption of regulations in BRICS countries at all. Ever country has its own history and path dependencies and therefore different reasons for the adoption of regulations matter. Moreover, the three types of isomorphism are not mutually exclusive (Deegan and Jeffry 2006; Deegan 2009).

2.2 Accounting regulation in BRICS countries

Accounting regulation has not followed the deregulation trends that are present in many sectors of emerging markets[13] (Franke, 2000). Stronger regulation has resulted from the globalization of goods and financial markets on the one hand and financial crises on the other (Zimmermann et al., 2008). The following section highlights some developments, which are comprehensively reported in Tables 3 to 7.

One of the major areas of accounting regulation is the adoption of IFRS. Except for the members of the European Union and a handful of countries outside the region (e.g., Australia, New Zealand), most of the countries that adopt IFRS are emerging countries such as Nigeria, Mexico or Saudi Arabia (Houqe & Monem, 2016). Moreover, the BRICS countries have made reporting under IFRS mandatory or use national GAAP geared to international accounting regulation (Ghio & Verona, 2015; Nobes & Zeff, 2008). In Brazil, IFRS are mandatory for consolidated financial statements of listed companies for financial years ending on or after 31th December 2010 (Carneiro et al., 2017). The Law on Consolidated Accounts (LoCA), signed in 2010, introduced the requirements for the use of IFRS for consolidated financial statements in Russia as of 2012 (Ghio & Verona, 2015). Sharma, Joshi, and Kansal (2017) provided evidence that India had a stepwise integration of international accounting standards. From the year 2010 to 2016 listed firms had the opportunity to submit their financial statements either in accordance to the accounting standards specified in the Companies Law Art. 211 (3) c or with IFRS. In January 2015, the Indian Ministry of Corporate Affairs (MCA) released a revised roadmap that reflects that companies with a net worth of Rs. 500 Crore or more will have to mandatorily follow Indian Accounting Standards (Ind AS), which are largely converged with IFRS, from 1st April 2016 (Borker, 2012; MCA, 2015). The Chinese accounting harmonization process is somewhat different. China´s Ministry of Finance moved Chinese GAAP towards convergence with IFRS on the one hand through the direct import of standards from IFRS and on the other through fundamental changes in Chinese GAAP (Peng & van der Laan Smith, 2010). In South Africa, the option to use either SA GAAP or IFRS existed from 1995 (Prather-Kinsey, 2006) until 2012. Since then only IFRS are allowed.

Similar differences exist in regard to the preparation of a management commentary. In India, China and South Africa binding regulations concerning a management commentary exist, whereas in Brazil and Russia there is only limited disclosure required or recommended on a voluntary level. However, the disclosure effort regarding material information, quarterly reports and segment information is – except for South Africa – on a same level. In terms of the disclosure items *compensation* and *inside ownership*, only Brazilian companies have to report aggregated values for both. In Russia, the aggregated disclosure of management compensation is permitted, and in China, the aggregated disclosure of inside ownership. All countries have to prepare a *prospectus* for any public offering; in Russia there some material exemptions exist. With the

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The basic idea of liberalization and deregulation is to open up the financial markets by changing the legal framework in order to achieve efficiency and welfare gains for the economies involved.
Most emerging markets have grown together in recent years through liberalization and deregulation of the stock markets, improvements of their institutional infrastructure or through the development of efficient communication technology.

exception of China, in all countries the disclosure of detailed shareholder information is required. Related party *transaction*s have to be disclosed in all regarded countries, without exceptions.

Zeff and Nobes (2010) further mention that countries have also implemented different enforcement mechanisms that in the end do not lead to the same level of accounting regulation. For example, the *appointment* of executive board members of enforcement agencies is still made by the government or other executive institutions in Brazil, Russia and China. The *auditor independence*, *document* and *sworn statement* fully comply with our criteria. Except for Russia, the supervision of commercial banks and stock exchanges (*focus*) is done by independent agencies. All enforcement institutions of the regarded countries up to South Africa have the opportunity to set up establish regulations (*rule-making power*) on public offerings and stock exchange listing rules without approval from other governmental institutions. Our enforcement item *tenure* is only fulfilled by Brazil: In all other countries the government is able to dismiss members of the enforcement agencies. The situation is similar regarding the enforcement *review* process. With the exception of South Africa, only a reactive review is statutory. The sanction of a company (*sanctions company*) and the management (*sanctions management*) is – up to 2015 – completely fulfilled by all countries except for India.

2.3 Disclosure and Enforcement

Disclosure includes all information an entity gives to the interested public. That means the main role of disclosure is to reduce information asymmetries between a firm and the interested public. Disclosures typically take the form of financial reporting as this is the main source of information. In our scoring model these items are called *Financial Disclosures* as these are the major elements since their information is the primary source used by investors to gain information about a firm (Botosan, 1997; Meser et al., 2015). The second part of disclosure is named *Governance Disclosures*. These items represent information that investors can use to hold agents liable (Meser et al., 2015).

Many studies argue that the extent to which disclosure regulations are enforced and violations prosecuted is as important as the disclosure requirements themselves (Sunder, 1997). Generally speaking, enforcement concludes all mechanisms that ensure compliance with disclosure requirements. The items are separated into *Independence* and *Scope*. *Independence* refers to the absence of direct government involvement and whether the supervision is conducted by distinct authorities (La Porta et al., 2006), and what rulemaking powers are vested in them. *Scope* on the other hand addresses the range of actions that the enforcement system is entitled to carry out. These items primarily capture a supervisor´s capacity to launch investigations and to impose sanctions (Meser et al., 2015).

There have been many changes in capital market enforcement environment since mandatory IFRS adoption began. Capturing these changes presents a challenge to researchers as existing proxies are often aged and static (e.g., many of the (La Porta et al., 1998) measures derive from data from the 1980s-1990s) or do not significantly change over time (e.g. (Chen, Tang, Jiang, & Lin, 2010). Meser et al. (2015); Zimmermann and Tideman (2017) based their studies on La Porta et al. (2006) and gave a new scoring model which examines six OECD countries in the 1990s and 2000s.

2.4 Development of Disclosure and Enforcement in BRICS Countries - Expectations

Principle-based standards have the flexibility to fit different institutional environments across countries (Carmona & Trombetta, 2008), but adoption studies also find institutional differences (Brown, 2011; Brüggemann, Hitz, & Sellhorn, 2013). Carmona and Trombetta (2008); Daske, Hail, Leuz, and Verdi (2008) linked the adoption of IFRS to institutional commitment and coined the term ‘label adoption’. The phenomenon of label adopting occurs when countries use internationally accepted regulations only for reputational purposes and do not fully commit to them (Guerreiro, Rodrigues, & Craig, 2012a, 2012b). There are other links between institutions and accounting. For example, Ball (2001); Ball et al. (2003); Berkowitz, Pistor, and Richard (2003) suggested that the mere adoption of internationally accepted high-quality accounting standards was inadequate towards improving the quality of accounting information unless a country has powerful enforcement mechanisms. Ball (2001) argued that higher-quality standards themselves do not improve the quality of financial reporting without effective enforcement mechanisms. The studies by Burgstahler, Leuz and Hail (2006); Durnev and Kim (2005); Francis, Khurana and Pereira (2005); Hope, Jin and Kang (2006) provided evidence corroborating the above argument. For example, Burgstahler et al. (2006) found that a firm’s reporting incentives and a country’s institutional setting reinforce each other in providing high-quality financial reporting. Thus, in countries with institutional voids, one can expect that firms do not put much effort in high-quality disclosure practice compared to countries with effective institutional settings. On the other hand the adoption of disclosure regulations in general could be almost costless, especially in countries with low-quality institutions (Ball, 2006). In this context, he argued that some countries might behave like selfish actors and take the opportunity to benefit from the positive perception of high-quality standard sets around the world.

Holthausen (2009) argued that even if common accounting standards are adopted, it is likely that regulatory forces will result in differences in accounting across countries over time – unless the underlying institutional features of the economies become similar with time. Hence, it is necessary to look at the regulatory efforts concerning enforcement regulation across the regarded countries, too. High capital demands in the 1990s have led to the need of adapting the international accounting standards by BRICS countries. Differing institutional settings therefore may explain why accounting is differently regulated across countries (Carneiro et al., 2017). We expect that enforcement regulations also increase over time, as the adverse effects of weak institutions take effects and start crowding out easy first benefits from IFRS adoption and other low-cost activities in disclosure regulation. We expect a later and smaller effect of enforcement than for disclosure due to two reasons: One, they occur later as regulatory efforts in enforcement underpin previous disclosure changes and two, the changes are smaller, because from the relevant literature we know that effort in enforcement is more costly (Doh et al., 2017) and we therefore expect a lower increase in the enforcement as compared to disclosure level (Ball, 2006; Mahoney, 2009).

Method

Our scoring method for measuring the disclosure and enforcement requirements drew on prior research. We captured differences in disclosure and enforcement between two countries with disclosure measurement building on leximetric disclosure scores and enforcement scores for each of the regarded countries. Leximetrics is a method of quantitative comparative law commonly used in the jurisprudence. Since La Porta et al. (1998), leximetrics has also established itself as an increasingly frequently used method of empirical capital market and accounting research. For leximetrics, the quantification of per se qualitative parameters is necessary. The regulatory measurements show the similarity of the entire accounting system of two countries by determining the essential regulatory elements of disclosure and enforcement and their similarity to each other. Following La Porta et al. (2006), Meser et al. (2015); Zimmermann and Tideman (2017), both scores comprised ten items each for disclosure and enforcement, which ranged between 0 and 1, where a value of 0 represented the absence and a value of 1 the highest possible regulation intensity of the element. We change score values in the time series whenever a regulatory measure takes effect legally. Both indices were then calculated as equally weighted averages of all ten individual elements and consequently ranged between 0 and 1 over time. The accounting regulation score by Zimmermann and Tideman (2017) built on disclosure scores and enforcement scores developed by La Porta et al. (2006) and Meser et al. (2015). Meser et al. (2015) enhanced the disclosure and enforcement items made by La Porta et al. (2006) by integrating further elements into the score that were missing in their study, such as *Information Accounting*, *Management Commentary*, *Material Information*, *Quarterly Report*, *Segment Reporting*, *Auditor Independence*, and *Sworn Statement*.

[Please insert Tables 1-2 around here.]

The most straightforward way to achieve legitimacy in disclosure and enforcement in our analysis is to reach a level of 1 in the overall items. For this reason we do not need a test group or benchmark country, because the ideal level is set to 1. From an historical point of view, it is plausible to assume that the BRICS countries tend to put effort in the adoption of strong disclosure and enforcement regulations and rise over time.

We mainly worked with the original legal securities and common law resources or other regulations on a country’s stock exchanges. Only if we could not retrieve laws or any other regulations regarding a specific score item was secondary accounting literature used instead. For Brazil, we referred to Law 6.404/76, Law 9.457/97, Law 6.385/76, Law 10.411/02, 4.595/64, 10.303/01, Law 9.457/97, and different CVM Instructions (Table 3). For Russia we found evidence for the score items in Federal Law No. 39 dated April 22nd, 1996, Federal Law on Joint-Stock Companies of December 26th, 1995, Federal Law No. 251-FZ dated July 23rd, 2013, Law No. 46 on the Protection of Investors Rights of March 1999, Federal Law of July 27th, 2010 and Federal law on accounting (Table 4). For India, we uncovered evidence for the regulations in disclosure and enforcement in the Companies Act of 1956 and 2013, Prohibition of Insider Trading Regulations of 1992, Securities Exchange Board of India (SEBI) Act, 1992, Securities Contract Act (SCRA), 1956, SEBI Amendment Act 1995, Securities Law Amendments Act 2004 (Table 5). For China, we mainly used Law of the People´s Republic of China (PRC) on Securities, Regulations on Financial Accounting Reports of Enterprises, Company Law of the PRC 2010 and the Law of the PRC on Certified Public Accountants (Table 6). For South Africa, the laws where we identified our regarded score elements are in Companies Act No. 71 of 2008, Companies Act of 1973, Banks Act 1990, and the King Reports I–III (Table 7). Tables 3–7 present every single disclosure and enforcement score for every regarded country over time and provides explanations for value changes within the score.

[Please insert Tables 3-7 around here.]

After calculating the score values per year, we further measure accounting regulation and the influence on the GDP growth rate. We do so because according to literature the GDP growth rate is the main variable used to measure growth of a country. The annual GDP growth rates data is based on World Bank database and the disclosure and enforcement score values are measured as average per year. We then put it in a pooled OLS regression analysis.

Results and Discussion

For the BRICS countries, the increasing similarities of disclosure and enforcement regulation is reflected in our empirical results. All BRICS countries increased their level of disclosure and enforcement requirements over the observation period from 1991 to 2015, which led to a decrease in regulatory differences. However, the accounting regulation systems of the five countries showed fundamental cross-border differences, while at the same time an increase in both the disclosure scores and enforcement scores could be observed in each country. At the beginning of the observation period, Brazil – with a disclosure index of 0.33 – expressed the most disclosure requirements, whereas China – at 0.00 – had implemented practically no disclosure requirements. The largest increase in disclosure could be found in South Africa, which started at a value of 0.15 in 1991 and rose to a disclosure score of 0.95 in 2015.

[Please insert Table 3-7 around here.]

Regarding the disclosure scores, the most similarities could be found in the items *Segment Information* and *Transaction*. All BRICS countries reached a score value of 1 at the end of the observation period. The highest material difference within the score was revealed in the item *Information Accounting*. Russia, India and China still used their national GAAP until 2015.

[Please insert Figure 1 around here.]

Figure 1 presents a comparison of the average disclosure score for each country and shows that the disclosure regulation level increased in over time. The strong increase in the disclosure regulation supports our expectation. The results suggest that emerging countries resort to increasing disclosure regulation. This is an expected and unsurprising result.

A similar pattern could be observed for the enforcement mechanisms: all five countries increased their regulatory requirements. The average enforcement index rose from 0.25 in 1991 to 0.76 in 2015. Throughout the analysis period, Russia had the weakest enforcement system, whereas Brazil implemented the strongest enforcement system since 2001. The highest development in the enforcement system was made by China, which started at a value of 0.10 in 1991, rising to 0.75 in 2015.

[Please insert Figure 2 around here.]

During the observation period disclosure was lagging behind enforcement until 2006. This pattern provides evidence for our second expectation. The mean score levels from our sample countries have become higher, and in a faster way in disclosure than in enforcement. Regulations in enforcement were all implemented with a time delay with respect to disclosure activity. In addition, the gap between the mean distance of disclosure and enforcement has been increasing since 2006. Our findings are in line with our expectations that disclosure may be the primary area of action due to comparably little costs, in contrast to enforcement changes that are significantly costlier as they also start from a lower base:

Figure 3 presents the development the average disclosure and enforcement scores over time. We then examined the development of the regulation in accounting and the impact on the annual GDP growth rate of the BRICS countries. The model is written as:

$$\text{GDP growth rate}_{i,t} = \beta_0 + DS_{i,t} + ES_{i,t} + DS_{i,t} * ES_{i,t} + \epsilon_{i,t} \qquad (1)$$

We use the average disclosure score (DS) and enforcement score (ES) in country *i* and year *t* for the observation period from 1991 to 2015. We also capture interaction effects of disclosure and enforcement, which seems to be important as both disclosure and enforcement do not effect GDP growth rates properties in isolation, but in interplay with the level of the other regulation component (Ahmed, Neel, & Wang, 2013; Daske et al., 2013; O.-K. Hope, 2003; Meser et al., 2015; Zimmermann & Tideman, 2017). We expect positive coefficients for DS and ES which indicates that a higher regulatory efforts leads to a higher GDP growth rate. The direction for our interaction term is unclear, given that both a moderating as well as an intensifying effect is imaginable. In a pooled regression we find significant coefficients that indicate a positive relation between the accounting regulation and the GDP growth rates.

[Please insert Table 8 around here.]

Table 8 presents our pooled regression results. DS as well as ES are both positive and highly significant. This is indicative that the effort in accounting regulation contributes to a higher GDP growth rate. The interaction term DS*ES is negative and significant, too. This confirms earlier findings that disclosure and enforcement have a substitutionary effect (Zimmermann & Tideman, 2017). Our results imply that the effect of accounting regulation becomes weaker with a higher difference in enforcement. One explanation for this substitutionary relationship is that the effect of disclosure is weaker if the enforcement setting is too different to provide enough trust for investors and their investment activities.

Conclusion

In this paper we considered disclosure and enforcement regulations in BRICS countries from 1991 to 2015. To capture changes in accounting regulation with disclosure and enforcement we showed the development over time. The results show, first, that substantial differences in accounting regulation between BRICS countries remain. However, these differences significantly diminished during our observation period. We also show that score values of each of the BRICS countries have increased with regulatory action. The findings can be interpreted as evidence that regulators have managed to make the financial accounting information more comparable and more decision-relevant in a cross-country context.

We also provide evidence that the increase in enforcement regulation compared to disclosure happened with a slower speed and to a lesser extent. The analysis of the institutional setting in Section 2 shows that this is in line with the difficulties that arise for enforcement regulation. Countries with weaker institutional settings start their efforts according to isomorphic transformation partly as label adopters and change their enforcement system subsequently. However, stronger differences remain in the enforcement systems, which can also be linked to higher institutional costs. We show that differences in accounting regulation is anchored in different circumstances resulting from path dependencies in their individual development of their institutional environment.

Limitations arise from the type of data employed. Our study has used data for institutional change patterns in BRICS countries. This does not allow addressing whether regulation influences accounting practices at the company level. There are also opportunities to extend this study. Further research could also use our data to examine the link between regulatory action and international investment flows, such as international share ownership or mergers and acquisitions. The main methodological challenge will be to take into account the intertemporal institutional change of these countries in an endogenous way.

Tables and Figures to be included in the main text body

Table 1: Description of the Disclosure Score (taken from (Zimmermann & Tideman, 2017), based on (Meser et al., 2015).

Disclosure Score	
Score Items	*Description*
Financial Disclosures	
D1: Information Accounting	Equals 1 if companies are required to follow international accounting standards for their consolidated financial statements; equals 0.5 if companies have the choice between local GAAP and international accounting standards; equals 0 otherwise.
D2: Management Commentary	Rating for the complexity of the *Management Discussion and Analysis* (*MD&A*, as it is named in the U.S.; e.g. in the UK it is named *Operating and Financial Review*, in Germany *Lagebericht*). Equals 1, 0.75, 0.5, 0.25 or if no such report exists 0.
D3: Material Information	Equals 1 if companies are required to pursue ad hoc disclosure; equals 0 otherwise.
D4: Quarterly Reports	Equals 1 if companies are required to publish quarterly reports; equals 0.5 if reports have to be published semi-annually; equals 0 otherwise.
D5: Segment Information	Equals 1 if companies are required to publish detailed information on business segments and regional segments; equals 0.5 if companies are free to choose the extent of segment information disclosure; equals 0 otherwise.
Governance Disclosures	
D6: Compensation	Equals 1 if companies are required to disclosure total compensation of each top manager; equals 0.5 if regulation only requires the disclosure of the aggregate compensation of top management; equals 0 otherwise.
D7: Inside Ownership	Equals 1 if firms are required to disclose the number of shares owned by each member of the management; equals 0.5 if regulation only requires the aggregate number of the shares owned by the management to be disclosed; equals 0 otherwise.
D8: Prospectus	Equals 1 if companies are required to set up a prospectus for potential investors on any public offering; equals 0.5 if there exist material exemptions from publishing a prospectus, e.g. regarding tender size; equals 0 otherwise.
D9: Shareholders	Equals 1 if companies are required to disclose details (e.g. name, share property) of shareholders that directly or indirectly control at least 10 % of the company's stock; equals 0.5 if regulation only requires the disclosure of the direct or aggregate ownership of these shareholders; equals 0 otherwise.

D10: Transactions	Equals 1 if companies are required to disclosure all capital market transactions that involve related parties; equals 0.5 if only some transactions between the company and related parties have to be disclosed; equals 0 otherwise.
Disclosure Score Value	*Calculated as the average of items D1 to D10 and ranges between 0 and 1*

Table 2: Description of the Enforcement Score (taken from (Zimmermann & Tideman, 2017), based on (Meser et al., 2015)

Enforcement Score	
Score Items	*Description*
Independence	
E1: Appointment	Equals 1 if the executive board members of the enforcement agency at the state or federal level (hereinafter termed "the Enforcement Institution") are not exclusively appointed by the executive (e.g. the government or any other executive institution); equals 0 otherwise.
E2: Auditor's Independence	Equals 1 if substantial laws concerning the independence of auditors are established; equals 0.5 if there are only weak independence criteria; equals 0 otherwise.
E3: Focus	Equals 1 if separate government agencies or official authorities are in charge of supervising commercial banks and stock exchanges; equals 0 otherwise.
E4: Rule-making Power	Equals 1 if the Enforcement Institution can establish regulations on public offerings and stock exchange listing rules without approval from other governmental institutions; equals 0.5 if the Enforcement Institution can establish regulations on public offerings and stock exchange listing rules only with approval from other governmental institutions; equals 0 otherwise.
E5: Tenure	Equals 1 if the governmental authority that appoints members of the Enforcement Institution does not have the power to dismiss them; equals 0 otherwise.
Scope	
E6: Document	Equals 1 if the Enforcement Institution has the legal power to demand documents from all persons that are related to the suspicious firm; equals 0.5 if the Enforcement Institution has the legal power to only demand documents from the directors of suspicious publicly-traded corporations; equals 0 otherwise.
E7: Review	Equals 1 if the Enforcement Institution requires a continuous filing of disclosure documents and submits them to a systematic, proactive review; equals 0.5 if a filing and only a reactive review is statutory, equals 0 otherwise.

E8: Sanctions Company	Equals 1 if the Enforcement Institution has far reaching competencies to impose financial and other legal penalties against companies; equals 0.5 if the Enforcement Institution can only impose financial penalties; equals 0 otherwise.
E9: Sanctions Management	Equals 1 if accountants/managers can be held criminally liable when they are unaware of fraud and misleading information; equals 0.5 if the accountants/managers can be held criminally liable when they are aware that the financial statements are misleading; equals 0 otherwise.
E10: Sworn Statement	Equals 1 if the directors have to sign for the material accuracy of financial statements; equals 0 otherwise.
Enforcement Score Value	*Calculated as the average of items E1 to E10 and ranges between 0 and 1*

Table 3: Score Values by Year, Brazil

	1991	1992	1993	1994	1995	1996	1997	1998	1999
D1: Information Accounting	0	0	0	0	0	0	0	0	0
D2: Management Commentary	0.25 [b]	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
D3: Material Information	1[c]	1	1	1	1	1	1	1	1
D4: Quarterly Reports	0	0	0	0	0	0	0	0	0
D5: Segment Information	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D6: Compensation	0	0	0	0	0	0	0.5[f]	0.5	0.5
D7: Inside Ownership	0.5[g]	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D8: Prospectus	1[h]	1	1	1	1	1	1	1	1
D9: Shareholders	0	0	0	0	0	0	0	0	0
D10: Transactions	0	0	0	0	0	0	0	0	0
Disclosure Score	0.33	0.33	0.33	0.33	0.33	0.33	0.38	0.38	0.38

	2000	2001	2002	2003	2004	2005	2006	2007
D1: Information Accounting	0	0	0	0	0	0	0	0.5[a]
D2: Management Commentary	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	0	0	0	0	0	0	0	0
D5: Segment Information	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D6: Compensation	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D7: Inside Ownership	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D8: Prospectus	1	1	1	1	1	1	1	1
D9: Shareholders	0	0	0	0	0	0	0	1[i]
D10: Transactions	0	0	0	0	0	0	0	0
Disclosure Score	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.53

	2008	2009	2010	2011	2012	2013	2014	2015
D1: Information Accounting	0.5	0.5	1	1	1	1	1	1
D2: Management Commentary	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	0	0	1[d]	1	1	1	1	1
D5: Segment Information	0.5	0.5	1[e]	1	1	1	1	1
D6: Compensation	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D7: Inside Ownership	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D8: Prospectus	1	1	1	1	1	1	1	1
D9: Shareholders	1	1	1	1	1	1	1	1
D10: Transactions	1[j]	1	1	1	1	1	1	1
Disclosure Score	0.63	0.63	0.83	0.83	0.83	0.83	0.83	0.83

Table 3, continued on next page

Table 3, continued

	1991	1992	1993	1994	1995	1996	1997	1998	1999
E1: Appointment	0[k]	0	0	0	0	0	0	0	0
E2: Auditor Independence	0	0	0	0	0	0	0	0	1[l]
E3: Focus	1[m]	1	1	1	1	1	1	1	1
E4: Rule-making power	0	0	0	0	0	0	0	0	0
E5: Tenure	0	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	0	0
E7: Review	0	0	0	0	0	0	0	0	0
E8: Sanctions Company	0.5[r]	0.5	0.5	0.5	0.5	0.5	1	1	1
E9: Sanctions Management	1[s]	1	1	1	1	1	1	1	1
E10: Sworn Statement	1[t]	1	1	1	1	1	1	1	1
Enforcement Score	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.50

	2000	2001	2002	2003	2004	2005	2006	2007
E1: Appointment	0	0	0	0	0	0	0	0
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	0	1[n]	1	1	1	1	1	1
E5: Tenure	0	0	1[o]	1	1	1	1	1
E6: Document	0	1[p]	1	1	1	1	1	1
E7: Review	0	0.5[q]	0.5	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	1	1	1	1	1	1	1	1
E9: Sanctions Management	1	1	1	1	1	1	1	1
E10: Sworn Statement	1	1	1	1	1	1	1	1
Enforcement Score	0.50	0.75	0.85	0.85	0.85	0.85	0.85	0.85

	2008	2009	2010	2011	2012	2013	2014	2015
E1: Appointment	0	0	0	0	0	0	0	0
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	1	1	1	1	1	1	1	1
E6: Document	1	1	1	1	1	1	1	1
E7: Review	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	1	1	1	1	1	1	1	1
E9: Sanctions Management	1	1	1	1	1	1	1	1
E10: Sworn Statement	1	1	1	1	1	1	1	1
Enforcement Score	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85

Table 3, continued on next page

Table 3, continued

a	Firms are allowed to voluntarily disclose their financial statements according to IFRS (International Financial Reporting Standards) since 2007. Since 2010, listed companies have to disclose their financial statements applying IFRS (Rodrigues et al., 2012); *Comissão de Valores Mobiliários* (CVM) Instruction 457, Art. 1-2 of July 13th, 2007).
b	Listed companies are required to disclose investments in related and controlled companies as well as the changes of these investments in their management report since 1976. Since there is no further information required, the score value is set to 0.25 for the entire observation period (Law 6.404/76, Art. 243).
c	Each listed company has to disclose important information immediately, which may have potentially impacts to the firms' share price. (Law 6.404/76, Art. 157 (4)). There are no changes over the sample period.
d	CVM Instruction 480, Art. 29 requires listed companies to publish quarterly reports. This provision came into force on December 7th, 2009 for reporting periods starting on January, 1st 2010 (Cissé, Bradlow, & Kingsbury, 2012).
e	Brazil, the disclosure of segment information is a relatively new requirement: it has been compulsory for public companies since 2010. Technical Pronouncement CPC 22, which regulates such matters, allows for discretion, which can prompt companies to adopt different strategies and exhibit different disclosure levels. Prior to CPC 22, there was no standardization in Brazil for the disclosure of segment reporting. The CVM published a voluntary orientation report recommending that listed companies provide segment-level reporting (UNCTAD, 2008). Therefore, some of the public companies disclosed voluntarily, whereas others disclosed due to the requirements of foreign markets or even regulatory agencies (Alves e Souza, Sarlo Neto, Carvalho de Benedicto, & Mendonça, 2016). The requirements increased as a result of the obligation to prepare consolidated financial statements in accordance with IFRS since 2010. With the adoption of IFRS 8, the management approach was implemented (Nichols, Street, & Tarca, 2013). Therefore, the score value is set to 1 starting in year 2010 onwards.
f	Listed companies were committed to disclose management fees either on an individual or aggregated base until 2010 (Law 6.404/76, Art. 152, text as determined by Law 9.457/97). This regulation has been modified: Since the beginning of the financial year 2010, companies have to disclose the Reference Form document (*Formulário de Referência* (FR)), which contains the minimum, mean and maximum salaries of senior management and the board of directors. (Barros, Di Miceli da Silveira, Bortolon, & Leal, 2015); CVM Instruction 480, Annex 24 of December 7th, 2009).
g	A manager has to state his ownership interest in the company as well as the shares of other companies held which are controlled by the main company upon signing the certificate of appointment (Law 6.404/76, Art. 157(1)).
h	The general requirement to disclose a prospectus is prescribed in an unchanged way in Law 6.404/76, Art. 82.
i	Since the amendment of CVM Instruction 358, Art. 12 with CVM Instruction 449 July 15th, 2007, there is an obligation to disclose information on persons or groups of persons with a shareholding of at least 5 percent of the voting shares who are able to exercise direct or indirect control of the company. The requirements are closely specified in CVM

Instruction 358, Art. 12, Item II which is introduced with the CVM Instruction 449 of July 15th, 2007. The company has to declare the objective of the participation and quantity envisaged, including a declaration of the buyer that purchases will not alter the composition of the control or administrative structures of the company.

j The Standard *Comitê de Pronunciamentos Contábeis* (CPC) 05 was published within the effort of the convergence of Brazilian GAAP and IFRS in 2008. It deals with the regulation of company transactions with related parties. There are no significant differences to International Accounting Standard (IAS) 24. The matter is now regulated by Annex 30-XXXIII introduced by CVM Instruction 552 of October 9th, 2014. Among other provisions, CVM instruction 552 amended CVM Instruction 480 of December 7th, 2009. The purpose of Annex 30-XXXIII is to allow shareholders of the issuer to monitor the most relevant transactions more closely and immediately. The term "issuer" also comprises companies directly or indirectly controlled by the issuer.

k The chairman of the supervisory board and four commissioners legally manage the Brazilian securities exchange commission CVM. The members are elected by the president of Brazil in consent with the senate (Rodrigues et al., 2012); Law 6.385/76 Art. 6, text as determined by Law 10.411/02).

l The CVM Instruction 308 Art. 4-6 dated May 14th, 1999 describes the criteria for the independence of the auditor and audit company. According to this instruction, companies have to fulfill various conditions for the registration as an independent auditor.

m There are three main regulators supervising the financial system in Brazil. The National Monetary Council (CMN) is introduced by Law 4.595/64 as institution with the responsibility to supervise the monetary and currency exchange policies for the purpose of economic and social development of Brazil, as well as operating the Brazilian financial system. The Central Bank has the obligation to assure the purchasing power stability of the national currency and the solidity of the national financial system (Themudo Lessa, Lopes Gaspar, ChFerrari Chauffaille, & Cervanes de Simoni, 2017). The Banking Law granted powers to the Central Bank to implement monetary and credit policies issued by the CMN; Law 4.595/64). CVM takes the supervisory of the stock exchange and was founded in December 1976 (Luna & Klein, 2014). Therefore, the score value is set to 1 over the whole observation period.

n With the introduction of Law 10.303/01 in 2001 CVM obtained legislative power. Any similar regulations didn´t exist before (Law 6.385/76 text as determined by Law 10.303/01 Art. 2, (3); (Salotti & Carvalho, 2015).

o A member can only be removed from his mandate in the event of non-compliance with his duties or violations within his office, resignation or legal conviction despite criminal and administrative law (Law 10.411/02, Art. 6, (2) and (3)).

p The Securities Commission of Brazil can seize any relevant document (OECD, 2013); law regulation 3.995 Art. 9 paragraph I).

q The CVM is permitted to set up investigations in the event of indications of behavior violating the law (Law 6.385/76, Art. 9 (I) (b) and (V)).

r The CVM was only allowed to impose warnings or fines according to law 6.385/76 Art. 11. CVM´s scope of penalization power extended by entering into force of law 9.457/97 in 1997. Since then the CVM is also allowed to set up temporary disqualification or cancellation of the registration or the authorization to carry out the activities covered by the law 6.385/76, Art. 11; Law 9.457/97, Art. 11 (OECD, 2013).

s The management of listed companies can be made personally liable in the case of deception (Law 6.404/76, Art. 158; Law 10,303/01, Art. 27-C).

t Officers of a corporation have to affirm the material accuracy of financial statements since 1976 (Law 6.404/76, Art. 177, paragraph 4).

Table 3: Score Values by Year, Brazil

Table 4: Score Values by Year, Russia

	1991	1992	1993	1994	1995	1996	1997	1998	1999
D1: Information Accounting	0	0	0	0	0	0	0	0	0
D2: Management Commentary	0.25[b]	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
D3: Material Information	0	0	0	0	0	1[c]	1	1	1
D4: Quarterly Reports	0	0	0	0	0	0	0	0	1[d]
D5: Segment Information	0	0	0	0	0	0	0	0	0
D6: Compensation	0	0	0	0	0	0	0	0	0
D7: Inside Ownership	0	0	0	0	0	1[g]	1	1	1
D8: Prospectus	0	0	0	0	0	0.5[h]	0.5	0.5	0.5
D9: Shareholders	0	0	0	0	0	0	0	0	0
D10: Transactions	0	0	0	0	0.5[j]	0.5	0.5	0.5	0.5
Disclosure Score	0.03	0.03	0.03	0.03	0.08	0.33	0.33	0.33	0.43

	2000	2001	2002	2003	2004	2005	2006	2007
D1: Information Accounting	0	0	0	0	0	0	0	0
D2: Management Commentary	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	1	1	1	1	1	1	1	1
D5: Segment Information	1[e]	1	1	1	1	1	1	1
D6: Compensation	0	0	0.5[f]	0.5	0.5	0.5	0.5	0.5
D7: Inside Ownership	1	1	1	1	1	1	1	1
D8: Prospectus	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D9: Shareholders	0	0	0	0	0	0	1[i]	1
D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.58	0.58	0.63	0.63	0.63	0.63	0.73	0.73

	2008	2009	2010	2011	2012	2013	2014	2015
D1: Information Accounting	0	0	0	0	1[a]	1	1	1
D2: Management Commentary	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	1	1	1	1	1	1	1	1
D5: Segment Information	1	1	1	1	1	1	1	1
D6: Compensation	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D7: Inside Ownership	1	1	1	1	1	1	1	1
D8: Prospectus	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D9: Shareholders	1	1	1	1	1	1	1	1

D10: Transactions		1	1	1	1	1	1	1	1
Disclosure Score		0.73	0.73	0.73	0.73	0.83	0.83	0.83	0.83

Table 4, continued on next page

Table 4, continued

	1991	1992	1993	1994	1995	1996	1997	1998	1999
E1: Appointment	0	0	0	0	0	0	0	0	0
E2: Auditor Independence	0	0	1[l]	1	1	1	1	1	1
E3: Focus	1[m]	1	1	1	1	1	1	1	1
E4: Rule-making power	1[n]	1	1	1	1	1	1	1	1
E5: Tenure	0[o]	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	0	0
E7: Review	0	0	0	0	0	0	0	0	0
E8: Sanctions Company	0	0	0	0	0	0.5[r]	0.5	0.5	0.5
E9: Sanctions Management	0	0	0	0	0	0	0	0	0
E10: Sworn Statement	0	0	0	0	0	0	0	0	0
Enforcement Score	0.20	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35

	2000	2001	2002	2003	2004	2005	2006	2007
E1: Appointment	0	0	0	0	0	0	0	0
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	1[p]
E7: Review	0	0	0	0	0	0	0	0
E8: Sanctions Company	1	1	1	1	1	1	1	1
E9: Sanctions Management	0	0	0	0	0	0	0	0
E10: Sworn Statement	0	0	0	0	0	0	0	0
Enforcement Score	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50

	2008	2009	2010	2011	2012	2013	2014	2015
E1: Appointment	0	0	0	0	0	0[k]	0	0
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	0	0	0
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	1	1	1	1	1	1	1	1
E7: Review	0	0	0	0	0	0.5[q]	0.5	0.5
E8: Sanctions Company	1	1	1	1	1	1	1	1
E9: Sanctions Management	0	0	1[s]	1	1	1	1	1

E10: Sworn Statement	0	0	0	0	0	1[t]	1	1
Enforcement Score	0.50	0.50	0.60	0.60	0.60	0.65	0.65	0.65

Table 4, continued on next page

Table 4, continued

a	Listed companies are required to prepare their financial statements according to IFRS since 2012. Before 2012 was no regulation allowing voluntary IFRS adoption (Kim, 2016).
b	The management report can be voluntarily issued if the managing directors and the executive board consider the information contained in the management report to be useful for addressees of the annual financial statements (Ionova & Scholz, 2014).
c	Regulations on ad hoc reporting are provided within Federal Law No. 39 dated April 22nd, 1996, Art. 30 as well as in the special regulations for disclosure of the Federal Commission of Securities Market (FCSM). These special regulations prescribe a list of events that have an impact on the share price and need to be reported immediately (FCSM Resolution of August 12th, 1998; Federal Law No.39-FZ of April 22nd, 1996).
d	According to *Polozheniya po Bukhgalterskomu Uchetu* (PBU) 4/1999 § 48 - 49 monthly and quarterly statements are required to complement annual statements. Interim statements consist of a balance sheet and an income statement. Prior to 2002, the financial statements were prepared exclusively for tax purposes. Since January 2002, it has been possible to separate the commercial balance sheet from the profit tax calculation (Ionova & Scholz, 2014). Monthly financial statements are usually not prepared in practice if this is not required for tax purposes (Ionova & Scholz, 2014). There are no material differences to IAS 34 (Semke, 2010); Arrangement of the Ministry of Finance (MoF): RF Nr. 43n dated July 6th, 1999).
e	PBU 12/2000 contains regulations on segment reporting and was issued by the direction of the MoF on January 27th, 2000. It is an analogue regulation to the previous IAS 14 before it was amended in 1998. The standard was revised in line with IFRS 8 Operating Segments as RLS 12/2010 (McGee & Preobragenskaya, 2005). Since 2012, the mandatory adoption of the IFRS prevails.
f	According to FCSM regulation "About the information disclosure by the issuers of securities" Art. 8.2.3, it is mandated that the compensation schemes of each member of a governing organ is to be disclosed in annual reports of companies which make public offer of securities (This regulation exists since March 16th, 2005). Since 2012, listed companies with a stock exchange listing are required to disclose compensation figures in their annual reporting (Bogatyrev, 2016). Only the Corporate Governance Code contains recommendations that listed companies should disclose the total amount of remuneration paid to members of the management board (Kurtbedinov, 2008).
g	With the adoption of Federal Law No. 39 in 1996 the disclosure of information on the management´s shareholdings became mandatory, which was not requirement before (Federal Law No. 39 of April 22nd, 1996, Art. 30).
h	The preparation of a securities prospectus is mandatory for listed companies since 1996 (Federal Law on the Securities Market of April 22nd 1996). However, company size-related exceptions exist (Gubin & Molotnikov, 2016).
i	In October 2010 amendments were made to improve transparency on the securities market. One of the main amendments extends the list of information items about material facts. In addition, rules for the disclosure of capital structure changed substantially: companies are now required to disclose not only the registered owners but also those persons who control,

directly or indirectly, at least 5, 10, 15, 20, 25, 30, 50, 75 or 95 per cent of voting shares. (Federal Law No. 39 of April 22nd, 1996, Art. 30, amended on October 16th, 2006).

j Since 1995, listed companies are required to unveil transactions of the shareholders who own at least 20 percent (Federal Law on Joint-Stock Companies of December 26th 1995, Art. 82). The obligation to disclose transactions with members of the management or board members is regulated by PBU 11. There are according to Federal Law No. 208 on Joint Stock Companies Art. 82 no deviations from IAS 24 (Kurtbedinov, 2008; McGee & Preobragenskaya, 2005).

k The MoF acted as supervisory authority from 1991 to 1996. With the passing of the Russian Companies Act in 1996 the FCSM became its successor. Due to a reorganization of the government, all monitoring functions were transferred to the Federal Financial Markets Service (FFMS) in March 2004 which was responsible for supervision until 2013 (Rubtsov, 2013). In 2013 the Bank of Russia was convened as a new supervisory body. The members are appointed exclusively by the government (Federal Law on the Central Bank of the Russian Federation, Art. 5; Federal Law No. 251-FZ "On Amendments to Certain Legislative Acts of the Russian Federation in conjunction with Transfer of Authorities to Exercise Regulation, Control and Supervision of Financial Markets to the Central Bank of the Russian Federation" dated July 23rd, 2013).

l Requirements for the independence of auditors are specified as compulsory by Temporary Rules on Auditing of December 22nd, 1993, Art. 12 since 1993 (Sucher & Bychkova, 2001; Vanasco, Skousen, & Roger, 1997).

m The banking and securities supervisory authorities were organized in separate bodies until 2013 (Rubtsov, 2013). The supervisory authorities were then incorporated into the Bank of Russia through the adoption of Federal Law No. 251-FZ "On Amendments to Certain Legislative Acts of the Russian Federation connected with Transfer of Authorities to Exercise Regulation, Control and Supervision of Financial Markets to the Central Bank of the Russian Federation" on 23rd of July 2013. The Law intends to establish a mega-regulator, based on the Central Bank of Russia, to perform both regulatory and supervisory functions in relation to financial markets. For these purposes all functions and authorities of the FFMS and certain regulatory powers of Russian Ministry of Finance and Russian Government were transferred to the CBR.

n Similar to the FCSM, the MoF had the power to regulate capital markets (Pistor & Xu, 2004; Wei, 2016). The Central Bank of Russia, then again, is regulated by Federal Law No. 251-FZ Art. 76 of July 23rd, 2013.

o The election and dismissal of members of the Bank of Russia are conducted by the government (Federal Law on the Central Bank of the Russian Federation, Art. 5).

p FSFM was entitled to request all necessary documents from companies under investigation (Items 3.4, 3.7 of Decree of the FSFM No. 05-16 of July 1st, 2007). The President of Russia signed the Decree “On abolition of the Federal Commission for Securities Markets, amending and recognizing certain acts of the President of Russia as ineffective" on July 25th 2013. Pursuant to the Decree the FCSM was abolished from 1 September 2013. All financial markets regulatory, controlling and supervisory powers of the FCSM were transferred to the Bank of Russia.

q The CBR performs reactive tests (Britton & Pratt, 2016).

r Finally, an overhaul of the FCSM's powers occurred in 1999 with the adoption of the Investor Protection Law, which took effect at the beginning of 2000.FCSM had the power to initiate investigations, but the imposition of fines required an action in court (Law No. 46 on the Protection of Investors Rights of March 1999). This new law allows the FCSM to fine companies that fail to comply with the provisions of the Securities Law or the Investor Protection Law for an amount of up to 10,000 times the minimum wage without having to go through the courts. Fines may be imposed for violating registration requirements, among others, for failing to disclose relevant information and for disseminating misleading information. (Pistor & Xu, 2004).

s The disclosure of misleading information or other deliberate actions prohibited by the legislation of the Russian Federation has been punished by fine or imprisonment throughout the entire observation period (Klepitskij, 2016); Article 185.3 of the Criminal Code amended in 2010; Federal Law of July 27th, 2010 Art. 5).

t Since 2013, the management of a listed company has to confirm the material correctness of a financial statement by signing these documents (Federal law on accounting Art. 10 Nr. 4 paragraph 7).

Table 4: Score Values by Year, Russia

Table 5: Score Values by Year, India

	1991	1992	1993	1994	1995	1996	1997	1998	1999
D1: Information Accounting	0	0	0	0	0	0	0	0	0
D2: Management Commentary	0	0	0	0	0	0	0	0	0
D3: Material Information	0	0	0	0	0	0	0	0	0
D4: Quarterly Reports	0	0	0	0	0	0	0	0	0
D5: Segment Information	0	0	0	0	0	0	0	0	0
D6: Compensation	0	0	0	0	0	0	0	0	0
D7: Inside Ownership	0	1[g]	1	1	1	1	1	1	1
D8: Prospectus	0	0	0	0	0	0	0	0	0
D9: Shareholders	0	1[i]	1	1	1	1	1	1	1
D10: Transactions	1[j]	1	1	1	1	1	1	1	1
Disclosure Score	0.10	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30

	2000	2001	2002	2003	2004	2005	2006	2007
D1: Information Accounting	0	0	0	0	0	0	0	0
D2: Management Commentary	0	1[b]	1	1	1	1	1	1
D3: Material Information	0	0	0	0	0	0	0	0
D4: Quarterly Reports	1[d]	1	1	1	1	1	1	1
D5: Segment Information	0	0[e]	0	0	0	0	1	1
D6: Compensation	1[f]	1	1	1	1	1	1	1
D7: Inside Ownership	1	1	1	1	1	1	1	1
D8: Prospectus	0	0	0	0	0	0	0	0
D9: Shareholders	1	1	1	1	1	1	1	1
D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.50	0.60	0.60	0.60	0.60	0.60	0.70	0.70

	2008	2009	2010	2011	2012	2013	2014	2015
D1: Information Accounting	0	0	0.5[a]	0.5	0.5	0.5	0.5	0.5
D2: Management Commentary	1	1	1	1	1	1	1	1
D3: Material Information	0	0	0	0	0	0	0	1[c]
D4: Quarterly Reports	1	1	1	1	1	1	1	1
D5: Segment Information	1	1	1	1	1	1	1	1
D6: Compensation	1	1	1	1	1	1	1	1
D7: Inside Ownership	1	1	1	1	1	1	1	1
D8: Prospectus	1[h]	1	1	1	1	1	1	1
D9: Shareholders	1	1	1	1	1	1	1	1

D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.80	0.80	0.85	0.85	0.85	0.85	0.85	0.95

Table 5, continued on next page

Table 5, continued

	1991	1992	1993	1994	1995	1996	1997	1998	1999
E1: Appointment	0	1[k]	1	1	1	1	1	1	1
E2: Auditor Independence	1[l]	1	1	1	1	1	1	1	1
E3: Focus	1[m]	1	1	1	1	1	1	1	1
E4: Rule-making power	0	0	0	0	1[n]	1	1	1	1
E5: Tenure	0[o]	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	0	0
E7: Review	0	0.5[q]	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	0	0.5[r]	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E9: Sanctions Management	0.5[s]	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E10: Sworn Statement	1[t]	1	1	1	1	1	1	1	1
Enforcement Score	0.35	0.55	0.55	0.55	0.65	0.65	0.65	0.65	0.65

	2000	2001	2002	2003	2004	2005	2006	2007
E1: Appointment	1	1	1	1	1	1	1	1
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	0	0	0	1[p]	1	1	1	1
E7: Review	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E9: Sanctions Management	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E10: Sworn Statement	1	1	1	1	1	1	1	1
Enforcement Score	0.65	0.65	0.65	0.75	0.75	0.75	0.75	0.75

	2008	2009	2010	2011	2012	2013	2014	2015
E1: Appointment	1	1	1	1	1	1	1	1
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	1	1	1	1	1	1	1	1
E7: Review	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E9: Sanctions Management	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E10: Sworn Statement	1	1	1	1	1	1	1	1
Enforcement Score	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Table 5, continued on next page

Table 5, continued

a	Securities and Exchange Board of India (SEBI) decided to provide an option for listed companies having subsidiaries to submit their financial statements either in accordance with Indian Accounting Standards (Ind AS) according to Companies Act, 1956, 211 (3C) or in accordance with IFRS (SEBI Circular April 5th, 2010). In January 2015 the Indian Ministry of Corporate Affairs (MCA) issued a revised plan for the launch of Ind AS. Starting with April 1st, companies with net assets exceeding 5.000 million INR are obliged to publish their financial statements according to Ind AS. Companies with net assets below 5.000 million INR but above 2.500 million INR as well as companies listed on foreign stock exchanges have to adopt IFRS, beginning of the financial year 2017. This regulation applies to every company except banks, insurance companies and other financial institutions (Ghio & Verona, 2015).
b	Corporate governance has become increasingly important in India in recent years. This was accompanied by two binding declarations on corporate governance issued by the SEBI. SEBI made the recommendations of the working group binding in clause 49 of the agreement for listed companies. Companies listed in the BSE 200 and S&P C&X Nifty indices and all newly listed companies have to apply on the clause since March 31st, 2001 (Rani & Mishra, 2009). Clause 49 IV F states that the Management Report should e.g. address the following topics: opportunities and risks of the company, possible threats, segment information, internal control systems and their functioning.
c	SEBI Act of 1992 includes a legal ban on insider trading. However, insider information that has an influence on the buying behavior of investors has to be transferred to the capital market only since 2015 with the modification of the amendment to the Prohibition of Insider Trading Regulation in 2015. The Code of Fair Disclosure requires companies to report information that affect the share value directly to the capital market (Prohibition of Insider Trading Regulation, Article 8).
d	On February 4th, 2000 SEBI issued guidelines requiring interim financial reporting. AS 25 - Interim Financial Reporting was published in 2002 and provides further recommendations on how to deal with interim reporting.
e	Segment-wise or product-wise performance reporting is required according to clause 49 F (i). The harmonization process with IFRS resulted in a new standard, namely Ind AS 108 - Operating Segments, which is mandatory from 2017 onwards.
f	All elements of the remuneration structure of the individual members of the management board have to be disclosed under main categories such as salary, benefits, bonuses, stock options and pensions in the annual financial statements (Chakrabarti, Subramanian, Yadav, & Yadev, 2012); Clause 49 IV E (ii), entered into force on February 21st, 2000).
g	The disclosure of information of the ownership of a company’s shares by its managers is required since 1992 (Clause 49, IV E (iv)).
h	A general obligation to prepare securities prospectuses is regulated by Companies Act 2013,Section 26 and Companies Act 1956, Section 56.
i	With the adoption of the ban on insider trading in 1992, managers have to provide personal information in a form on their ownership status (Prohibition of Insider Trading Regulations, 1992, Article 13 (1), (2)).

j Every director of a company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement, or proposed contract or arrangement, entered into or to be entered into, by or on behalf of the company, shall disclose the nature of his concern or interest at a meeting of the Board of directors. (Companies Act 1956, Art. 299, Ind AS - 18 Related Party and Clause 49).

k The members of the supervisory authority are appointed and elected by the government without exception (SEBI Act, 1992, Art. 4 No. (1) und (4)).

l The Companies Act of 1956 gives provisions when an auditor may not be appointed. Since these are rather weak specifications, the score value is set to 0.5 (Companies Act of 1956, Art. 226).

m Monitoring of the financial system in India is in the responsibility of various supervisory authorities. The Reserve Bank of India (RBI) regulates and monitors most institutions of the financial system. However, investment funds and the equity market are supervised by SEBI and the insurance sector is monitored by the Insurance Regulatory Development Authority of India (IDRA) (Chakrabarti, Megginson, & Yadav, 2008); Securities Contract Act (SCRA), 1956; SEBI Act, 1992).

n SEBI received legislative power for the first time in 1995. SEBI is authorized to amend the requirements of the listing conditions on the stock exchange and other conditions without further approval of the government (Bhalla (2008); SEBI Amendment Act 1995, Art. 11A, Number 2).

o The members of the SEBI can only be dismissed by the government. Certain reasons are e.g. if the member has been convicted of an offence which, in the opinion of the Central Government, involves a moral turpitude; or if the member has, in the opinion of the Central Government, so abused his position as to render his continuation in office detrimental to the public interest (SEBI Act, 1992, Art. 6).

p SEBI has the right to request any documents from a company within an investigation (Bhalla, 2013); SEBI Amendment Act, 1995, Art. 11, Number (3) (iii)).

q Investigations have to take place at the company concerned if there are indications of an infringement (Companies Act, Art. 11(C)).

r The company and the persons involved can be held personally liable for offences of the law (Chakrabarti et al., 2012); SEBI Act, 1992, Art. 27 Securities Law Amendments Act 2004 Art. 11).

s If material information is deliberately not disclosed or false information are knowingly published, the persons involved may be held personally liable. (Chakrabarti et al., 2012); Companies Act 1956, Art. 628). Hence, the score value is set to 0.5.

t An authorized chairman or two managers have to sign the financial statements (Companies Act 1956, Art. 217, Number (4) und Companies Act 2013, Art. 134, Number (6).

Table 5: Score Values by Year, India

Table 6: Score Values by Year, China

	1991	1992	1993	1994	1995	1996	1997	1998	1999
D1: Information Accounting	0	0	0	0	0	0	0	0	0
D2: Management Commentary	0	1[b]	1	1	1	1	1	1	1
D3: Material Information	0	0	0	0	0	0	0	0	0
D4: Quarterly Reports	0	0	0	0	0	0	0	0	0
D5: Segment Information	0	0	0	0	0	0	0	0	0
D6: Compensation	0	0	0	0	0	0	0	0	0
D7: Inside Ownership	0	0	0	0	0	0	0	0.5[g]	0.5
D8: Prospectus	0	0	0	1[h]	1	1	1	1	1
D9: Shareholders	0	0	0	0	0	0	0	0	0.5[i]
D10: Transactions	0	0	0	0	0	0	1[j]	1	1
Disclosure Score	0.00	0.10	0.10	0.20	0.20	0.20	0.30	0.35	0.40

	2000	2001	2002	2003	2004	2005	2006	2007
D1: Information Accounting	0	0	0	0	0	0	0[a]	0
D2: Management Commentary	1	1	1	1	1	1	1	1
D3: Material Information	0	0	0	0	0	0	1[c]	1
D4: Quarterly Reports	0	1[d]	1	1	1	1	1	1
D5: Segment Information	0	0	0	0	0	0	0	1[e]
D6: Compensation	0	0.5[f]	0.5	0.5	0.5	0.5	1	1
D7: Inside Ownership	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D8: Prospectus	1	1	1	1	1	1	1	1
D9: Shareholders	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.40	0.55	0.55	0.55	0.55	0.55	0.70	0.80

	2008	2009	2010	2011	2012	2013	2014	2015
D1: Information Accounting	0	0	0	0	0	0	0	0
D2: Management Commentary	1	1	1	1	1	1	1	1
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	1	1	1	1	1	1	1	1
D5: Segment Information	1	1	1	1	1	1	1	1
D6: Compensation	1	1	1	1	1	1	1	1
D7: Inside Ownership	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D8: Prospectus	1	1	1	1	1	1	1	1
D9: Shareholders	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80

Table 6, continued on next page

Table 6, continued

	1991	1992	1993	1994	1995	1996	1997	1998	1999
E1: Appointment	0	0[k]	0	0	0	0	0	0	0
E2: Auditor Independence	0	0	1[l]	1	1	1	1	1	1
E3: Focus	0	1[m]	1	1	1	1	1	1	1
E4: Rule-making power	0	1[n]	1	1	1	1	1	1	1
E5: Tenure	0	0[o]	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	0	0
E7: Review	0	0	0	0	0	0	0	0	0
E8: Sanctions Company	0	1[r]	1	1	1	1	1	1	1
E9: Sanctions Management	0	0	1[s]	1	1	1	1	1	1
E10: Sworn Statement	1[t]	1	1	1	1	1	1	1	1
Enforcement Score	0.10	0.40	0.60	0.60	0.60	0.60	0.60	0.60	0.60

	2000	2001	2002	2003	2004	2005	2006	2007
E1: Appointment	0	0	0	0	0	0	0	0
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	1[p]	1
E7: Review	0	0	0	0	0	0	0.5[q]	0.5
E8: Sanctions Company	1	1	1	1	1	1	1	1
E9: Sanctions Management	1	1	1	1	1	1	1	1
E10: Sworn Statement	1	1	1	1	1	1	1	1
Enforcement Score	0.60	0.60	0.60	0.60	0.60	0.60	0.75	0.75

	2008	2009	2010	2011	2012	2013	2014	2015
E1: Appointment	0	0	0	0	0	0	0	0
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	1	1	1	1	1	1	1	1
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	1	1	1	1	1	1	1	1
E7: Review	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	1	1	1	1	1	1	1	1
E9: Sanctions Management	1	1	1	1	1	1	1	1
E10: Sworn Statement	1	1	1	1	1	1	1	1
Enforcement Score	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Table 6, continued on next page

Table 6, continued

a	On February 15th 2006. the Ministry of Finance of the People's Republic of China published a new set of accounting standards. namely the Accounting Standards for Business Enterprises (ASBE). which are largely in line with IFRS (Ching Chi Heng & Noronha, 2011). All companies listed on Chinese stock exchanges have to adopt ASBE. The application of IFRS as issued by the International Accounting Standards Board (IASB) is not allowed (Rossetti & Verona, 2017). ASBE are constantly being revised and improved in accordance with IFRS in order to maintain and deepen convergence (Peng, Tondkar, van der Laan Smith, & Harless, 2008; Riccardi, 2016).
b	Listed companies are obliged to prepare a management report since 1992 until today there are no amendments made. (Xiao, 1999); Securities Law of the People´s Republic of China Art. 61 (1)).
c	All events that may influence the share price and thus an investor's market decision have to be explained in a report to the stock exchange. The causes. current status and possible legal consequences have to be disclosed. (Law of the PRC on Securities. Art. 67).
d	The Regulations on Financial Accounting Reports of Enterprises require annually. semi-annually. quarterly and monthly financial statements. (Regulations on Financial Accounting Reports of Enterprises Art. 6).
e	ASBE 35 - Segment reporting indicates that companies have to report on business segments and geographical segments in their annual financial statements.
f	Since 2001. listed companies are obliged to report the sum of total remuneration for the three highest paid executives and the three highest paid members of the advisory board. including the members of the executive board. The disclosure of management board remuneration was not required for each individual person separately from 2001 to 2005 (CSRC (2000), (2002)). Only since 2006 listed companies have to report each individual member of the management board and the total remuneration of the company as a sum of salary. bonus and other benefits. (Conyon & He, 2012); Company Law. Art. 116).
g	Directors. supervisors and senior officers have to disclose their holdings of the company’s shares (SSE Listing Rules. Art. 3.1.2).
h	The preparation of a securities prospectus is mandatory for listed companies since 1994. (Company Law of the PRC Art. 87 und 88; Company Law 2010 Art. 85 und 86).
i	Securities Law of the PRC Art. 79 and 80 set out provisions but the law does not clearly indicate whether indirect control is also possible. We therefore allocate a score value of 0.5 to the item.
j	ASBE 36 replaced the original standard of 1997 and is statutory since 2007.
k	The State Council set up the State Council Securities Commission (SCSC) in 1992 and the China Securities Regulatory Commission (CSRC) was founded in 1993 as a second institution. The two bodies were merged under the CSRC in 1998. The Chairman of the CSRC is also a member of the Council of State by virtue of his office (Pistor & Xu, 2004). Hence. no attempt has been made to create an independent regulatory authority.
l	Certified public accountants and public accounting firms must carry out their business independently and fairly according to law. (Law of the PRC on Certified Public Accountants. Art. 6).

m The CSRC takes over the supervision of the stock exchange and was founded in 1992. (M. A. Firth, Mo, & Wong, 2014). On April 28th. 2003 China Banking Regulatory Commission (CBRC) took over the monitoring function of the People's Bank of China (PBOC). The aim of the reform was to improve the efficiency of banking supervision and to help PBOC focusing on monetary policy (UNCTAD, (2009).

n The supervisory authority is empowered by law to formulate rules within the regulation of the securities markets (Securities Law of the PRC. Art. 167. number (1)).

o The board of directors of CSRC is appointed for a five-year term in office and may serve a second term. The rules governing the dismissal of members of the CSRC do not specify who may dismiss the members. Reasons for a dismissal are given in the Civil Servant Law of the PRC and in the Regulation on the Disciplinary Actions against Civil Servants of Administrative Organs. The element therefore takes the score value 0 over the entire time.

p The securities regulatory authority has the legal right to inspect all documents of a firm under investigation. (Securities Law of the PRC. Art. 150 number 3-5).

q There is a rather reactive system which includes investigations only to be carried out if there are special indications as a result of the law (Law of the PRC on Securities. Art. 180). A continuous random sample examination does not exist.

r The CSRC has a wide range of sanction mechanisms (Firth, Mo, & Wong, 2014).

s Managers will be held jointly and individually liable for committing misconduct (Firth, Mo, & Wong, 2005).

t The financial accounting statement has to be signed and stamped by the person in charge of the unit. the person in charge of the accounting work and the person in charge of the accounting office (or the accountant-in-charge). If a unit has a chief accountant. it has also be signed and stamped by the chief accountant (Accounting Law of the PRC. Art. 21).

Table 6: Score Values by Year. China

Table 7: Score Values by Year. South Africa

	1991	1992	1993	1994	1995	1996	1997	1998	1999
D1: Information Accounting	0	0	0	0	0.5[a]	0.5	0.5	0.5	0.5
D2: Management Commentary	0	0	0	0	0	0	0	0	0
D3: Material Information	0	0	0	0	0	0	0	1[c]	1
D4: Quarterly Reports	0.5[d]	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D5: Segment Information	1[e]	1	1	1	1	1	1	1	1
D6: Compensation	0	0	0	0.5[f]	0.5	0.5	0.5	0.5	0.5
D7: Inside Ownership	0	0	0	0	0	0	0	0	0
D8: Prospectus	0	0	0	0	0	0	0	0	0
D9: Shareholders	0	0	0	0	0	0	0	0	0
D10: Transactions	0	0	0	0	0	0	0	0	1[j]
Disclosure Score	0.15	0.15	0.15	0.20	0.25	0.25	0.25	0.35	0.45

	2000	2001	2002	2003	2004	2005	2006	2007
D1: Information Accounting	0.5	0.5	0.5	0.5	0.5	1	1	1
D2: Management Commentary	0	0	0	0	0	0	0	0
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D5: Segment Information	1	1	1	1	1	1	1	1
D6: Compensation	0.5	0.5	1	1	1	1	1	1
D7: Inside Ownership	0	0	0	0	0	0	0	0
D8: Prospectus	0	0	0	0	0	0	0	0
D9: Shareholders	0	0	0	0	0	0	0	0
D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55

	2008	2009	2010	2011	2012	2013	2014	2015
D1: Information Accounting	1	1	1	1	1	1	1	1
D2: Management Commentary	0	0	1[b]	1	1	1	1	1
D3: Material Information	1	1	1	1	1	1	1	1
D4: Quarterly Reports	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
D5: Segment Information	1	1	1	1	1	1	1	1
D6: Compensation	1	1	1	1	1	1	1	1
D7: Inside Ownership	0	1[g]	1	1	1	1	1	1
D8: Prospectus	1[h]	1	1	1	1	1	1	1

D9: Shareholders	1[i]	1	1	1	1	1	1	1
D10: Transactions	1	1	1	1	1	1	1	1
Disclosure Score	0.75	0.85	0.95	0.95	0.95	0.95	0.95	0.95

Table 7, continued

	1991	1992	1993	1994	1995	1996	1997	1998	1999
E1: Appointment	0	0	0	0	0	0	0	0	0
E2: Auditor Independence	0.5[l]	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
E3: Focus	1[m]	1	1	1	1	1	1	1	1
E4: Rule-making power	0	0	0	0	0	0	0	0	0
E5: Tenure	0	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	0	0
E7: Review	0	0	0	0	0	0	0	0	0
E8: Sanctions Company	0	0	0	0	0	0	0	0	0
E9: Sanctions Management	1[s]	1	1	1	1	1	1	1	1
E10: Sworn Statement	0	0	0	0	0	0	0	0	0
Enforcement Score	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

	2000	2001	2002	2003	2004	2005	2006	2007
E1: Appointment	0	0	0	0	0	0	0	0
E2: Auditor Independence	0.5	0.5	0.5	0.5	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	0	0	0	0	0	0	0	0
E5: Tenure	0	0	0	0	0	0	0	0
E6: Document	0	0	0	0	0	0	0	0
E7: Review	0	0	0.5[q]	0.5	0.5	0.5	0.5	0.5
E8: Sanctions Company	0	0	0	0	0	0	0	0
E9: Sanctions Management	1	1	1	1	1	1	1	1
E10: Sworn Statement	0	0	0	0	0	0	0	0
Enforcement Score	0.25	0.25	0.30	0.30	0.35	0.35	0.35	0.35

	2008	2009	2010	2011	2012	2013	2014	2015
E1: Appointment	1[k]	1	1	1	1	1	1	1
E2: Auditor Independence	1	1	1	1	1	1	1	1
E3: Focus	1	1	1	1	1	1	1	1
E4: Rule-making power	0[n]	0	0	0	0	0	0	0
E5: Tenure	0[o]	0	0	0	0	0	0	0
E6: Document	1[p]	1	1	1	1	1	1	1
E7: Review	0.5	0.5	0.5	1	1	1	1	1
E8: Sanctions Company	1[r]	1	1	1	1	1	1	1

E9: Sanctions Management	1	1	1	1	1	1	1	1
E10: Sworn Statement	1[t]	1	1	1	1	1	1	1
Enforcement Score	0.75	0.75	0.75	0.80	0.80	0.80	0.80	0.80

Table 7, continued on next page

Table 7, continued

a	The accounting self-regulatory body Accounting Principles Board (APB) decided to harmonize South African Generally Accepted Accounting Principles (SA GAAP) with IFRS in 1995. The Council of the South African Institute of Chartered Accountants (SAICA) and the APB promulgate South African accounting standards. SAICA has been adopting IFRS with occasional minor modifications since 1995 and listed companies may follow either SA GAAP or IFRS (Prather-Kinsey, 2006). APB has published the IFRS standards as SA GAAP without amendment in accordance with the due process since 2003. In March 2012. SA GAAP became invalid for financial years beginning on or after December 1st. 2012.
b	According to the King Code of Governance (King III). companies have to disclose their financial statements as an integrated report. As King III is part of the Johannesburg Stock Exchange (JSE) listing requirements. listed companies have to prepare their financial statements as an integrated report for all business years beginning on March 1st. 2010 (Hindley & Buys, 2012).
c	The JSE listing requirements contain special conditions for precautions which includes an obligation to publish ad hoc information (Vaughn & Ryan, 2006).
d	Companies have to disclose semiannual reports. No material amendments were made during the observation period (Companies Act Art. 61 of 1973).
e	AC 115 was effective for periods after July 1st. 1986. With the adoption of IFRS in 2005. companies had to provide more information in line with IAS 14. Since IFRS 8 became statutory in 2009. additional information are required.
f	With King I. the first recommendations were made that companies indicate salaries in total. The merits of the managing directors should be disclosed as a total sum. Commissions should be shown separately. King II required firms for the first time to publish the individual salaries of its directors. Consequently. the King III provisions require that salaries of each director have to be disclosed (Companies Act No. 71 of 2008. Art. 30 (4). (a).
g	Companies have to disclose the ownership structure of the managing directors in line with Art. 30. number (4). letter (d) (Companies Act No. 71 of 2008 was adopted in April 2009).
h	No person shall make any offer to the public for the subscription for shares unless it is accompanied by a prospectus complying with the requirements of the Companies Act and registered in the Companies Registration Office (Companies Act of 1973. Art. 145).
i	A direct or indirect owning of 5 percent or more requires the disclosure of personal data (Companies Act of 2008 Art. 122 (1) and (2)).
j	It is required to disclose securities transactions with insiders since 1999 (Oman, 2003).
k	The members of the independent regulatory institution Companies and Intellectual Property Commission (CIPC) are elected by the Minister (Companies Act 2008. Art. 189).
l	The law specifies who isn´t qualified as an auditors since 1977 with the definition of independence becoming more precise in 2008 (Companies Act 1977 Art. 275. Companies Act 2008 Art. 94 (8). in conjunction with 90. point (2). point (c)).

m The banks are supervised by the Reserve Bank. the stock exchanges by the CIPC (formerly Companies and Intellectual Property Registration Office (CIPRO)). Therefore. the supervisory authorities are independent from each other (Banks Act 1990).

n Regulations on Initial Public Offerings (IPOs) are stated in the Companies Act of 2008. changes may be initiated by the Minister (Art. 95. (7)). The Stock Exchange Rules are directly initiated by JSE. Therefore. the CIPC solely has a monitoring function and cannot adopt rules.

o There are no regulations regarding the duration of the term of office and the dismissal of members. hence the element takes the score value 0 for the entire observation period.

p The Commission or the Panel can request any document during an investigation (Schmidt, Sutherland, Jacobus van Schalkwyk, Lowe, & Bockmann, 2011); Companies Act 2008. Art. 176. number (1)).

q Under the new proactive review procedure. the annual accounts of each listed company are reviewed at least every five years in addition to other issues raised by public or other complaints. Previously. reviews were conducted on the JSE initiative. which received a request or complaint (Schmidt et al., 2011).

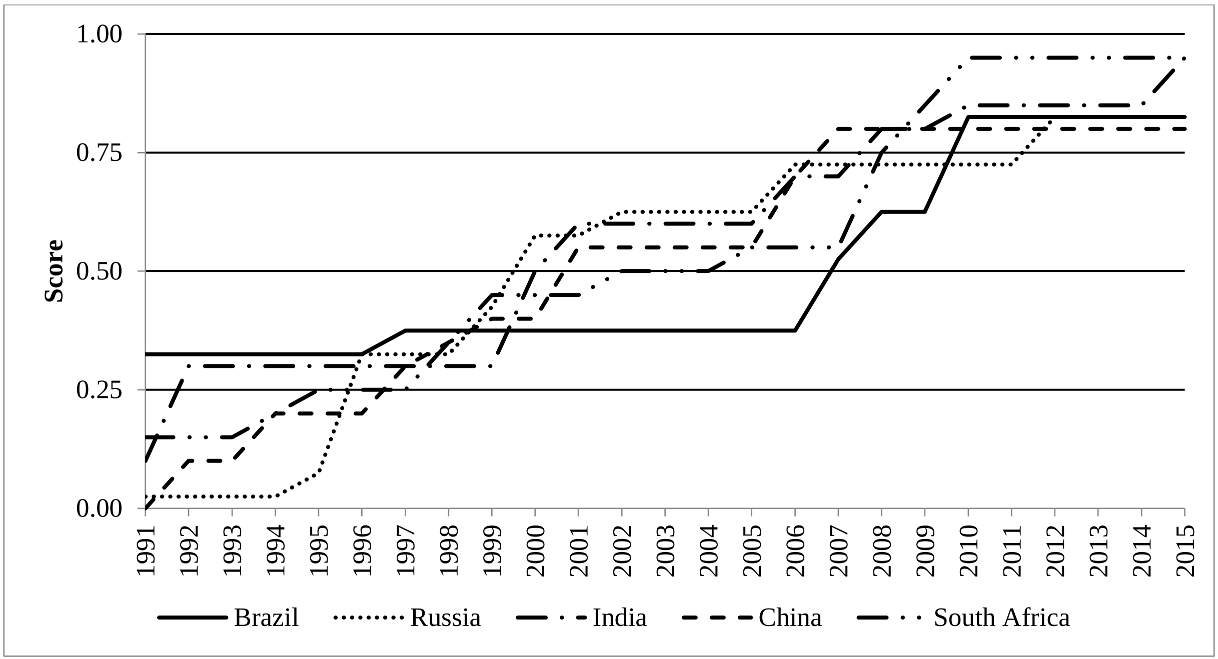
r With the introduction of the Companies Act 2008. the CIPC is entitled to sanction companies (Schmidt et al., 2011).

s The management may be fined or imprisoned for grossly negligent misconduct (Companies Act 1973. Section 424; Companies Act 2008. Section 77 (3) (c) and (d)).

t The management confirms the material accuracy by signature (Naidoo, 2002); Companies Act 71. Art. 30 (3) (c)).

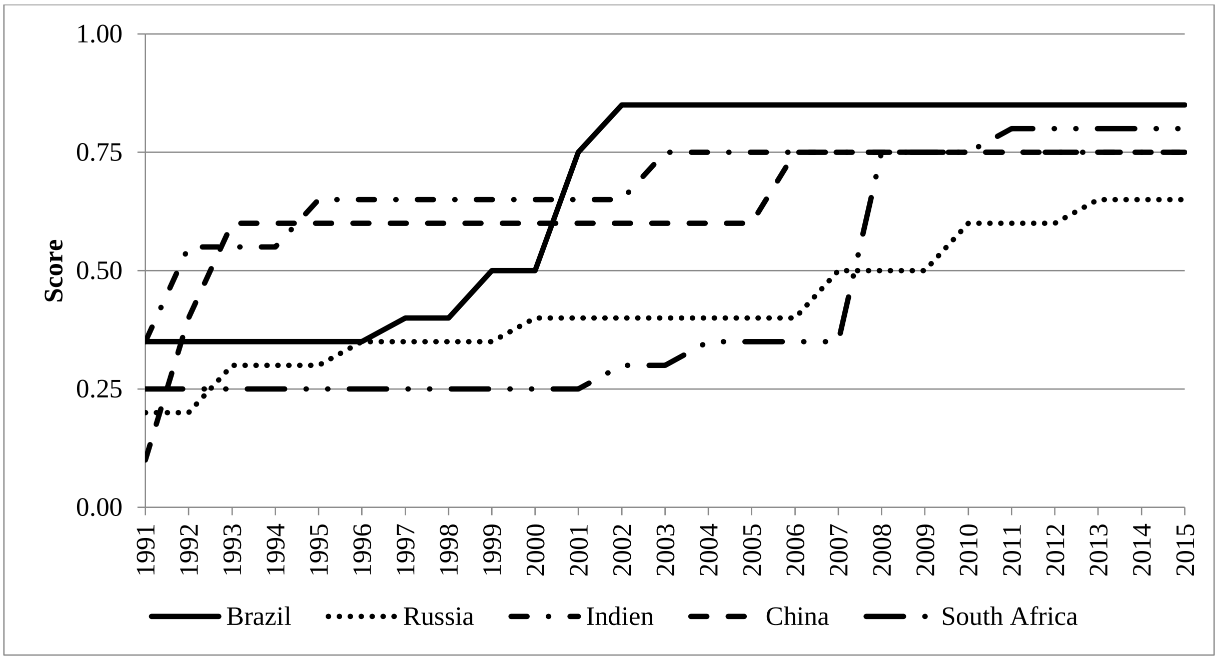
Table 7: Score Values by Year. South Africa

Figure 1: Disclosure Scores BRICS countries from 1991 to 2015



This figure shows the development of the disclosure scores of all five BRICS countries from 1991 to 2015. 0 is the minimum and 1 the maximum value. The scores are based on a leximetric approach (see Table 1 for the score description and Tables 3-7 for the score values).

Figure 2: Enforcement Scores BRICS countries from 1991 to 2015



This figure shows the development of the enforcement scores of all five BRICS countries from 1991 to 2015. 0 is the minimum and 1 the maximum value. The scores are based on a leximetric approach (see Table 1 for the score description and Tables 3-7 for the score values).

Figure 3: Average of Disclosure and Enforcement Score from 1991 to 2015

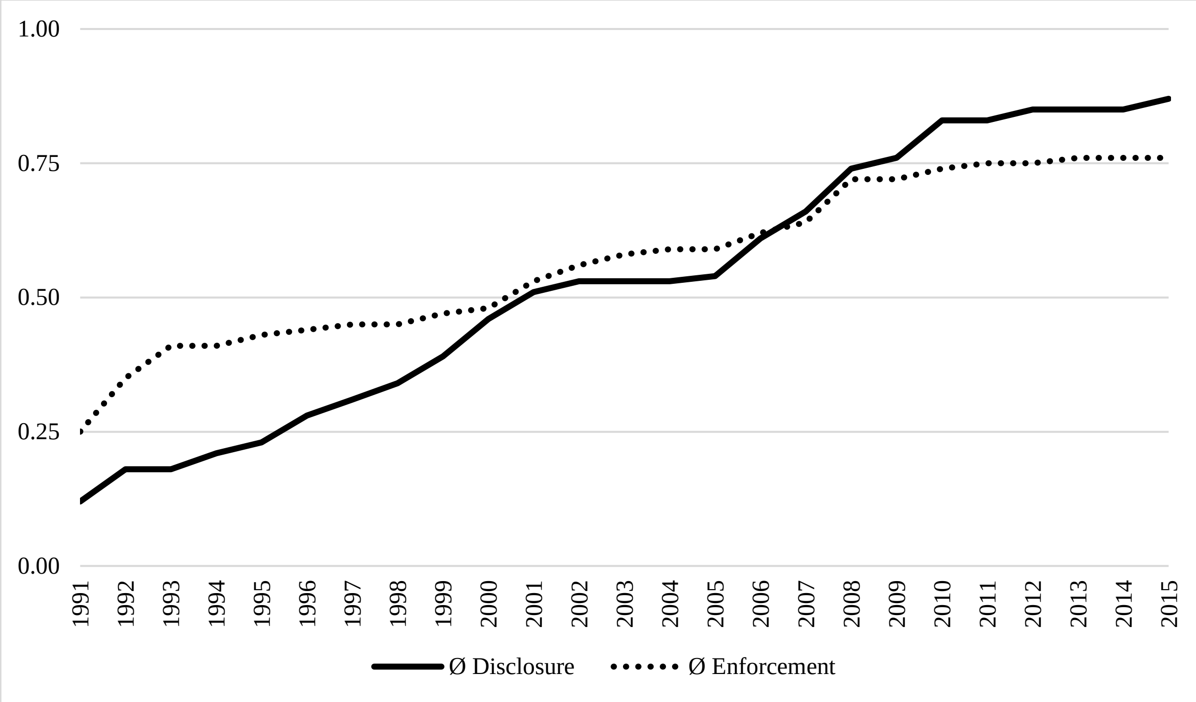


Table 8: OLS regression results

Variable	Coefficient	Std.Err.	t-value	p-value
DS_t	19.88	5.11	3.89	0.000
ES_t	24.01	4.30	5.58	0.000
$DS_t * ES_t$	-34.86	7.93	-4.40	0.000
N	125			
Adj. R2	23.39 %			
F-statistics	12.31			0.000

Notes: The endogenous variable GDP growth rate is defined as the growth rate in %. DS/ES is the disclosure or enforcement score for each country for each year over the observation period on the year *t*.

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The Disclosure of Beneficial Ownership: From “Box Ticking” to “Storytelling”

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1 Introduction

There is a broad consensus among regulators and other stakeholders that investor confidence in financial markets is contingent on the existence of an accurate disclosure regime that provides transparency in the beneficial ownership and control structures of publicly listed companies. This is particularly important in financial markets that are characterised by concentrated ownership structures, such as those in Asia. In these regions, large investors with significant voting rights may facilitate long-term growth and firm performance. Nonetheless, there is a well-documented risk that beneficial owners, with a controlling share of voting rights, may also have an incentive to divert corporate assets for personal gain.

In responding to this concern, many jurisdictions have passed legislation or introduced regulations obliging shareholders to disclose a substantial ownership of shares, usually up to the level of the ultimate beneficial owner. The rationale of such disclosure requirements seems obvious: minority investors or potential investors that are have better information regarding the control and ownership structure of a firm are able to make better investment decisions.

To better understand how disclosure and transparency rules and regulations operate in practice, this paper examines information disclosure strategies among the largest listed firms in ten Asian jurisdictions. Four different sources of information on ownership (annual reports, company websites, security exchange and “securities and exchange commission” websites and English language wiki-pages) that are publicly available in English are examined. One question is particularly important in this paper: How easy is it for a foreign investor to quickly collect information on beneficial ownership in a listed company from these publicly available sources (without doing additional research and going through the nuisance of collecting information from less accessible resources)?

Based on the findings of this analysis, the paper concludes that regulators should acknowledge the limits of the current regulatory model predicated on only mandatory disclosure. That is not to say that the current regime regarding beneficial ownership is always failing. It is widely acknowledged that disclosure of beneficial ownership should be mandated. However, the empirical analysis seems to suggest that these mandatory rules are usually not enough, since they incentivise a legalistic and minimal style of disclosure that does not achieve the intended regulatory objectives.

What should be done to improve the disclosure practices of listed companies? This empirical study provides some important clues for policy recommendations. First, the regulatory regime should require an additional description of who the ultimate beneficial owners are and how the ultimate beneficial owners own the shares of the company (e.g. through pyramid structures) in order to make the information useful for investors (particularly investors unfamiliar with the local situation). Second, accurate and accessible figures and charts of shareholdings of the ultimate beneficial owners should be provided in order to give a feel for what is going on within the company. Third, the study highlights how a small number of firms are adopting a more open approach to communication. These firms seem to recognise the financial and strategic benefits that an open approach to disclosure can create. In this context, regulators might consider complementing their focus on enforcing disclosure of ownership information with the more complex and subtle task of encouraging firms to embrace open communication by providing meaningful guidance and communication best practices.

The starting point for this study is the suggestion that, in the modern world, company annual reports are not the only – or the most natural – place that a potential investor would look in order to establish accessible and reliable information on the beneficial ownership of a company. As the earlier study found, such reports do not usually provide extensive information and the limited information that is disclosed (which may not even be current) is usually presented in a formalistic and legalistic style.

It was therefore decided to conduct a further study that compares, in more detail, alternative sources of information for selected Asian jurisdictions in order to establish whether the earlier conclusions about "grudging" disclosure are generally applicable to a range of information sources. In this study, four types of source of information are discussed and analysed, notably: (i) annual reports, (ii) company websites, (ii) stock exchange and securities regulators websites and (iv) "social and online media", in the form of English language "wiki" pages.

The paper is structured as follows: to provide some context, Section 2 briefly introduces the issue of beneficial ownership, Section 3 offers an overview of the current regulatory approach to the issue (i.e., mandatory disclosure rules) and Section 4 examines the accessibility and available mechanisms for verifying the accuracy of disclosed information. Section 5 outlines the methodology adopted for the empirical analysis in this paper. Section 6 provides country specific findings on disclosure for each of the different sources examined. Section 7 summarises the main conclusions, namely that existing regulatory approaches that seek to compel disclosure seem to incentivise "grudging" compliance. Finally, Section 8 offers recommendations and an alternative approach that aims to "nudge" both firms and regulators into recognising the financial and strategic benefits of accessible and open communication. Section 9 concludes.

2 What is Beneficial Ownership?

By way of a preliminary definition, a beneficial owner is usually defined as the natural person who has power to exercise controlling influence over the voting rights attached to shares. Public trust in corporations and markets depends on the existence of an accurate disclosure regime that provides transparency in the beneficial ownership and control structures of companies. Beneficial ownership information is necessary to detect and prevent tax evasion, corruption, money laundering, terrorist financing, and other illicit behaviour involving one or more companies.

What is particularly important in the context of this paper is that investor confidence in financial markets is contingent on the existence of an accurate regulatory disclosure regime that provides transparency in the beneficial ownership and control structures of publicly listed companies. Clearly, this regime is of significance in financial markets that are characterised by concentrated ownership structures, such as in Asia, Europe and also the United States. In these regions, large investors with significant voting rights may facilitate long-term growth and firm performance. However, there is a well-documented risk that beneficial owners, with a controlling share of voting rights, may also have an incentive to divert corporate assets and exploit opportunities for personal gain. Such actions are clearly to the detriment of minority investors and run counter to the best interests of the company. Protecting minority investors and ensuring the most efficient allocation of capital is therefore seen as a key issue in the contemporary regulation of capital markets.

In responding to this issue, jurisdictions have passed legislation, obliging shareholders to disclose substantial "beneficial ownership" of shares. The rationale of such disclosure requirements seems obvious: by alerting minority investors or potential investors to the control and ownership structure of a firm, we enable them to make a better judgment regarding the company's operations, performance and prospects.

However, designing an effective legal framework that facilitates the disclosure of beneficial owners has not been easy. At least in their annual reports, the majority of companies engage in a "grudging" or "boilerplate" style of disclosure in which formal requirements are met, but the ultimate owner is often difficult and, in many cases, impossible to identify with any degree of certainty. Such firms signal to the market a risker investment. In the medium to long term, there are doubts about their capacity to attract sustained rounds of new investment.

In what follows, it is suggested that it is time to acknowledge the limitations of the existing regulatory system to disclosure and contemplate smarter disclosure rules and other options that might complement the current rules-based regime. Although strict mandatory disclosure rules have an important role to play in relation to anti-money laundering or corporate corruption, simply ratcheting up the disclosure requirements in order to compel information disclosure seems unlikely to be effective and merely encourages grudging compliance and new forms of circumvention.

Indeed, an earlier OECD report on beneficial ownership and control showed that even with a disclosure regime in place there are a number of strategies that companies employ for concealing the true identity of the ultimate beneficial owner of a company's shares. Examples of the strategies, which were also used in the Panama Papers saga, are the use of pyramid structures and chains of local and particularly offshore corporate vehicles. The availability of multiple strategies for concealment creates a perception that the regulatory framework – and particularly the disclosure regime – is failing to adequately and accurately address the issue of beneficial ownership and control.

Nonetheless, an interesting finding of this and earlier studies is that a small number of companies with concentrated ownership structures go beyond what they are obliged to reveal by the disclosure rules. Such companies present additional information and this additional information is presented in an accessible, engaging and sometimes even personalised style. The suggestion here will be that this approach – which could be characterised as "open communication" – is an effective means of generating investor confidence and new relationships that can add value to a business.

This paper suggests that the current approach of merely providing ownership information needs to be complemented by a regulatory regime that focuses on encouraging and empowering companies to better communicate with the market by adopting more open, imaginative and individualised disclosure policies. This will highlight the "gap" in approach between the two types of companies and alert investors to the risks associated with investing in companies that do not employ such openness. By doing so, the operation of the market mechanism can be accelerated further reinforcing the need for meaningful disclosure.

Before turning to these issues, it is worth briefly considering the agency problems that have been identified in different types of securities markets and the underlying rationale for rules requiring greater disclosure of control structures.

In markets that are characterised by small, and widely dispersed shareholdings – i.e., liquid trading markets – the focus of the corporate governance discussion has been on creating mechanisms that are intended to curtail agency problems, notably those that arise between self-interested management and passive investors. These problems are usually explained by the "vertical agency relationship" in which the managers are the agents and the shareholders are the principals. This type of agency problem stems from shareholders being disengaged from the task of monitoring and, if necessary, disciplining management. The "separation of ownership and control" provides management with the opportunity to take advantage of their informational advantage regarding a company's strategies, policies and prospects, without the risk of being detected.

In the concentrated ownership – or "blockholder" systems – the scale of the "vertical agency problem" is mitigated because some investors tend to hold a disproportionately larger stake in listed companies. Such investors have both the incentive and capacity to monitor and discipline management.

With regard to blockholder systems, a distinction can be made between two types of listed firms. Firstly, there are institutional investor "controlled" companies, in which the substantial voting rights and cash-flow rights are identical and based on the proportion of total shares held. These institutional investors, generally referred to as "outside blockholders", make listed companies susceptible to a three-way conflict between controlling shareholders, managers and minority shareholders. Since outside blockholders usually mitigate the problems related to managerial opportunism, it is not surprising that policy makers and regulators focus on possible conflicts that may occur in the "horizontal agency relationship" between outside blockholders (and the managers who have an incentive to respond to their demands) and passive minority investors.

Note that in the current financial world, institutional investors are inclined to focus on short-term returns. The short-term stance of the outside blockholders' investment strategy exposes the minority shareholders to opportunistic behavior. The fact that outside blockholders have increasingly used derivative instruments and short-selling techniques in order to make profits, merely serves to compound the "horizontal agency problem" between outside blockholders and minority investors.

Secondly, there are those listed companies, such as the many family-owned – and sometimes even state-owned – companies, with "inside blockholders", who actually hold management positions or serve on the board of directors of the companies in which they invest. "Vertical agency problems" are irrelevant in this context, but "horizontal agency problems" are a major concern in listed companies with sizeable inside blockholders.

In this context, the controlling shareholders may employ several strategies to extract resources and assets from firms that they control, thereby significantly increasing horizontal agency costs. Obvious risks include: (1) dilutive share issues, (2) insider trading, (3) withholding important information from prospective investors, (4) allocation of corporate opportunities and business activities and (5) abusive related party transactions.

Disclosure rules are seen as an effective solution to these risks and the rationale behind such disclosure requirements seems clear: disclosure and transparency regarding material changes in control and ownership structures allows investors and other stakeholders to have a better understanding of a company's prospects and capital allocations.

3 The Legal and Regulatory Landscape

In dealing with beneficial ownership and control issues, countries have implemented an array of legal and regulatory provisions aimed at information disclosure. In most jurisdictions, these provisions are included in their securities laws and regulations, including the listing rules of stock exchanges. This section will briefly summarise some of the main features of the current legal framework for ensuring disclosure of beneficial ownership.

At the core of most disclosure laws is a definition of the beneficial owner. In general terms, a beneficial owner is usually defined as the natural person who is entitled to the benefits accruing from the ownership of securities, and/or has power to exercise controlling influence over the voting rights attached to the shares. In the context of this paper, this definition is too limited, since a significant number of listed companies are owned and controlled by governments (so-called state-owned enterprises or listed multinationals that are characterised by a widely-dispersed shareholder base).

Different jurisdictions fill out this basic conception of beneficial ownership in various ways. In some jurisdictions, the definition of beneficial ownership is restricted to certain benefits, most obviously the pecuniary benefits attached to the shares. In contrast, other jurisdictions define a beneficial owner as the ultimate owner of the deposited securities who is entitled to all rights, benefits, powers and privileges and is subject to all liabilities, duties and obligations in respect of, or arising from, the deposited securities. Despite the differences, it is fair to say that there is a significant degree of convergence regarding the disclosure of beneficial ownership in the various legal and regulatory systems around the world.

Broadly speaking, three groups of natural persons/legal entities are required to disclose beneficial ownership information. The first group consists of directors and chief executives/senior officers regardless of their actual shareholding percentage. The second group includes substantial shareholders which are classified by a minimum shareholding percentage, usually fixed at 3%, 5%, 10% or sometimes as high as 25%. Finally, listed companies are often required to disclose information about the names of their major shareholders (and usually also the beneficial owners).

In general, disclosure of beneficial ownership is mandated first from the (potential) beneficial owners themselves. These persons (including their authorised nominees) have the obligation to report the relevant information about their beneficial ownership in the company, which in turn, should record such information in its register of shareholders, prospectus, and/or periodical reports (if and where applicable).

Here it should be noted that most jurisdictions distinguish between *de jure* and *de facto* beneficial ownership. Because it is the rule rather than the exception to look at de facto beneficial ownership in addition to de jure beneficial ownership, a crucial issue is the content of such de facto ownership. Applying such an approach will result in shares held under the name of third parties also being counted under the control of the beneficial owner.

The first and most straightforward category is when the shareholders are natural persons. Applying the concept of *de facto* beneficial ownership results in the securities held by a person's spouse and/or children being counted as securities held by that person. This is a common practice adopted in most jurisdictions around the world.

The second category is when another company holds the shares of a listed company. The *de facto* approach would certainly require disclosure being made beyond the level of the signatory of the "institutional" shareholder, but the key issue here is how far the disclosure could reach. Is a beneficial owner recognised at the first, second, or the ultimate layer of beneficial ownership of shares in listed companies? Although most jurisdictions do mandate the disclosure to be made to the level of ultimate beneficial owner(s), their answers to this question still vary a great deal in terms of the technical particularities about how to reach the ultimate beneficial owners. One example is the threshold of shareholding that would constitute "control" in a company. In an earlier OECD report, the threshold varied from 20% to 33%.

The third category consists of owners who employ control-enhancing mechanisms to attain voting/control rights in excess of the cash flow rights. Typically, such mechanisms include pyramid structures, cross-shareholdings, dual class shares and non-voting shares, derivative products of shares (depository receipts), and shareholder coalitions, agreements and other "acting in concert" arrangements. Certainly, while using mechanisms to enhance control in general is not uncommon, one jurisdiction can differ from another in terms of the extent of regulatory acceptance of these mechanisms, resulting in one or more of them being illegal or, at least, somehow conditioned in certain countries.

Once disclosure rules are in place, the next consideration is to ensure that the information is clear, accurate and easily accessible.

4 The Accessibility and Accurateness of Disclosure

In the previous Section, we saw how the rules and regulations tend to acknowledge that both beneficial owners and listed companies are under a general obligation to disclose. Unsurprisingly, they must do this in an accurate and timely manner by, for instance, making changes to the shareholders' register, the articles of association and/or the prospectus. Moreover, jurisdictions usually require reports to be filed and public announcements to be made when changes in beneficial ownership arrangements occur through an acquisition or disposal of securities. Finally, beneficial ownership and control information usually must be included in annual reports, shareholder circulars and other periodical reports. In order to ensure that the information is easily accessible to and verifiable by investors and other stakeholders, most jurisdictions require that the reports are made available through company websites and often through the websites of the national stock exchanges and/or securities regulators.

Three different regulatory approaches are available to ensure the accuracy of the information provided by companies:

The disclosed information can be compared with earlier and/or later reports, and/or with the information received from other sources.

Regulatory authorities are often empowered to investigate and verify the disclosed information.

The correctness, reliability, timing and accuracy of the information is ensured by imposing different forms of liability – including criminal liability - for the failure to comply with the disclosure rules and regulations.

Clearly, these three regulatory approaches are not mutually exclusive, and many jurisdictions adopt some combination of approaches.

These approaches to ensuring access to accurate information appear sound in theory, but questions remain. Indeed, despite the regulatory regime, companies use a plethora of strategies to conceal the true identity of the ultimate beneficial ownership positions. This raises a number of questions: How does disclosure of beneficial ownership and control work in practice? Other obvious questions that need to be explored include: Do the regulatory approaches result in the disclosure of useful information or have they merely created a "check-the-box" attitude in which firms disclose the information in a formalistic way in order to meet the minimum requirements set by law? Where can you *actually* find the best information on the ultimate beneficial owner? And for potential overseas investors unfamiliar with the local situation, how easy is it to find the information and how complete is the information regarding the beneficial ownership structures?

In order to address some of these questions, we now turn to the empirical study of disclosure in selected jurisdictions, starting with an introduction to the methodological approach adopted in this study.

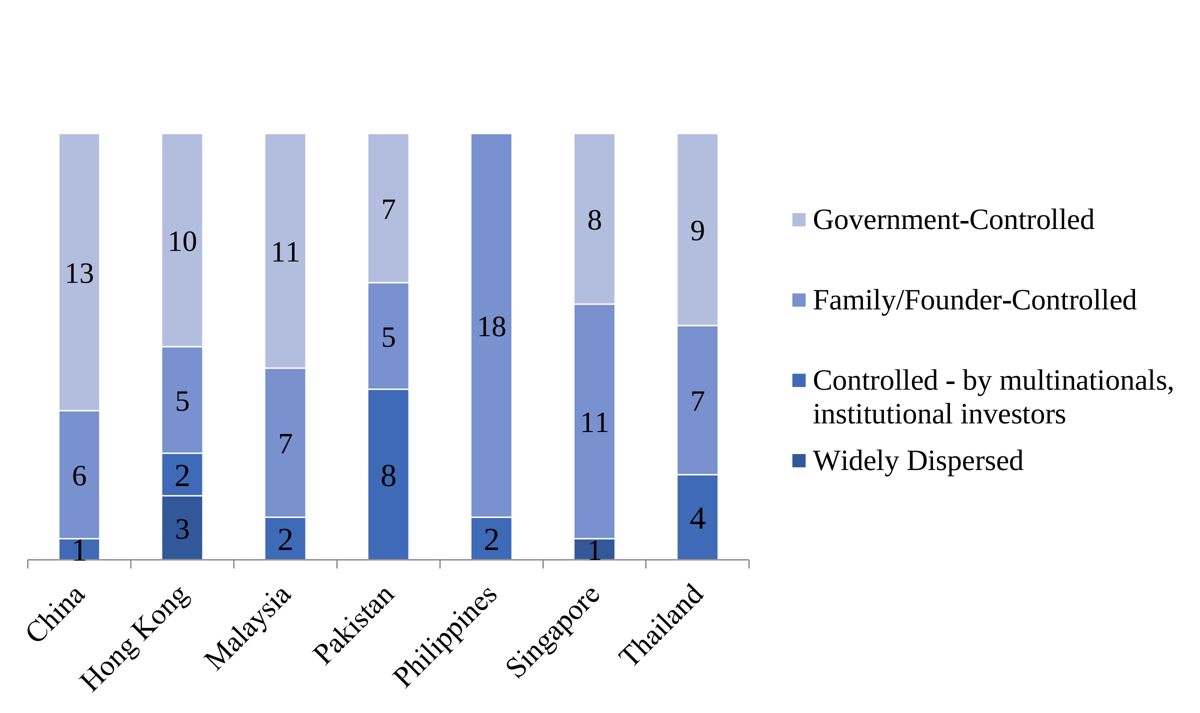
5 A Note on Methodology

The earlier World Bank study on disclosure of beneficial ownership focused on the narrow question of information disclosure in annual reports. That study was one part of a larger project that focused on annual reports only and the content of such reports. In particular, different elements of such reports were examined empirically, notably corporate governance statements, financial statements, related party transactions and beneficial ownership.

The aim of this paper is to dig deeper into the issue of beneficial ownership disclosure by examining multiple possible sources for such information and comparing those sources across several jurisdictions. The intention is to ask whether the findings of the study of annual reports are generalisable to other possible sources of information on beneficial ownership.

In order to achieve this goal, the information disclosures of the top twenty firms across seven selected jurisdictions were examined. The seven selected jurisdictions include the People's Republic of China (hereafter "China"); Hong Kong, China; Malaysia; Pakistan; the Philippines; Singapore; and Thailand. The top twenty firms selected to be included were the largest firms in each jurisdiction according to market capitalisation on the local stock index as of 29 May 2015. In China, the list of the top twenty firms with the largest market capitalisation was derived from both the Shanghai and Shenzhen Exchanges. Among the twenty firms, sixteen were from Shenzhen and four from Shanghai, after excluding the firms that were overlapping with the Hong Kong, China dataset (due to a dual-listing in Hong Kong, China).

Figure 1. Ownership Structures in the Researched Jurisdictions



With regard to the choice of jurisdictions there were a number of considerations. First, since this paper is a follow-up to the earlier OECD report "Disclosure of Beneficial Ownership and Control in Listed Companies in Asia", it was preferable to focus on the jurisdictions which were included in the questionnaire survey conducted in 2014-2015. What was interesting is that the selected jurisdictions showed significant differences when taking the prevailing ownership structures into account. Clearly, most jurisdictions could be characterised as blockholder systems. However, there were significant differences between the ownership structures. In China, for instance, state-owned enterprises play a pivotal role, whereas the Philippines market is clearly "dominated" by family-owned companies. Moreover, as indicated in *Figure 1*, Pakistan has a relatively large number of multinational-controlled companies.

The decision was made to focus on the largest listed companies in the selected jurisdictions. The reason for this is simple. The aim of this Paper is not to examine the issue of whether companies comply with local transparency and disclosure rules, but rather to examine *how* companies present information on beneficial ownership. The assumption is that the largest companies within each jurisdiction are most likely to be in compliance with the rules, partly because it is those firms that are most likely to be subjected to a higher degree of regulatory scrutiny. The fact that many of the selected firms are frequent winners of "best-in-class" corporate governance awards (according to the disclosed information in the annual reports) is a clear indicator that this assumption is probably correct. In general, this is less likely to be true of smaller, less scrutinised firms, raising concerns that those firms are simply not complying with the rules.

In this paper, four sources for the information of each of the twenty companies in the seven jurisdictions were examined:

- *Company Annual Reports.* The 2015 editions of the annual reports were examined.

- *Company Websites*. The study focused on the ownership information on the company's websites, particular attention was given to the "investor relations" sections of the respective websites.

- *Stock Exchange and Securities Regulator Websites*. Publicly available information on stock exchange and websites or securities regulator websites were also analysed.

- *English-language "wiki" pages*. As a final step, a "non-official" possible source of information was included in the paper. Since we live in an age of social media and networked technologies, the last source of information that was selected was English language wiki pages for each of the companies in the paper. Such web pages are produced on a voluntary basis by third parties. The hypothesis that was explored was whether such pages provided a more accessible and meaningful source of information than the companies themselves or regulators.

In analysing each of the above four sources of information for each company in each of the selected jurisdictions, we asked four questions about the presence or absence of four different variables (see also *Figure 2*):

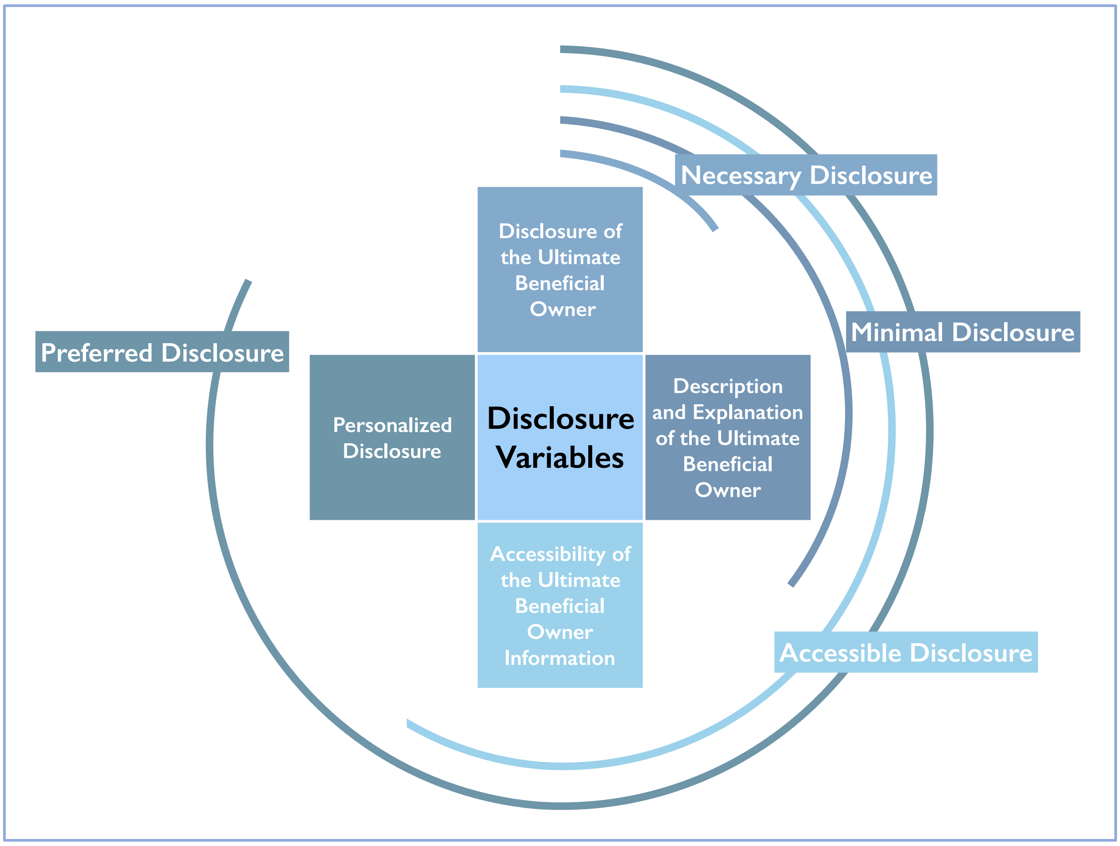
- *Name of Ultimate Beneficial Owner*. Is the name of the ultimate beneficial owner revealed? This could be a person (natural or legal) or the state. If "only" the name of the ultimate beneficial owner is disclosed the company is included in the "necessary disclosure" category.

- A Description or Explanation of the Ultimate Beneficial Owner. Is there a description of the owner or an explanation of who the ultimate beneficial owner is? Is more information given than simply a name? A positive answer means that the company could be included in the "minimal disclosure" category.

- Accessibility of Information. Is the information easily accessible? Is it instantly visible? The "accessible disclosure" category consists of companies for whom the beneficial ownership structure is disclosed through visually accessible charts and figures.

- A Message Connecting Ownership with Control. Is there a more personalised message explaining what the owner wants from their ownership? What are the intentions of the owner and how is the ownership connected to the owners' "personal" goals and objectives? Is the information available to judge whether the ownership is an active or passive "investment"? How do the ownership goals impact upon the governance of the company? Clearly, a more "personalised" message would provide investors and other stakeholders with the most effective information. This category is referred to as "preferred disclosure".

Figure 2. The Variables and Categories of Disclosure



The highlights of the analysis and complete study results will be discussed in the next Section.

Moreover, the research allows for the identification of best practices based upon what the analysed listed companies are doing right now in terms of information disclosure. These practices focus not only on the type of information that is being disclosed, but also the style and method of such disclosure. The report will thus enable policy makers and regulators to focus on communicating to the business community that by adopting such "best practice" a firm will be better placed to engage more effectively with the market. Such an approach offers the most effective means of minimising risk to investors and ensuring the best allocation of resources in financial markets.

6 Disclosure in Practice

This section presents the country specific data derived from the empirical study. For each of the seven jurisdictions under review, we present the type of disclosure for each source of information in turn (i.e., annual reports, company websites, stock exchange and securities regulators websites, and English-language wiki pages). Each section also includes "best practices" and ends with some country specific conclusions.

6.1 China

Companies that are listed in China generally fall into the accessible disclosure category, suggesting that law matters in terms of affecting company practice. Undoubtedly, China Securities Regulatory Commission (CSRC) rules and regulations are the main drivers of the disclosure practice of Chinese listed companies. The *Standards for the Contents and Formats of Information*

Disclosure by Companies Offering Securities to the Public No. 2 - Contents and Formats of Annual Reports (2014 Revision) contain detailed and stringent rules about the format in which the beneficial ownership information has to be disclosed (Article 40 of the Standards). The results are therefore not surprising. As *Table 1* shows, most Annual Reports include the necessary (name of the ultimate beneficial owner) and minimal (description of the ultimate beneficial owner) information about the actual controlling owners and their relationship with the respective companies.

Table 1. China: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	95%	95%	80%	0%
Shenwan Hongyuan Group	☐	☐	☐	
Guosen Securities	☐	☐	☐	
Ping An Bank				
Gree Electric Appliances	☐	☐	☐	
Hangzhou Hikvision Digital Tech	☐	☐	☐	
BOE Technology Group	☐	☐	☐	
Midea Group	☐	☐	☐	
GF Securities	☐	☐		
China Vanke	☐	☐	☐	
Wanda Cinema Line	☐	☐	☐	
Suning Commerce Group	☐	☐	☐	
East Money Information	☐	☐	☐	
Leshi Internet Information & Technology	☐	☐	☐	
BYD	☐	☐	☐	
Avic Aircraft	☐	☐	☐	
Wuliangye Yibin	☐	☐	☐	
Agriculture Bank of China	☐	☐		
China Merchants Bank	☐	☐	☐	
China South Locomotive & Rolling Stock	☐	☐	☐	
Industrial Bank	☐	☐		

It should be noted, however, that these statements risk becoming standardised and somewhat "meaningless". Indeed, most companies comply with the recently introduced rules and regulations without going beyond the "boilerplate" compliance. For instance, only 10 percent of the companies in our dataset have a reference to the ownership structure on their website (see *Table 2*), and such references are not what you would expect in the digital and networked age in which an online footprint becomes more and more important. The references found merely offer a simplified summary of what is found in the annual reports.

Companies in China should embrace the online disclosure of ultimate beneficial ownership information. It provides them with the opportunity to keep the information up-to-date. For instance, the website of BEO technology Group provides quarterly updates, making the information more relevant than the information found in the Annual Report. Still, the Annual Report provides more detailed information, such as an explanation about "acting in concert" arrangements and shareholders agreements, a description of the controlling shareholder and the actually controlling shareholder/ultimate beneficial owner, and a chart depicting the ownership structure.

Table 2. China: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	10%	5%	0%	0%
Shenwan Hongyuan Group				
Guosen Securities				
Ping An Bank				
Gree Electric Appliances				
Hangzhou Hikvision Digital Tech				
BOE Technology Group	□	□		
Midea Group				
GF Securities				
China Vanke				
Wanda Cinema Line				
Suning Commerce Group				
East Money Information				
Leshi Internet Information & Technology				
BYD				
Avic Aircraft				
Wuliangye Yibin				
Agriculture Bank of China				
China Merchants Bank				
China South Locomotive & Rolling Stock	□			
Industrial Bank				

The annual reports of Chinese listed companies thus provide a fairly comprehensive overview of the ownership structure (up to the ultimate level of beneficial ownership). What is missing, however, is more "personalised" information and communication about the ownership of the company. The text used in the annual reports is mostly boilerplate and repetitive. The question then is whether there are other sources of information investors and other stakeholders can use to get a better idea about the owners' goals and objectives as well as their impact on the governance and performance of the company.

A first possible source of information are the websites of the stock exchanges and securities regulators, since these institutions are usually involved in collecting this type of information. Unfortunately, however, these websites are more focused on explaining rules and regulations. As for company specific information, the stock exchange websites in China have references and links to the annual reports of the company. Certainly, it can be useful to have the annual reports of the Chinese listed companies at your fingertips. However, the English version of the stock exchanges websites are often slow and difficult to navigate.

Table 3. China – Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	85%	85%	0%	12.5%
Shenwan Hongyuan Group	□	□		
Guosen Securities	□	□		
Ping An Bank	□	□		
Gree Electric Appliances	□	□		
Hangzhou Hikvision Digital Tech	□	□		**Partly**
BOE Technology Group				
Midea Group	□	□		
GF Securities				
China Vanke				
Wanda Cinema Line	□	□		**Partly**
Suning Commerce Group	□	□		
East Money Information	□	□		**Partly**
Leshi Internet Information & Technology	□	□		**Partly**
BYD	□	□		**Partly**
Avic Aircraft	□	□		
Wuliangye Yibin	□	□		
Agriculture Bank of China	□	□		
China Merchants Bank	□	□		
China South Locomotive & Rolling Stock	□	□		
Industrial Bank	□	□		

Somewhat surprisingly, a more intuitive and interactive tool to gather knowledge about the ownership and control structures of Chinese listed companies is Wikipedia and its related "sister" websites. Not only do these websites often provide a clear and succinct description of the ultimate beneficial owners of a company, they also allow investors and other stakeholders to "click through" (via hyperlinks) to other related pages giving a more complete and "personalised" view of the owner. It should come as no surprise that this is particularly true if the companies are founder-controlled or family-controlled. It should be noted, however – and this is highlighted by *Table 3* - that the information provided by sites such as Wikipedia only offers a partial solution to this need for more personalised information. The Wikipedia information is of a somewhat general character and does not provide specific, precise information related to the ownership position.

In conclusion, China shows that rules do matter, but they seem to have created a "box ticking" attitude in which firm communication strategies are focused on simply meeting the minimum standards required by law. The result is that more "personalised" and helpful information is missing. Of course, more online research might provide investors and other stakeholders with a deeper perspective and greater insight as to the ownership structure and owners of particular companies. However, it would be preferable to have this information readily available on the "investor relations" websites of the companies.

Let us next consider whether companies that are listed in countries that occupy the "top spots" in the corporate governance rankings in Asia also perform best when it comes to transparency and disclosure in the area of beneficial ownership and control.

6.2 Hong Kong, China

According to the Asian Corporate Governance Association (ACGA), Hong Kong, China (together with Singapore) ranks first in corporate governance in Asia (see *Table 4*). It is, therefore, interesting to consider whether the four variables of disclosure examined in this study (i.e., name of the ultimate beneficial owner, description, accessibility and personalised disclosure) are present in the communications of the largest companies listed on the Hong Kong stock exchange.

Table 4. ACGA Corporate Governance Ranking (2014)

	Ranking	**2010 Score**	**2012 Score**	**2014 Score**
1	**Hong Kong, China**	65	66	65
1	**Singapore**	67	69	64
3	**Japan**	57	55	60
4	**Thailand**	55	58	58
4	**Malaysia**	52	55	58
6	**Chinese Taipei**	55	53	56
7	**India**	48	51	54
8	**Korea**	45	49	49
9	**China**	49	45	45
10	**Philippines**	37	41	40
10	**Indonesia**	40	37	39

Source: Asian Corporate Governance Association

Unsurprisingly, the name of the beneficial owner was present in the majority of the annual reports (see *Table 5*). These companies formalistically revealed the ultimate beneficial ownership structure (approximately 82.5 percent of the companies in our sample). However, they often did so in a dry and literal, boilerplate-style that did not reveal much beyond the bare bones of ownership structures.

Table 5. Hong Kong, China: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	82.5%	55%	25%	0%
HSBC Holdings	□			
Tencent				
China Construction Bank	□	□		
China Mobile				
AIA Group	□			
Industrial and Commercial Bank of China	□	□		
Bank of China	□	□		
HKEx	□			
CKH Holdings	□	□		
Ping An Group	□	□	□	
China Life	□	□	□	
CNOOC				
SHK Properties	**Partly**			
PetroChina	□	□	□	
Sinopec	□	□	□	
CLP Holdings	□	□	□	
Hang Seng Bank	□	□		
BOC Hong Kong	□			
HK & China Gas	□	□		
China Overseas	□			

Moreover, such firms adopted a legalistic style when presenting the information that provided little indication as to *who* was the controlling owner and *how* such control impacts upon the governance and directions of that firm. It also appeared that a certain degree of expertise or local knowledge was often required to “de-code” the information, as it was usually presented in a technical (footnote heavy) style rather than in a more reader-friendly manner. For example, only 25 percent of the companies included figures or charts in their annual reports.

Here it should also be noted that the Hong Kong, China dataset included companies with a widely dispersed shareholder base. Unsurprisingly, these companies have adopted a "boilerplate" disclosure strategy. It is often impossible for these companies to give more information about the institutional investors that hold a significant number of their shares. Yet, if institutional investors pursue a more active role in the operation of the company (or give this impression by owning, for instance, approximately ten percent of the outstanding shares), it could very well be argued that, similar to companies with a controlling shareholder, these "activist investors" (and the company) might see some value in thinking "out of the box" and going beyond the what is required as boilerplate compliance and embrace a more substantive disclosure approach. This issue will be considered further below.

Since annual reports are the main source of information regarding ownership and control structures in Hong Kong, China establishing the beneficial ownership information of Hong Kong, China companies was not always easy. Downloading and trawling through a 200+ pages Annual Report in order to identify the ultimate beneficial owner was often a time-consuming exercise as the websites were slow and the information was not always readily accessible (see *Table 6*).

Table 6. Hong Kong, China: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
	5%	5%	0%	0%
HSBC Holdings				
Tencent				
China Construction Bank				
China Mobile				
AIA Group				
Industrial and Commercial Bank of China				
Bank of China				
HKEx				
CKH Holdings				
Ping An Group				
China Life				
CNOOC				
SHK Properties				
PetroChina				
Sinopec				
CLP Holdings	□	□		
Hang Seng Bank				

BOC Hong Kong
HK & China Gas
China Overseas

In order to increase the speed, accessibility and precision in finding the identity of the ultimate beneficial owners, it is again (like in China) necessary to find other resources. The Hong Kong Stock Exchange website provide a number of tools to find significant shareholders in its listed companies. Particularly, the "Shareholding Disclosures" option appears to be an accessible tool. However, it revealed the name of the *shareholders*, their addresses, shareholdings and percentage of the issued and/or tradable shares. Also, it adopted a very legalistic format and, since the focus was on shareholders, there was a risk that any information about the ultimate beneficial owners would not be 100% accurate. It was, therefore, often necessary to use Wikipedia to establish more information. To be sure, the information about ownership found on Wikipedia is often murky, but at least it points users in the right direction (see *Table 7*).

Table 7. Hong Kong, China: Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	82.5%	82.5%	0%	15%
HSBC Holdings				
Tencent	**Partly**	**Partly**		**Partly**
China Construction Bank	□	□		
China Mobile	□	□		
AIA Group				
Industrial and Commercial Bank of China	□	□		
Bank of China	□	□		
HKEx				
CKH Holdings	□	□		**Partly**
Ping An Group	□	□		**Partly**
China Life	□	□		
CNOOC	□	□		
SHK Properties	□	□		**Partly**
PetroChina	□	□		
Sinopec	□	□		
CLP Holdings	□	□		**Partly**
Hang Seng Bank	□	□		
BOC Hong Kong	□	□		
HK & China Gas	□	□		**Partly**
China Overseas	□	□		

6.3 Malaysia

At first glance, the disclosure practices in Malaysia appear to be similar to those found in China and Hong Kong, China. Indeed, the most accessible and reliable source of information is the annual reports (see *Table 8*).

What is remarkable, however, is that the nature of the ultimate beneficial owner (i.e., government, family, founder or multinational) is not always clear. Information about the ultimate beneficial owners was sometimes indirectly determinable by meticulously examining the Annual Report. It was sometimes possible to guess who the ultimate beneficial owners actually are. This was particularly so when such individuals also held senior management positions or directorships. However, from the perspective of a foreign investor, trying to gather meaningful information in English, such "indirect" disclosure cannot provide reliable information. For instance, it was not always clear for foreign investors that a particular entity or entity name was connected or related to a family or government.

There is an interesting difference between China and Hong Kong, China, on the one hand, and Malaysia, on the other. The largest companies in Malaysia were more frequently using their websites to disclose ownership information to the market (see *Table 9*). The websites "only" offer a summary overview of the information in the annual reports and are not very interactive, but it saves the time of downloading and going through the annual report. Moreover, it provides companies with the opportunity to update the information on a more regular basis.

Table 8. Malaysia: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	80%	55%	0%	0%
Public Bank	□	□		
Tenaga Nasional	□			
Malayan Banking	□			
CIMB Group Holdings	□			
Axiata Group	□			
Sime Darby	□			
Digi.com				
Genting				
Maxis	□	□		
Petronas Chemicals Group	□	□		
Petronas Gas	□	□		
IOI Corporation	□	□		
IHH Healthcare				
Telekom Malaysia	□	□		

Genting Malaysia				
MISC	□	□		
Kuala Lumpur Kepong	□	□		
AMMB Holdings	□	□		
British American Tobacco	□	□		
PPB Group	□	□		

The website of the stock exchange Bursa Malaysia is another example of Malaysia embracing the Internet and online resources more than their Chinese or Hong Kong, China counterparts. The website contained an interactive mechanism to search through the "company announcements", including "changes in shareholdings" and "changes in substantial shareholding positions. Moreover, by entering the company name and the requested categories and subcategories the website provided an overview of announcements containing ownership and control information. Unfortunately, however, the information in such overviews was not always very detailed. The result is that investors and other stakeholders are often better off with an analysis of the information available on Wikipedia (see *Table 10*).

Table 9. Malaysia: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	45%	35%	0%	0%
Public Bank				
Tenaga Nasional	□			
Malayan Banking				
CIMB Group Holdings				
Axiata Group	□	□		
Sime Darby	□			
Digi.com				
Genting				
Maxis	□	□		
Petronas Chemicals Group				
Petronas Gas	□	□		
IOI Corporation				
IHH Healthcare				
Telekom Malaysia	□	□		
Genting Malaysia				
MISC	□	□		
Kuala Lumpur Kepong	□	□		
AMMB Holdings	□	□		
British American Tobacco				
PPB Group				

Table 10. Malaysia: Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
	70%	70%	0%	10%
Public Bank	☐	☐		**Partly**
Tenaga Nasional				
Malayan Banking				
CIMB Group Holdings				
Axiata Group				
Sime Darby	☐	☐		
Digi.com	☐	☐		
Genting	☐	☐		
Maxis	☐	☐		**Partly**
Petronas Chemicals Group	☐	☐		
Petronas Gas	☐	☐		
IOI Corporation	☐	☐		**Partly**
IHH Healthcare	☐	☐		
Telekom Malaysia				
Genting Malaysia	☐	☐		
MISC	☐	☐		
Kuala Lumpur Kepong				
AMMB Holdings	☐	☐		
British American Tobacco	☐	☐		
PPB Group	☐	☐		**Partly**

6.4 Pakistan

The largest listed companies in Pakistan engage in what could be characterised as a grudging style of disclosure in which the formal reporting requirements are met, but the ultimate beneficial owner is difficult to identify (see *Table 11* and *Table 12*). What is interesting here is that there seems to be a certain amount of herd behavior; that is to say, if it is difficult to find the information in one company, then other companies seem to adopt a similar minimal style of compliance (for instance, the disclosed information fails to explain the nature and relationship between the controlling shareholders, the ultimate beneficial owners and the company). Also, acting-in-concert arrangements are not always clear from the disclosed information. This seemed to be a particular issue in Pakistan where companies appear to assume that certain information about shareholders and beneficial owners can be regarded as "local" or "public" knowledge.

Table 11. Pakistan: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
	55%	35%	0%	0%
Habib Bank	□			
MCB Bank Ltd Spot				
Oil & Gas Devel	□	□		
Fauji Fert,				
Hub Power Co.				
Pak Petroleum				
United Bank	□			
Engro Corp.	□	□		
Lucky Cement				
Pakistand State Oil Company	□	□		
Nestle Pak	□	□		
Pak Oilfields				
Kot Addu Power	□	□		
Dawood Hercules	□			
D.G.K. Cement				
Bank Al-Habib				
National Bank	□	□		
Fauji Cement	□	□		
K-Electric				
Indus Motor	□			

Of course, the local investors do not always need very detailed information in order to figure out *who* is the ultimate beneficial owner. If an investor or other stakeholder does not have *any* knowledge or background information about controlling entities in Pakistan, Wikipedia is again a useful source to obtain a better understanding about the information than that provided in, for instance, the annual accounts (see *Table 13*). Wikipedia can, at least in part, fill gaps in local knowledge.

Table 12. Pakistan: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
	30%	20%	0%	0%
Habib Bank				
MCB Bank Ltd Spot				
Oil & Gas Devel	□	□		

Fauji Fert,				
Hub Power Co.				
Pak Petroleum				
United Bank				
Engro Corp.				
Lucky Cement				
Pakistand State Oil Company	□	□		
Nestle Pak	□	□		
Pak Oilfields				
Kot Addu Power	□			
Dawood Hercules				
D.G.K. Cement				
Bank Al-Habib	□			
National Bank	□	□		
Fauji Cement				
K-Electric				
Indus Motor				

Table 13. Pakistan: Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
	80%	80%	0%	12.5%
Habib Bank	□	□		Partly
MCB Bank Ltd Spot	□	□		
Oil & Gas Devel	□	□		
Fauji Fert,	□	□		Partly
Hub Power Co.				
Pak Petroleum	□	□		
United Bank	□	□		Partly
Engro Corp.	□	□		Partly
Lucky Cement	□	□		
Pakistand State Oil Company	□	□		
Nestle Pak				
Pak Oilfields	□	□		
Kot Addu Power				
Dawood Hercules	□	□		Partly
D.G.K. Cement				
Bank Al-Habib	□	□		
National Bank	□	□		
Fauji Cement	□	□		

K-Electric	□	□		
Indus Motor	□	□		

6.5 Philippines

The largest companies in the Philippines, according to market capitalisation, are mostly controlled by family-owned conglomerates. These conglomerates, more specifically the *Ayala Group* and *Aboitiz Group*, understand the importance of adopting a slightly more “personalised” approach to the information contained in their Annual Reports (including the SEC Forms 17-A, which have to be filed pursuant to Section 17 of the Securities Regulation Code) and on their websites. These companies appear to understand that their investors and other stakeholders are not only interested in dry, formal financial statements, but are also looking for more personalised content and authenticity. Their companies present additional information, but more than that they present such information in a more accessible and personalised way. That is to say, the controlling – and ultimate – owners address their “fellow shareholders” in the Annual Reports with a mix of business facts, succession and ownership issues, as well as innovations and long-term expectations.

Although the ownership information in the annual reports and company websites is not always clear and straightforward (see *Table 14* and *Table 15*), it could be argued that local market participants know exactly how the ownership and control arrangements are structured and organised in these family-controlled companies. Moreover, foreign investors, by reading through the company’s communications, can develop an idea about the families and their interests in the listed companies.

Table 14. Philippines: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	75%	65%	0%	5%
SM Investments	□	□		
Philippine Long Distance Telephone Company Common	**Partly**	**Partly**		
Ayala Land	□	□		
SM Prime Holdings	□	□		
JG Summit Holdings	□	□		
Ayala Corporation	□	□		**Partly**
Universal Robina Corporation	□	□		
BDO Unibank	□	□		
Bank of the Philippine Islands	□	□		
Globe Telecom	□	□		

Manila Electric Company	**Partly**	**Partly**		
Aboitiz Power Corporation	□	□		
Aboitiz Equity Ventures	□	□		**Partly**
Metropolitan Bank & Trust Company				
GT Capital Holdings				
Alliance Global Group	□	**Partly**		
International Container Terminal Services				
Jollibee Foods Corporation	□	**Partly**		
DMCI Holdings	**Partly**			
Semirara Mining and Power Corporation	**Partly**			

Table 15. Philippines: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	27.5%	27.5%	12.5%	0%
SM Investments	□	□		
Philippine Long Distance Telephone Company Common	**Partly**	**Partly**		
Ayala Land	□	□		
SM Prime Holdings				
JG Summit Holdings				
Ayala Corporation				
Universal Robina Corporation				
BDO Unibank				
Bank of the Philippine Islands	**Partly**	**Partly**	**Partly**	
Globe Telecom	**Partly**	**Partly**	**Partly**	
Manila Electric Company	**Partly**	**Partly**	**Partly**	
Aboitiz Power Corporation	**Partly**	**Partly**	**Partly**	
Aboitiz Equity Ventures	**Partly**	**Partly**	**Partly**	

Metropolitan Bank & Trust Company				
GT Capital Holdings				
Alliance Global Group				
International Container Terminal Services				
Jollibee Foods Corporation				
DMCI Holdings				
Semirara Mining and Power Corporation	**Partly**	**Partly**		

The Philippines Stock Exchange Electronic Disclosure Generation Technology or PSE EDGE, the fully automated system that facilitates the processing, submission, distribution and analysis of disclosure reports, undoubtedly enhances the market transparency of the respective listed companies in the Philippines. However, it does not provide an instant or visualised overview of the ownership and control structures of the listed companies. Investors, stakeholders and other interested parties have to go through "company announcements" to find the relevant bits of information.

The involvement of well-established and entrepreneurial families in the Philippines' business market makes wiki-like websites a valuable source of "business intelligence". Wikipedia, in combination with WikiPilipinas which mainly focuses on Philippine-related topics and issues, appeared to be remarkably detailed and useful. Predictably, the knowledge database offered – in almost 100% of the analysed cases – important and valuable insights as to the identity and nature of the ultimate beneficial owners (see *Table 16*).

Table 16. Philippines: Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	97.5%	97.5%	0%	42.5%
SM Investments	□	□		
Philippine Long Distance Telephone Company Common	**Partly**	**Partly**		
Ayala Land	□	□		**Partly**
SM Prime Holdings	□	□		
JG Summit Holdings	□	□		**Partly**
Ayala Corporation	□	□		**Partly**
Universal Robina Corporation	□	□		**Partly**
BDO Unibank	□	□		**Partly**

Bank of the Philippine Islands	□	□		**Partly**
Globe Telecom	□	□		**Partly**
Manila Electric Company	□	□		**Partly**
Aboitiz Power Corporation	□	□		**Partly**
Aboitiz Equity Ventures	□	□		**Partly**
Metropolitan Bank & Trust Company	□	□		**Partly**
GT Capital Holdings	□	□		**Partly**
Alliance Global Group	□	□		**Partly**
International Container Terminal Services	□	□		**Partly**
Jollibee Foods Corporation	□	□		**Partly**
DMCI Holdings	□	□		**Partly**
Semirara Mining and Power Corporation	□	□		**Partly**

6.6 Singapore

From the perspective of regulatory design, the insights gained from the empirical review of different disclosure strategies across multiple information sources prove to be extremely useful. Countries that rank in the top of the Asian market as far as their regulatory corporate governance framework are concerned have clear and detailed rules on the disclosure and transparency of beneficial ownership. It is, therefore, not particularly surprising that the listed companies in these jurisdictions also perform best when it comes to the disclosure of the ultimate beneficial owners of these companies (see *Table 23* and *Table 24* in the next Section). The exception is China, which does not have a "top" position in corporate governance, but as we have seen, has recently updated the disclosure rules, leading to a greater degree of compliance. What is remarkable, however, is that these companies do not generally engage in more substantive, open disclosure, suggesting that a stringent and detailed regulatory framework merely incentivises boilerplate compliance.

Table 17. Singapore: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	77.5%	52.5%	5%	0%
Singtel	□	□	□	
Jardine Matheson Holdings				
DBS Group Holdings	□			
Jardine Strategic Holdings				

Overseas-Chinese Banking Corporation	**Partly**			
United Overseas Bank	□	□		
Hong Kong Land Hldgs	**Partly**			
Wilmar International	□	□		
Thai Beverage Public	□	□		
Keppel Corporation	□			
Capitaland	□	□		
Jardine Cycle & Carriage				
Global Logistic Prop.	□			
Singapore Airlines	□	□		
Genting Singapore	□	□		
Singapore Tech Engineering	□	□		
City Developments	□	**Partly**		
Singapore Exchange	□	□		
Hutchison Port Holdings	**Partly**			
Capitaland Mall Trust	□	□		

Table 18. Singapore: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	32.5%	12.5%	0%	0%
Singtel	□	**Partly**		
Jardine Matheson Holdings				
DBS Group Holdings				
Jardine Strategic Holdings				
Overseas-Chinese Banking Corporation				
United Overseas Bank				
Hong Kong Land Hldgs				
Wilmar International				
Thai Beverage Public	**Partly**			
Keppel Corporation				
Capitaland	□	**Partly**		
Jardine Cycle & Carriage				

Global Logistic Prop.				
Singapore Airlines	☐	**Partly**		
Genting Singapore				
Singapore Tech Engineering	☐	**Partly**		
City Developments	☐			
Singapore Exchange				
Hutchison Port Holdings				
Capitaland Mall Trust	☐	**Partly**		

Table 19. Singapore: Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
	55%	52.5%	0%	25%
Singtel	☐	☐		**Partly**
Jardine Matheson Holdings	☐	☐		**Partly**
DBS Group Holdings				
Jardine Strategic Holdings	☐	☐		**Partly**
Overseas-Chinese Banking Corporation	☐	☐		**Partly**
United Overseas Bank	**Partly**	**Partly**		
Hong Kong Land Hldgs	☐	☐		**Partly**
Wilmar International	**Partly**			
Thai Beverage Public	☐	☐		**Partly**
Keppel Corporation				
Capitaland				
Jardine Cycle & Carriage	☐	☐		**Partly**
Global Logistic Prop.				
Singapore Airlines	☐	☐		**Partly**
Genting Singapore	☐	☐		**Partly**
Singapore Tech Engineering	☐	☐		**Partly**
City Developments				
Singapore Exchange				
Hutchison Port Holdings				
Capitaland Mall Trust				

Since Hong Kong, China and Singapore consistently retain the top positions in the ACGA ranking of corporate governance in Asia (see *Table 4*), the results in *Table 17* and *Table 18* do not need any further explanation. As was the case with Hong Kong, China the companies that are listed on the Singapore Stock Exchange generally disclose the identity of the ultimate beneficial owner. Also, both the Hong Kong Stock Exchange and Singapore Stock Exchange (through SGXNet) provide investors, stakeholders and other interested parties access to the announcements (including ownership statements) they have received from the issuers/listed companies. However, Singapore seems to differ somewhat from "Hong Kong China" companies in their use of websites. More specifically, they offer a greater degree of transparency in ownership and control structures.

Because the empirical research (from the perspective of a "foreign investor") mainly focuses on explicit, direct and detailed disclosure of ultimate beneficial owners, the precise nature of the beneficial owner is not always clear. Particularly, it is not always possible to distinguish between state-owned or multinational-owned companies from such "indirect" disclosure without a more informed understanding and knowledge of the local situation.

When an individual is the ultimate beneficial owner, the disclosure of Singaporean companies is clear and straightforward. For instance, Genting Singapore offers more direct information about the ultimate beneficial owner in its annual report than its listed parent company in Malaysia.

Finally (and unsurprisingly), in Singapore, Wikipedia is also a convenient source of information (see *Table 19*).

6.7 Thailand

When we compare the disclosure practice in Thailand to the practices in other Asian countries, it becomes clear that companies that are listed on the Stock Exchange of Thailand are less transparent with regard to their ownership and control structures than companies in other countries (see *Table 20* and *Table 21*).

Table 20. Thailand: Beneficial Ownership and Annual Reports

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	67.5%	62.5%	5%	0%
PTT Public Company	□	□		
Kasirkornbank				
Siam Cement	□	□		
Siam Commercial Bank	□	**Partly**		
Bangkok Bank				
Advanced Info Serv.				
CP ALL	□	□		
Bangkok Dusit Medical Services	□	□		

PTT Exploration & Production	**Partly**	**Partly**		
Intouch Holdings	**Partly**	**Partly**		
Airports of Thailand	☐	☐		
PTT Global Chemical	**Partly**	**Partly**		
True Corporation	☐	☐		
Krung Thai Bank	**Partly**			
Total Access Communication	☐	☐	☐	
Central Pattana	**Partly**	**Partly**		
Charoen Pokphand Foods	☐	☐		
Big C Supercenter				
Minor International	☐	☐		
Indorama Ventures	☐	☐		

There are two apparent reasons for the “lower” disclosure rate:

- Listed subsidiaries of multinationals are not always clear about the ultimate beneficial owner of the parent company.

- It is not always evident for a foreign investor that a major/substantial shareholder is affiliated or connected with the government, a family or a multinational.

The disclosure rate would significantly increase if the information from Wikipedia is also taken into account by investors and other interested parties (see *Table 22*).

Table 21. Thailand: Beneficial Ownership and Company Websites

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	62.5%	57.5%	7.5%	0%
PTT Public Company	☐	☐		
Kasirkornbank				
Siam Cement	☐	☐		
Siam Commercial Bank	☐	**Partly**		
Bangkok Bank				
Advanced Info Serv.				
CP ALL	☐	☐		
Bangkok Dusit Medical Services	☐	☐		
PTT Exploration & Production	**Partly**	**Partly**		
Intouch Holdings	**Partly**	**Partly**		
Airports of Thailand	☐	☐		
PTT Global Chemical	**Partly**	**Partly**	**Partly**	

True Corporation	☐	☐	
Krung Thai Bank	**Partly**		
Total Access Communication	☐	☐	☐
Central Pattana	**Partly**	**Partly**	
Charoen Pokphand Foods	☐	☐	
Big C Supercenter			
Minor International			
Indorama Ventures	☐	☐	

Table 22. Thailand – Beneficial Ownership and Wikipedia

	Disclosure Ultimate Beneficial Owner	**Description of the Ultimate Beneficial Owner**	**Accessibility of the Information**	**Personalized Disclosure**
	82.5%	80%	0%	15%
PTT Public Company	☐	☐		
Kasirkornbank				
Siam Cement	☐	☐		
Siam Commercial Bank	☐	☐		
Bangkok Bank				
Advanced Info Serv.	☐	☐		**Partly**
CP ALL	☐	☐		**Partly**
Bangkok Dusit Medical Services	☐	☐		**Partly**
PTT Exploration & Production	☐	☐		
Intouch Holdings	☐	☐		
Airports of Thailand	☐	☐		**Partly**
PTT Global Chemical	☐	☐		
True Corporation	☐	☐		**Partly**
Krung Thai Bank	☐	☐		
Total Access Communication	☐	☐		
Central Pattana	☐	☐		
Charoen Pokphand Foods	☐	☐		**Partly**
Big C Supercenter	**Partly**			
Minor International				
Indorama Ventures	☐	☐		

What is positive and noteworthy in Thailand is that both the listed companies and the Stock Exchange of Thailand (SET) make much more extensive use of online strategies to disclose shareholder and ownership information. Based on the sample of this study, it is fair to say that Thailand performs with regards to the use of online resources (see *Table 24)*.

However, and we have seen this also in other countries, the information on the company websites is usually a summary overview of the information found in the annual report. Also, the Stock Exchange appears to focus particularly on major shareholders (who are not necessarily the ultimate beneficial owners).

Still, this does not make the online information less important. The information on the website not only has the potential to save time and energy from the perspective of the investor, it also offers companies the opportunity to periodically update and disclose material changes in the ownership and control structures. It is only to be expected that more interactive and intuitive information will be provided on websites in the future.

Table 23. Comparative Overview: Disclosure Annual Reports (*countries*)

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
China	95%	95%	80%	0%
Hong Kong, China	82.5%	55%	25%	0%
Malaysia	80%	55%	0%	0%
Pakistan	55%	35%	0%	0%
Philippines	75%	65%	0%	5%
Singapore	77.5%	52.5%	5%	0%
Thailand	67.5%	62.5%	5%	0%

Table 24. Comparative Overview: Disclosure Company Websites (*countries*)

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
China	10%	5%	0%	0%
Hong Kong, China	5%	5%	0%	0%
Malaysia	45%	35%	0%	0%
Pakistan	30%	20%	0%	0%
Philippines	27.5%	27.5%	12.5%	0%
Singapore	32.5%	12.5%	0%	0%
Thailand	62.5%	57.5%	7.5%	0%

7 Disclosure: The Overall Picture

If the data is taken as a whole, i.e., the data from all seven countries and all four sources of information is taken together, what patterns are revealed? Which sources provide the most information and the most accessible information? What possible general conclusions can be reached about the different sources of information considered in this study? *Table 25* provides an overview of the data and points to some possible answers to these questions.

Table 25. Comparative Overview – Disclosure (*sources of information*)

	Disclosure Ultimate Beneficial Owner	Description of the Ultimate Beneficial Owner	Accessibility of the Information	Personalized Disclosure
Annual Reports	**76%**	**60%**	**17%**	**0%**
Company Websites	**30%**	**23%**	**3%**	**0%**
Stock Exchanges Websites	**50%**	**0%**	**0%**	**0%**
Wiki-pages	**79%**	**78%**	**0%**	**19%**

Five conclusions, in particular, seem to stand out from the above table.

Social media and online resources – as represented in this study by English-language "wikis" – are, in most cases, a better source of information on ownership and control than annual reports, company websites or stock exchange web pages.

Most of the main and obvious sources for finding information on beneficial ownership – namely the company's annual reports – do not always contain helpful or accessible information. The companies do what regulations require them to do, but little else. There is a minimal level of compliance that results in formulaic and generic statements. In this respect, it could be argued that the current approach to information disclosure seems to be failing (at least from the perspective of a foreign investor who does not have specific local knowledge about the region or company).

The companies' "investor relations" websites are usually not very interactive. If information is provided (which is only done in a minority of the cases), the websites are slow and once opened only give the viewer formalistic and legalised information. What is perhaps less surprising is that this information is usually highly standardised.

The Stock Exchange websites often provide an interactive means of going through the corporate announcements. They do not, however, give an instant overview of the current ownership and control structures of the listed companies.

A very small minority of firms in the sample is currently engaged in what can be characterised as a form of "open communication". Open communication involves the adoption of a much greater degree of openness in both the style and format of information disclosure, as well as the actual content of information that is being disclosed.

A closer look at the analysis shows that adding more layers of mandatory disclosure rules does not guarantee that the disclosed information will be more effective.

Does this mean that the correct response is for regulators to do nothing? This type of argument can seem legitimate, particularly if one claims that social/online media and wiki-type information sources will become better anyway.

Yet, even though relying on social media and online "wikis" has certain benefits (such as the ease to find relevant information, the availability in more languages, the clear and comprehensive content, and the instant links to further sources of information that facilitates further verification), the drawbacks of such information as a source for "control and ownership information" appear to outweigh the benefits.

Four weaknesses/shortcomings of such information appear particularly relevant:

Firstly, the content does not usually provide a technical description of *how* the ultimate beneficial owners own the shares of the company (e.g., through pyramid structures) as well as their role in the governance of the company. Indeed, identifying the ultimate beneficial owner does not necessarily reveal the actual governance structure or strategies that are employed by the ultimate owner, and it is this information that is of most interest to investors.

Secondly, the credibility of the persons contributing to the online encyclopedia can be questionable. However, it should be noted that the "wisdom of the crowd" appears to become more and more accurate and trustworthy.

Thirdly, the accuracy of the information contained in the online articles also has to be verified by other information. This is particularly the case when such articles are based on potentially outdated sources.

Fourthly, the delayed timing between a change in the ownership and control structure and the Wikipedia update is significant, i.e., the "wiki-update" necessarily lags behind the update in ownership.

Thus, the next step involves asking *what* strategies regulators might consider in order to ensure that the market will receive up-to-date, reliable and accessible information. Also, what should regulators do to convince companies of the potential benefits offered by more open forms of communication, particularly in the context of communicating information on beneficial ownership and its effect on control structures? These steps will be addressed in the next Section.

8 What's Next?

First and foremost is the need for detail and clarity in the information on ultimate ownership and its relationship with control and governance within the company. This might seem obvious, but the grudging or boilerplate disclosure-type approaches to compliance reveal that a relatively large number of firms do not even meet this minimal threshold of disclosure. Of course, knowing exactly how much information to share is never going to be easy (partly due to competition and security considerations), but both firms and regulators need to be more aggressive in pursuing openness.

More regulatory and political attention to the disclosure of beneficial ownership appears to only have a moderate impact so far. Consider Indonesia. In 2013, the OECD Experts Forum on Corporate Governance in Indonesia worked towards improving corporate governance practices in Indonesia, specifically focused on the disclosure of beneficial ownership and control. The dialogue resulted in a report entitled "Disclosure of Beneficial Ownership and Control in Indonesia: Policy Options for Indonesia". This report has been instrumental in supporting the development of policies, regulations and practices in the area of disclosure and transparency of the ultimate beneficial owners. Yet, an assessment of the disclosure practices of the ten largest publicly listed companies in Indonesia (see *Table 26*) shows that only six of them accurately disclosed the identity of the ultimate beneficial owner. Here is should be noted that these six companies were all state-owned and government-controlled firms. It was positive to see that these government-controlled companies had clear and accessible information on their websites or annual reports.

Table 26. Top-10 Largest Publicly Listed Companies in Indonesia, India and Korea

India	Indonesia	South Korea
Indian Oil Corporation	**Bank Central Asia**	**Samsung Electronics**
Reliance Industry	**Hanjaya Mandala Sampoerna**	**Hyundai Motor**
Tata Motors	**Telekomunikasi Indonesia**	**POSCO**
State Bank of India	**Astra International**	**Kia Motors**
Bharat Petroleum Corporation	**Bank Rakyat Indonesia**	**Hyundai Mobis**
Hindustan Petroleum Corporation	**Bank Mandiri**	**LF Chem**
Rajesh Exports	**Unilever Indonesia**	**Hyundai Heavy Industries**
Oil and Natural Gas Corporation	**Perusahan Gas Negara**	**Samsung Life Insurance**
Tata Steel	**Gudan Garam**	**Shinhan Financial Group**
Tata Consultancy Services	**Bank Negara Indonesia**	**SK Hynix**

This trend is confirmed by an analysis of the top-10 publicly listed companies in Indian "Economic Times 500 Companies" 2016-list (see *Table 26*). India has proposed new legislation on beneficial ownership in the Companies (Amendment) Bill, 2016. This would require all legal entities to disclose make details about their true identities of the beneficial owners of all legal entities. To be sure, listed companies in India have a statement showing shareholding patterns available on their websites. These quarterly statements provide a plethora of information about the ownership structures of these companies. Yet, it is for foreign investors not always clear how the ownership and control structures work in practice. This is perhaps different for the government-controlled companies (five of our ten listed companies).

The disclosure practice of the largest publicly listed companies in Korea (see *Table 26*) shows that increased attention and discussions about this topic are insufficient. The complicated and circular ownership structures are best understood by consulting online researches and wiki-pages. Regulatory intervention appears to be necessary.

What then are the next steps for regulators to consider?

8.1 First Step: Accessible Information

The first step in improving the accuracy of transparency and disclosure is to package the information in a form that is as accessible as possible. For instance, the use of visuals in the presentation of information is vital, as is a clear (i.e. non-legalistic) style of writing.

Moreover, the use of sophisticated charts and figures helps ensure that information is available to all relevant investors and stakeholders as well as potential investors and stakeholders.

Clearly, this type of approach seems particularly relevant in the connected age in which companies now operate. Social media and investor relations' websites offer multiple opportunities for more imaginative, interactive and intuitive information dissemination. We found some clear examples of this type of disclosure on the websites of state-owned enterprises in Indonesia. The quarterly updates on the ownership structures of publicly listed companies in India also show that the companies' websites become a more and more crucial source when it comes to disseminating information about the ultimate beneficial ownership and control structures

Regulators need to do more to assist investors and other stakeholders in obtaining current and up-to-date information. An obvious example of a regulator making a non-standardised and clear statement about the ownership and control structure of a listed company can be found on the website of CONSOB, the Italian securities regulator. CONSOB's website offers all kind of information from the listed companies in Italy. For instance, the website has links to the ownership structure, share capital, and major shareholders.

8.2 Second Step: Personalised Information

The style of disclosure matters enormously. It is important to think about the potential audience (e.g., current investor, prospective investor – professional or otherwise – etc.) and to try to speak to *all* of the different constituencies in an engaging and personalised manner.

The legalistic forms of writing that currently dominate this area need to be abandoned in favor of more direct and honest forms of expression. Moreover, information on control structures needs to be embedded in a clear and distinctive narrative about the past, present and future direction of the firm and the governance structures of that company. Narrative creates a context that is vital in generating confidence and a willingness to engage. The current prevalence of a more legalistic style merely communicates evasiveness and seems unlikely to be effective in building or sustaining the necessary degree of trust. A responsible owner understands that the key challenges confronting his/her company – for example, the questions of succession – need to be addressed directly and should not be obscured or hidden.

The French food services and facilities management firm, *Sodexo*, provides a good example of how this type of personalised, visual and clear, integrated report has been used effectively. The firm's founder, Pierre Bellon, has used dual class shares to guarantee long-term control. Nevertheless, the company has presented its reports in an open and visually attractive way that goes way beyond the regulatory requirements. For instance, Bellon has been very open in focusing on the succession issue, in particular the question of which one of his children would succeed him. The suggestion is that by openly confronting such a sensitive issue he was able to create trust and this trust ensured investors remained confident in the firm's prospects, in spite of the governance concerns that might (from the conventional perspective) otherwise deter them from making an investment in such a company.

8.3 Third Step: Alternative Media

There are many alternative means that can now be used as platforms for communicating. For instance, an increasing number of company leaders now communicate with investors via an "annual letter" and, in many cases such letters have become more important to investors as a source of information than the annual reports. Again, such letters work best when written in a highly personalised and honest style (e.g., a controlling shareholder communicating openly with other shareholders). Finally, social media and other online media (such as blogs) are becoming more and more important as a forum for disclosing information about a company. There are many new opportunities and possibilities for more imaginative forms of information dissemination.

A well-documented example of a company that has adopted this type of approach is Warren Buffet's Berkshire Hathaway. Warren Buffet's annual letters to shareholders are considered a "must-read" for anyone with an interest in the corporate world. What is perhaps most interesting is that these letters not only provide investors and other stakeholders with last year's financial information and future developments and growth prospects but also include business advice and insights. It is therefore not surprising that these letters attract enormous attention on social media. They have created significant hype, which makes the communication even more personalised, open, and effective. It is hardly surprising, therefore, that tech moguls, such as Jeff Bezos (*Amazon*) and Larry Page (*Google, Alphabet*) have also embraced this type of strategy.

The above elements are merely indicative and need to be developed further based on empirical research on current best practices. What is clear, however, is the overarching concept and direction of an open communication strategy. Clear and accessible information on ultimate ownership and its relationship with governance needs to be located within a coherent and meaningful narrative of the firm's current situation and future direction. In this way, information can become an important resource that firms leverage in order to build more inclusive relationships with stakeholders.

9. Conclusion

The key conclusions from this paper are twofold. First, regulators should acknowledge the unintended effects of a regulatory model that is based solely on mandatory disclosure of beneficial ownership. Such a model tends to incentivise a formalistic and minimalistic style of disclosure that does not achieve the initial regulatory objectives. This empirical study clearly shows that, in many cases, online media can provide more useful information than the "official" sources.

Secondly, the empirical study highlights how a small, though increasing number of firms are recognising the benefits of more open communication. Some companies are being proactive and imaginative in building open communication strategies that maximise the financial and strategic opportunities that such openness can create.

In this context, it would be advisable for regulators to re-think their strategies to focus on the more complex and subtle task of encouraging firms to embrace open communication and providing guidance regarding best practices in such communication strategies. This is not to suggest that disclosure rules should be repealed, but rather that they should be complemented with regulatory strategies that show how the lack of open communication and transparency is a "missed opportunity" for many firms.

Ultimately, the task of adopting more open forms of communication regarding ownership and control is contingent on the buy-in of leaders and other key stakeholders within the firm. Firm leaders should understand the advantages that meaningful disclosure can offer in terms of attracting the investors and "talent" necessary to develop the products and services that will allow them to have the best opportunity to be successful in the hyper-competitive, global markets that characterise the economy today.

The Impact of Intellectual Capital on Business Performance: Case of the BRICS Countries

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Abstract
The purpose of our study is to study the impact of intellectual capital on the economic, financial and market market performance of companies in Brazil, Russia, India, China and South Africa (BRICS). In this study, the IC is measured by a new method, proposed by Sydler et al. (2014) Data analysis was done using multiple linear regression to interpret Asset Return (ROA), Return on Investment (ROI), and Market Capitalization (MBV). To evaluate our research, a multi-variate linear analysis was used for 1,090 observations over the period from 2010 to 2014. During the period analyzed, the CI has a positive and significant impact on the performance of companies. The results suggest that companies in emerging markets invest primarily in their operational efficiency and reduce their operating costs.

Introduction
In an economy dominated by the creation and diffusion of knowledge, the role of intellectual capital (IC) is indelible. A profound change has been observed in the economy of knowledges s where the intellectual resources supplant traditional physical and financial resources. Intellectual capital is considered a major contributor to value creation and the node of organizational competitiveness (Edvinsson and Malone, 1997, Stewart, 1997, Chen et al, 2005).

Starting in the 1980s, the difference between the market value and the book value of a business represents the invisible value of unfunded intangible assets. This significant difference observed has been the subject of several studies to discover the "hidden factors" that the traditional accounting system could not explain with precision (Edvinsson and Malone, 1997). The notion of "hidden factors" has gradually increased among researchers and these were attributed to notion of intellectual capital that is constituted by human capital (skills, experience, training,etc.), structural capital (systems, intellectual property, etc.) and relational capital (eg relations with customers and stakeholders) (Edvinsson and Malone 1997, Andriessen 2004).

Cricelli et al. (2013), and Jordão et al. (2013), have shown that information and knowledge are two main resources used by companies in generating future benefits. These resources stimulate the development and maintenance of human capital, improve processes, encourage learning and growth, increase customer loyalty and partnerships with suppliers, and generate greater innovation, by mentioning certain aspects that generate competitive gaps and lead to improved financial performance.

It should be emphasized that we still do not have the exact size of the value of intellectual capital, nor the best tools for its measurement and valuation. Nevertheless, several IF proposals and evaluation models have been presented over the years, but there is still no consensus as to their effectiveness in the dimension of its value and its effects on business performance. This is an issue that needs to be further explored in the literature, especially with respect to emerging markets.

Each year, researchers propose new approaches to measuring the IC concept. It has been validated that the best methods are not monetary, but these types of measures are subjective and not suitable for empirical research. Because of this, this research focuses on monetary terms, but applies them indirectly.

The notion of intellectual capital has been created and studied in developed markets. Many researchers have tried empirically to study the impact of CI on business performance in industries and countries around the world covering both developed countries. However, there are not many papers on similar topics in emerging markets. This study attempts to examine the five largest emerging markets of the BRICS group.

Our present study therefore differs from those of other authors in several points: (a) our study includes companies from emerging countries and especially it adds South Africa the BRICS group of countries; (b) when the other studies analyzed a sample of the small number of firms, our study is committed to presenting a more robust research sample (219 companies); (c) our study takes into account the relationship between the market value of equities and equity, while that of Bayburina and Golovko focuses solely on the composition of intellectual capital; (d) our study is one of the first empirical research studies that explicitly examines the value relevance of CI components in evaluating investor affairs. As most previous studies are limited to examining the relationship between spending on research and development (R & D) and market value of securities (exp Lev, Thomas and Nissim (2005). (e) the use of a news attractive method Evaluation of Cl, described in Sydler's work and others (2014). It is calculated on the basis of emerging market data. This method has a number of advantages that make it potentially more realistic and accurate in the face of the problem of approximating intellectual capital raised by other methods based on published financial information.

In view of the above, the main question for our study is the following: What is the influence of intellectual capital on the economic, financial and stock market performance of different public companies at the x countries Brazil, Russia, India, China and South Africa. The main objective of our study is therefore to examine the statistically significant influence of intellectual capital on the performance of public enterprises in the BRICS countries.

Our proposed study is further justified because of the gradual rise in academic interest of intangible assets in companies and the creation of value for shareholders. The relevance of our research is characterized by the applicability of results, the results of which can contribute to the decision- making process. The research samples correspond to public enterprises located in BRICS countries that have symmetrical characteristics (even if they do not compose any common economic bloc).

Our study is structured as follows: the next section discusses the definition of intellectual capital. After, presentation of previous research and hypotheses. The methodology describes the approach and research methods used (data, variables and general descriptive measures). The following section is devoted to the analysis of empirical results and discussion, supplemented by concluding remarks and research limitations.

Conceptual framework

This section presents a definition of intellectual capital and its components and the theoretical framework for analysis.

Definition of intellectual capital

Some authors (Brooking 1996, Edvinsson. Malone 1997, Lev, Zéghal. Maaloul 2010, Survilaitë et al., 2015) have shown that intellectual capital explains the difference between the market value and the book value of companies. Overall, it can be defined as corporate wealth based on knowledge e. It has attracted in recent decades a significant practical interest (Guthrie 2000).

There is also a range of terminologies that mark the discourse and research on intangible assets. Kaufmann and Schneider (2004), for example, identify the most used and circulating terms: "intangible"; "Intangible Capital"; "Intangible Resources"; "Intellectual Capital" and "Intellectual Property". Stewart (1998) had previously classified intellectual capital into three basic forms: human capital; Structural capital and customer capital.

Stewart (1997) argues that the intellectual resources such as knowledge, information and experience, are tools of art to create wealth and defines intellectual capital as the new wealth of organizations. Sullivan (2000) defines intellectual capital as knowledge that can be converted into profit. Mainly, because of the problems of measurement of intellectual capital and difficulties, companies face management problems (Andrikopoulos 2005).

For Kok (2007), a method of determining the intellectual capital of an enterprise is to compare the market value with its book value. These arguments are based on assumptions of intellectual capital. The intellectual assets of a business are intangible and therefore do not have an appropriate financial value. They are characterized as hidden assets because it’s difficult to identify.

Intellectual capital is not reported in traditional financial statements, its items do not meet the recognition criteria for an intangible asset (Lopes 2010). According to IAS 38, the definition of intangible asset is a non-monetary asset, identifiable without physical substance. An asset is a resource that is controlled by the entity as a result of past events, for example, purchase or self-creation and for which future economic benefits (cash inflows or other assets) are expected.

Therefore, the critical attributes of an intangible asset are: the identifiability, the power to obtain future economic benefits, such as income or reducing future costs. The list of items that should not be included in the balance sheet includes trademarks, know-how, publishing titles, customer lists and similar items substantially generated internally (IAS 38). If an item does not meet the definition of
intangible asset and the recognition criteria as an intangible asset, expenses related to that item should be expensed as incurred.

The effective representation of the growth of intangible assets over tangible assets in corporate equity and their relevance for value creation has been demonstrated by several research studies (Edvinsson and Malone (1998), Stewart (1998), Schmidt and Santos (2002) and Famá Perez (2006)). These studies have highlighted several causal factors, including favor for market leadership. This involves the development of leading brands; the global expansion of the utilities sectors; intellectual capital, the scale of technological change and the gradual integration of international financial markets. In this scenario, the traditionally announced capital-labor relationship lacks the capacity to generate, or even include, adequate competition where copyright is concerned; client portfolios; trademarks; patents and software must be included as important new features. The work of Lapointe and Cimon (2009) asserts that intangibles are the most appropriate way for businesses to engage in the creation of sustainable value. Similarly, the research of Monobe (1986); Sveiby (1998); Stewart (1998); Lev (2001) and Kayo (2002) argue that firms view intangible assets as sources of competitive advantage, which can effectively contribute to increasing the value of the business.

Analytical framework

Abeysekera (2008) and Li et al. (2008) confirm that there is not really a specific theoretical framework for analyzing intellectual capital. The research field is in development, which is a major issue in accounting and finance for future research. However, several theoretical currents are mobilized for his analysis:

Resource Theory (Ressouce Based View RBV) has experienced tremendous development in the area of strategic management since Wernerfelt's (1984) first propositions, Barney's statement of fundamental principles (1991) and Conner's (1991) argument to elevate the approach. by resources to the rank of theory in the mid-80s.

The fundamental idea of RBV was to highlight the heterogeneity in terms of the resources owned between the same competing firms within the same industry. This differentiation between companies was at the base of performance differences.

In addition, these resources are characterized by low mobility. The RBV approach experienced a great development and a multitude of divergent approaches during the 1980s and 1990s. Thus, the recent summary of Prévot et al. (2010) distinguishes four important trends that are rooted in the

RBV paradigm: the skills approach, the knowledge approach, the dynamic capacity approach, and the relational approach.

Reed & als. (2006), have proposed a pragmatic approach, even partial, based on recent observations by Peteraf and Barney (2003), based on the intellectual capital of the company "Intellectual Capital - Based View "(ICV) makes it easier to develop hypotheses and test them empirically than Resource Based View (RBV). According to Reed & als. (2006), the theory based on intellectual capital represents a specific aspect of the theory based on resources. The ICV deals only knowledge that is created by one of the three components of the company's intellectual capital; that is, in its people (human capital), social relations (structural capital), and information systems and technology processes (organizational capital) (Edvinsson and Malone, 1997, Wright et al, 2001). The VCI focuses on stocks and knowledge flows embedded in an organization and is likely to have direct links to financial performance (Youndt et al, 2004).

Previous research and hypotheses

The term " CI " has been defined by several researchers differently. There is no specific agreement on a definition s. Generally, the "CI" is used to denote intangible active or intangible factors of the company, which has a significant impact on the performance of s s business, although he himself does not explicitly script in the balance sheet.

The IC study and its measurements represent one of the most complex and difficult areas of accounting, finance and probably management theory and practice.

The question of intellectual capital and its impact on business performance is widely studied in IC theory in the 1990s. IC measurement and communication were identified as those of greatest importance for the success of business. today. It is widely accepted that effective IC management is a reason for the growth and stability of the organization's value creation. However, because of the limitations of financial accountability and the legal regulation of this type of resources is often left out of traditional organizational relationships.

Many studies have been conducted to measure intellectual capital, but it has been difficult to measure it successfully economically. Researchers applied different methods of measuring IC, mainly VAIC model (Value Added Intellectual Capital) to identify the relationship between intellectual capital and business performance, but the results were not similar in all studies.

The inexistence of relationship between intellectual capital and business performance

According to Kolachi and Shah (2013), CI is vital for every small and large company, in both developed and developing countries. We use this reason to explain the association between the overall efficiency of CI and the performance of the company.

The studies of Kamath (2000); Firer and Williams (2003); Antunes and Martins (2007); Esslin et al. (2009); Carvalho, Kayo and Martin (2010) and Nascimento et al. (2012) found no relationship between intellectual capital and business performance.

Kamath (2000) investigated the existence of a relationship between the components of intellectual capital (human, structural, and relational capital) and traditional measures of business performance (profitability, productivity, and market valuation). The research sample consisted of the 25 largest Indian pharmaceutical companies, based on sales in 2006, representing approximately 70% of the total sales of the pharmaceutical industry in 2006. The analysis of the empirical results has not enabled us to establish a significant relationship between the performance of pharmaceutical companies in terms of market valuation, productivity and profitability with one of the CI components in India. The company's performance was therefore more quickly understood in terms of tangible assets rather than intangible assets. Firer and Williams (2003) have studied the association between the efficiency of value added (VA), through the main components of a firm's core resources (relational capital, human capital and structural capital) and the three dimensions. traditional performance. Their research sample is based on 75 public enterprises in South Africa from four intensive sectors of intellectual capital: banking, electronics, information technology and public services. Empirical results have not identified a link between the efficiency of value added (VA), the main core components of resources and corporate profitability, suggesting that relational capital remains the defining characteristic the most important business performance in South Africa.

Antunes and Martins (2007) studied the relationship between intellectual capital and business performance in order to test the extent to which existing performance measures they canexploit the effects of investments on intellectual capital component elements in 30 large Brazilian companies. The results indicate that the concept of intellectual capital as expressed by managers reflects recent literature. There is no correlation between performance indicators and the amount invested in intellectual capital.

Carvalho, Kayo and Martin (2010) analyzed the resources and their effects on the intangible and tangible performance of firms compared to their competitors, using a sample of 228 Brazilian companies from various economic sectors. The results of the sample analyzed showed that the inviolability of resources did not guarantee a sustainable competitive advantage and that these characteristics have little impact on the performance of companies: it is precisely the tangibility of resources that has contributed significantly the superior performance of companies invarious economic sectors.

Nascimento et al. (2012) examined the correlations between CI intellectual capital and the return on equity (ROE) of eight information technology companies and 20 telecommunications companies. The results showed little difference between the segments analyzed, and asset turnover did not show a statistically significant correlation with the performance indices used. Descriptive and statistical analyzes indicate that firms in the information technology sector have a higher share of the CI than the industry, but despite this, no significant economic gain has been noted. The telecommunications industry has indeed demonstrated a positive influence of the CI, although statistically weak.

Chan (2009) also conducted a study on Hong Kong Stock Exchange and found that human capital was a negative relationship with productivity, profitability and market capitalization while the physical capital had a signifi cant relationship with these factors. Bollen. Vergauwen and Schnieders (2005), all components of intellectual capital had an indirect relationship with firm performance.

Jordão et al. (2013) have explained ed that there is no exact size of the value of CI companies. and the best tools for its evaluation and measurement, and this fact is one of the biggest accounting, financial and management challenges.

The results of Kamath (2000); Firer and Williams (2003); Antunes and Martins (2007); Carvalho, Kayo and Martin (2010) and Nascimento et al. (2012), attest to the null hypothesis of our study, namely that:

H0: There is no relationship between intellectual capital and business performance.

The existence of a relationship between intellectual capital and business performance Chen Cheng and Hwang (2005) pose as well as accounting standards are generally accepted limit recognition of intellectual capital, investors always understand their hidden value, finding positive correlations between intangible assets and organizational performance. Similarly, the work of Bontis, Keow and Richardson (2000); Perez and Famá (2006); Tan, Plowman and Hancock (2007); Colauto et al. (2009); Ahangar (2011) and Maditinos et al. (2011) affirm this relationship. Bontis, Keow, and Richardson (2000) have studied the three elements of intellectual capital (human, structural, and client capital) and interrelationships in Malaysia's industrial and utility sectors. The data were collected through questionnaires and the results showed: 1) the importance of human capital irrespective of the industry; 2) that the client's capital has a significant influence on the structure of capital regardless of the industry; l E intellectual capital has a positive relationship with the performance of negotiation, whatever the industry.

Chen, Cheng, and Hwang (2005) empirically evaluated the relationship between business intellectual capital and the relationship between market value and book value using 4,254 observations of Taiwanese companies from 1992 to 2002. The results indicate that intellectual capital is increasingly recognized as an important and strategic asset for the sustainable competitive advantage of companies: Investors give more value to companies that have an effective intellectual capital. Firms with higher efficiency of intellectual capital generate higher profitability and income growth in current and future years. In addition, these results highlight the importance of intellectual capital in improving business income growth.

Bollenetal (2005) used in its study survey data from 41 pharmaceutical companies in Germany. One of the results of this work is that human capital intensifies the influence of structural capital and relational capital on the results of business activity, and vice versa. This confirms a strong correlation between the components of intellectual capital.

Perez and Famá (2006) studied the impact of intangible assets on the economic performance of the company. This was measured by shareholder value generation, where intangible large cap companies create more value than capital intensive companies. The research sample consisted of

699 non- financial corporations (members of the Stern Stewart Performance Ranking) with shares traded on the NYSE (NYSE) and NASDAQ (National Securities Association's Automatic Trading Companies).) from 1997 to 2002. The research results indicated that intangible assets were relevant to the economic performance of the entities analyzed: companies with a larger share of intangible assets, generate more value for shareholders. In conclusion, Perez and Famá (2006, p.23) stated that "the results were so clear for the period under analysis, showing that corporeal goods of companies provide only normal profits with a creation of real value generated by assets. intangible ". Tan, Plowman and Hancock (2007) studied the relationship between intellectual capital (IC) and the financial performance of 150 companies listed on the Singapore market e etween 2000 and 2002. The results showed that the IC and Companies' performance is positively related: the CI is correlated with the performance of a company and the growth rate of a company's CI is positively related to business performance. That said, CI's contribution to business performance differs by industry type and is by no means uniform.

Tovstiga and Tulugurova (2007) studied the impact of intellectual capital practices on business performance in the context of innovative firms in the St. Petersburg region of Russia. The sample included 20 companies in the high technology sector, mainly working on the development of techno-
scientific production devices and software. The results of the study identified CI as the most important factor driving competitive market performance.

Colauto et al. (2009) studied the possible correlation between available information on intangibles and the economic performance of firms. This was done to assess the impact of information dissemination and the creation of economic value for the entities concerned. Using a sample of 80 BMF Bovespa companies, the results showed that parametric (Pearson) and non-parametric (Spearman) correlations were insignificant, although more important for firms in the new market. Bayburina and Golovko (2009) evaluated the influence of certain components of intellectual capital intellectual value of businesses BRIC. Panel data analysis revealed that human capital is a key factor in the long-term growth of companies across all BRIC sectors. Tovstigaand Tulugurova (2009) analyzed and compared the impact of intellectual capital on business performance in the context of 122 small innovative firms located in four specific regions: Russia;Germany; Denmark and the United States. Research has shown that CI is considered to be the most important factor of performance in all regions. Ahangar (2011) investigated the association between the efficiency of the value-added base (relationship capital, human and structural) and the three dimensions of business performance (return on assets, sales growth and employee productivity). with data collected over 30 years. The results revealed that the VA of the main components of the resources and the three dimensions of the company's performance are mixed.Overall, the results suggest that human capital is more effective than structural and relational capital in terms of effective value creation. Maditinos et al. (2011) analyzed the impact of intellectual capital on the market value of firms and their financial performance. The sample included 96 Greek companies listed on the Athens Stock Exchange (ASE), divided into four economic sectors between 2006 and 2008. The results showed a statistically significant relationship between the effectiveness of human capital and financial performance. They concluded that, in the context of Greek companies, human resource development appears to be a major factor in economic success.

Lu et al. (2014) conducted a study on the relationship between CI and performance in China's life insurance industry. A company with a good CI is believed to have a better chance of customer loyalty (Longo and Mura, 2011) and can effectively contribute to the implementation of appropriate strategies (Rexhepi et al., 2013).

A new approach proposed by Sydle r et al. (2014), they chose as indicators for financial performance: ROA, EVA and Residual Income, as parameters of the economic performance: EBIT / sales, NI / EBIT and as a parameter of the stock market performance: market - to-book ratio. They used 69 company 's pharmaceutical and biotechnology companies European. The observation period is from 2002 to 2009. The results of the study confirm the positive correlation between intellectual capital and the financial performance of the company. They did not find however confirmation that companies with higher intellectual capital. This may be due to the change in the cost of capital relative to other economic, social, political, and non-business factors in developing markets.

Nimtrakoon (2015) focused on advanced technology companies in ASEAN countries, using the MVAIC method. According to the study, the considerable differences in the MVAIC parameter between the five ASEAN countries, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand, do not exist. The results confirm the hypothesis that higher intellectual capital is associated with higher enterprise market value and the result more attractive in corporate financial performance. Moreover, the most significant component of intellectual capital is human capital, surpassing structural capital and relational capital (Nimtrakoon, 2015).The results given correspond to the results received by Appuhami (2007), for Thailand's financial sector, the assertion is right on what a higher level of intellectual capital development is compared to higher capital income of investors. On the basis of the literature review above, an alternative hypothesis is presented, namely:

H1: there is a positive and significant relationship between intellectual capital and business performance

Overall, the studies above have resulted in a mixture results in the different countries, undue streaks and years. For example, Chen, Chen, and Hwang (2005) concluded that CI is a driver of enterprise value and financial performance, Shiu (2006) found only weak relationships between the VAIC method and the performance. P read Firer & Williams (2003) and Chan (2009) concluded that companies and investors attach great importance to physical capital that the IC, but Appuhami (2007) concluded that the CI is more important in the financial sector Thaïlandais. Inconsistent evidence does not lead to a convincing conclusion about the relationship between the IC and the company's performance.

Research Methodology

The analysis of these issues in emerging markets is gaining momentum. The results of this research assert that none of the current CI measurement methods or models has gained recognition from theorists and practitioners, and therefore no method is applied in companies at the national or international level. Hence the question of measuring the IC has not yet been solved.

Our research aims to consolidate the knowledge of previous research and to propose a conceptual model that formalizes the IC measurement process in the context of meeting the information needs of internal and external stakeholders.

Approach to measuring intellectual capital

This article follows a positivist approach, based on the possibility of predicting the performance of companies according to their intensity of knowledge and their level of intangibility. Thus, we assume that our research can be collapsible, based on its generalization of results.

The method proposed by Sydler et al. (2014) corresponds to the measurement of component by component IC and it is estimated using a two-stage model, based on the dynamic residual income model (RIM) (Ohlson. 1995). This model is adjusted to reflect the fact that expenditures on intangible assets are no longer expenses, but investments in the IF. Primarily, this correction was done by Ballester et al. (2002) but, however, only for human capital. Sydler et al. (2014) go further and develop the correction to accommodate other CI sources. In particular, the CI is supposed to be formed from the corresponding expenditures on human, structural and relational capital. In our study, the types of expenses are expressed by different proxies.

In our research model, CI is made up of corresponding expenditures on human capital (HC), structural capital (CS) and relationship capital (CR). The overall expenditures on the IC are called intellectual expenses (DI t).

DI t =Expenses in capital human t + spending in capital Structural t +Expenses in capital relational t

In place of this, we have selected to use of the proxies of accounting for each sub-category of CI, since we need of the data empirical available and of the measurable proxys so of better grasp the THIS of the company.

All the proxies of THIS are by action, in order to have of the homogeneous variables.

The components of intellectual capital	Variable	Description	Theoretical references
Human capital	CH	Sales per employee	Stewart (1997), Tsan (2002), Wu (2003), Chen (2004), Wang (2008)

Structural capital	CS	Sales and administrative expenses per employee	Edvisson e Malone (1997), Roos e Roos (1997), Stewart (1997), ASTD (1999), van Buren (1999), Tsan (2002), Wang (2008)
Relational capital	CR	The sales growth ratio	Van Buren (1999), Tsan (2002), Chen (2004), Wang (2008), Liu, Tseng and Yen (2009)

The selected proxies for the three components of CI (CH, CS and CR) are taken in charge by of previous academic research in the measured of CI as indicated in the board following:

Table 1: The components of intellectual capital

Then they have assumed that fraction α (between 0 and 1) of all of the three elements of CI represents the rate accumulation of capital intellectual and therefore the components of CI can be perceived as of the investments for the future. So, we finds the presence a rate of constant growth g for the spending in capital intellectual corresponding to the country, on whose market the enterprise conducts the activity. This rate of growth g is defined as the rate without risk, such as proposed by Ballester and al. (2002).
The latest ascertainment is than the Accumulated CI amortizes each period by a rate δ (between 0 and 1). The value of THIS at the end of the period is provided by the relationship next:

$$CI\ t = \alpha\ (DI\ t) + (1-\delta)\ (CI\ t\text{-}1)$$

Right here, the current value of THIS is formed at go of certain fractions of spending common sure the old stock of CI plus the CI less one certain rate amortization. Apply the method of recurrence, and noting that the spending in CI grows each period with a rate constant g, we get the relationship next:

$$CI\ t = \alpha\ (DI\ t) * (1 + g / g + \delta) = \alpha\ (DI\ t)\ \varphi$$

The integration of these adjusted values for the earnings and the values accountants in the E model is present as follows:

$$MV\ t = \beta\ 1\ (BV\ t + CI\ t) + \beta\ 2\ [(NI\ rt + \alpha\ DI\ t - \delta\ CI\ t) - r\ f\ (BV\ t\text{-}1 + CI\ t\text{-}1)] + \beta\ 3\ v\ t$$ with:
MV t: the value of market at Nothing t BV t: the book value at Nothing t
NI rt: the declared net profit for the period t

r f: the cost of the capital own (interest rate without risk being given the neutrality of risk) v t: the other news who influence sure the value of market the moment t.

The absence of definition of the variable 'ν' at caused the negligence of his use by of many researchers in the test of model. Hand (2001) highlighted that until today the Almost all of the empirical research sure the models of Ohlson disdained the contents informational of the 'N'.

Then the estimation evaluation is based sure a partial capitalization of spending of CI, what feels the positive growth.

Finally, we get the equation next:

$MV\ t = \beta\ 1\ BV\ t + \beta\ 2\ (NI\ rt - r\ f\ BV\ t\text{-}1) + \alpha\ (\beta\ 1\ \varphi + \beta\ 2)\ DI\ t + \beta\ 3\ V\ t$ $MV\ t = A\ 0 + A\ 1\ BV\ t + A\ 2\ (NI\ rt - r\ f\ BV\ t\text{-}1) + A\ 3\ DI\ t + A\ 4\ DI\ t\text{-}1$
With:

$A\ 0 = \beta\ 3\ Vt$

$A\ 1 = \beta\ 1$

$A\ 2 = \beta\ 2$

AT $3 = \alpha\ (\beta\ 1\ \varphi + \beta\ 2)$ $A\ 4 = -\ \beta\ 2\ \alpha\varphi\ (\delta + r\ f)$ $\varphi = 1 + g / \delta + g$
The last equation shows a linear relation enter the independent variables, but a non- linear relationship enters the parameters of interest α and δ.

evaluation of the equation gives of the values for the coefficients A1, A2, A3 and A4. A time than these values are known we can solve the system equation following for the rate accumulation α and the rate of depreciation δ:
$A1 = \beta\ 1$ $A2 = \beta\ 2$

$A3 = \alpha\ (\beta\ 1\ \varphi + \beta\ 2)$ $A4 = -\ \beta\ 2\ \alpha\varphi\ (\delta + rf)$ $\varphi = 1 + g / \delta + g$

The values obtained for the rate accumulation and depreciation allow of calculate the THIS for each business at each period.

The proxy for the Proposed CI by Sydler et al. (2014) should be a good choice for several reasons: All first, his calculation is based sure the measures financial accessible the public. Secondly, this is not a direct evaluation of THIS the way of statistics of balance sheet, but rather a modelization of latent variable that represents the characteristics of CI like a asset. Finally, this power of attorney discloses of the news important sure the mechanism of training of CI, who can be in use in the field of management.

Research models
It is always necessary to understand the impact of CI on a performance of companies. In addition, there is a lack of clarity as to the best indicators to use in determining financial viability, especially since some authors do not separate financial performance into profitability (ratio of profits to total, to exploitation, to income net, etc.) and business Performance (ratio of profit to invested capital, the assets, equity, etc.). In this sense, the research described in this article helps to fill this gap, by providing a solid set of indicators already established in the theory of accounting and finance that can be used together for this purpose.

The research method used in our analysis attempts to group the study of the impact of intellectual capital under the triptych: financial performance (1), economic performance (2) and stock market performance (3).

The impact of intellectual capital on the financial performance of companies

The first group of measure deals with the efficiency of the business with the performance financial. It reflects the capacity of capital invested by the society for to win a level particular of profit. The link enters the performance financial and the THIS at been found in several other studies. By example, he showed that the business at high intensity of THIS are more effective in the generation of the yields (Youndt and al, 2004; Chen and al, 2005). The idea of based is than the top-level expertise of management and the accumulated knowledge sure the Markets allow to perform a deep analysis and sophisticated of the investment opportunities and so of return successful the investment decisions. The profitability of s asset s (ROA) has been taken as indicator for the performance financial.
Model 1: financial performance

$$ROA = \beta_0 + \beta_1 CI + \beta_2 TAI + \beta_3 END + \beta_4 HER + \varepsilon \text{ (model 1)}$$

The impact of intellectual capital on the economic performance of companies

The second group of the performance of now himself concerned of the performance economic. The idea is of measure how the CI affects the capacity of now at transform effectively the input in outings with a production minimum, the distribution and all kinds other costs. By therefore, the measure of this performance includes the return on invested capital (ROI). The intuition behind the influence of THIS sure this zoned of the performance of now is the next: the highly qualified employees (CH) can improve the volume of the goods and services sold and increase the operating margins of now so as optimize the tax schedule. The talented researchers can put in artwork of the innovations that increase the level of efficiency of the production and the costs of production cut. The capital relational (CR) can to permit at now increase the debt at of the rate interest over there. In all, the integrated circuit must to have a positive impact sure the performance economic of the company.
Model 2: economic performance

$$ROI = \beta_0 + \beta_1 CI + \beta_2 TAI + \beta_3 END + \beta_4 HER + \varepsilon \text{ (model 2)}$$

The impact of intellectual capital on the stock market performance of companies

The last group measure the share of market of the stock of the performance of the company. The term stock market concerns the difference enter the value of market and the book value of the company or the value of his ratio market - to-book. he is suggested that if the market is effective, the business having a level most high of CI, are more appreciated by the investors (Shooterand Williams, 2003; Youndt and al, 2004; Chen and al, 2005; Skinner, 2008). In reason of this, the THIS is supposed to have a positive influence sure the value of market of the company. In result, the ratio Market -to- book has been decided at be in use as a proxy for the performance of market stock.

model3: stock market performance

MBV = β 0 + β 1 CI + β 2 TAI + β 3 END + β 4 HER + ε (model 3)

To avoid angle of omitted variable in the estimation of THIS, of the other factors that influence sure the performance of the business should be taking in account. By the Zeghal Suiteand Maaloul (2010) and of many other studies that there are three variables of control are included: the size, indebtedness and the sector activity.

Source of data collection

The initial sample includes all the companies that make up the most used market indices in emerging countries (BRICS), such as the Brazilian BOVESPA index, the SSE China index, the NIFTY index of India, the Russia's MICEX index and South Africa's FTSE / JSE index for the period 2010-2014. This data used was collected from Thomson One Banker and Bloomberg.

The two main problems with the initial sample are potential measurement errors due to the low level of transparency and authenticity in emerging markets and the high share of missing observations.

First, we clean the raw data to eliminate obvious errors in data logging.

As mentioned earlier, data from emerging markets may suffer from measurement errors. This reflects the presence of outliers in the sample that can skew the results of the estimate.

The next step is the problem of missing observations. On the whole 90% of the observations have at least one missing data in the set of variables used in our analysis.

Especially, in just five countries, China has enough data to work with. Although the time interval is the most recent, from 2010 to 2014, there are still disclosure issues in emerging markets that hinder the availability of these verifiable data for the purposes of our analysis.

Thus, we can reject the hypothesis that the missing data is completely random; there is a kind of addiction. For this reason, when you delete all the data that a number of missing values, we potentially counions in the risk of creating a sampling bias, which would distort the estimates. In order to overcome this problem, the form of dependence in the missing data should be evaluated and the missing values retrieved using the averaging method.

Our study focuses on the context of the BRICS countries. Selecting this context is important due to the need of the test as a factor in a financial market regarded works not good (if compared with the English or American market).

Bayburina e t Golovko (2009), show that the term " BRIC " was coined in 2003 by economist Jim O'Neill, to refer to Brazil, Russia, India and China. The rationale was the consideration of symmetry common characteristics for each country: national financial assets underestimated; enormous potential. countries that could be recognized as "developed"; on the horizon of 2020, the GDP is expected to exceed the volume of GDP for the countries of the G-7. As a result, the acronym " BRIC " has been upgraded to " BRICS " in order especially in South Africa. The BRICS are the major economic powers and they are now ranked among the richest countries in the world.

According to Deloitte (2012), BRICS countries vary in their adoption of IFRS (International Financial Reporting Standards): for Brazil (and all banks in its territory), IFRS became mandatory as of 2010; Russia does not recognize IFRS, and for India, IFRS is only allowed for the consolidated financial statements of publicly traded companies. In addition, the effective date of the adoption was postponed without a new date. China's new Chinese Accounting Standards (CAS) were also published in 2006 and come into effect on January 1, 2007. These standards are essentially in accordance with IFRS except for minor amendments that reflect the specific circumstances and environment in China. In terms of South Africa, IFRSs are mandatory for all listed companies. Emerging markets are characterized by an insufficient distribution of documents used by companies to report their intellectual capital and a lower maturity of investors, when compared with the US exchange markets (Guatri and Bini, 2005). In addition, the counterpart that this is one of the first emerging market research from the point of view of relevancy measurement of intellectual capital, as it is important to achieve a better understanding of the development of CI in different socio- political contexts and (Swarz et al, 2006). We have chosen to consider all listed companies because, while CI is important for knowledge-based companies, it has become essential in all businesses across sectors. The following table shows the distribution of countries in our study sample:

Table 2: The distribution of BRICS countries

Country	Frequency	Percentage	plurality
South Africa	130	11.93	11.93
Brazil	250	22.94	34.86
China	250	22.94	57.80
Russia	210	19.27	77.06
India	250	22.94	100.00
Total	1090	100.00	

Our initial sample is made up of 250 companies. After all the data cleansing procedures, the final score (219 companies).

The breakdown of businesses by segment is shown in the figure below:

Table 3: Breakdown of enterprises by sectors

Industry	Frequency	Percentage	plurality
Services	65	5.96	5.96
Cyclical consumption	100	9.17	15.14
Non-cyclical consumption	144	13.21	28.35
Energy	110	10.09	38.44
Finance	260	23.85	62.29
Industry	191	17.52	79.82
materials	140	12.84	92.66
Technology	40	3.67	96.33
telecommunications	40	3.63	100.00
Total	1090	100.00	

The composition of the industry is diverse, the main industry is the non- cyclical consumption, of the industrial products and of the materials. Together they represent more of 60% of the sample.

We are based on a multivariate analysis that serves to highlight the effect of the various variables introduced to the basic model on the dependent variables. The tests are based on a panel data estimate with metric explanatory variables. The data were processed by the STATA 12 software. Note however that the estimation of these regressions required the verification of several diagnostic tests.

Calculation of the intellectual capital proxy

The coefficients obtained during regression, while using the Sydler 2014 model. are used for the calculation of accumulation and depreciation rates. The following table summarizes the results of the regression:

Table 4: Proxy coefficients of intellectual capital

MV	Coef.	P>|z|
Di	0.0685605	0.025
Dit-1	0.072204	0.022

BV	0.4119528	0.000	
NI_{rt} – rf BV t-1	-0.0152122	0.067	
Cons	-0.6731465	0.000	

The accumulation and depreciation rates were calculated using the formulas in the last equation presented in the previous section. The accumulation rate α happened to be the s even s for all countries and years.

It is equal to 0.68. This means that, on average, 68% of intellectual capital expenditure is capitalized in the company. Similar results were found by Sydler et al. (2014) such as 84% for ICI companies in the UK.

The depreciation rate has been negative for all countries and years. This is different from Sydler et al. (2014). This could be possible when IC expenses are deployed in a staggered way. For example, a company may invest in the purchase of new software for employees, but the full effect of this investment occurs later in time as employees need time to learn the software and use it. to their full advantage. Another explanation could be the difference in the sampling frame that Sydler et al (2014) focus geographically only on European firms. On the other hand, no company is located in Europe in our sample. Instead, the sample is based on different geographical regions. Moreover, unlike Sydler et al (2014), we do not focus on companies in a specific industry (biotech sector).

Descriptive analysis

Our study focuses on the impact of intellectual capital on business performance. We will present some descriptive statistics of the different explanatory variables. The following table summarizes the descriptive statistics of our sample:

Table 5: Descriptive statistics

Table 5: Descriptive statistics

	(1)	(2)	(3)	(4)	(5)
VARIABLES	N	mean	sd	Min	max
année	1,090	2,012	1.415	2,010	2,014
n	1,090	109.5	62.96	1	218
ci	1,090	-9.607	14.82	-94.84	58.60
roa	1,090	8.552	9.057	-32.49	132.8
ros	1,090	18.09	52.07	-945.1	814.1
mbv	1,090	-2.385	405.7	-12,267	5,321
taille	1,090	5.096	0.958	2.190	7.400
end	1,090	40.30	23.40	-42.52	100
sa	1,090	0.633	0.482	0	1

Pays	0
Industries	0

The results presented in the table above show that the average of the IC value is -9.607 and that this value varies between -94.84 and 58.60 with a standard deviation of 14.82. The average return on assets (ROA) is 8,552 and varies between -32.49 and 132.8 with a standard deviation of 9.057. Finally, the review of the stock market performance of companies reveals that the average market - to-book ratio (MB V) is -2,385. This ratio varies between -12,267 and 5.321 with a standard deviation 405.7. According to these results, it would appear that the market value of the companies studied has become more and more detached from the book value, to be -2,385 times lower.

The art search results

The results of the linear regression on the impact of the components of intellectual capital on financial, economic and stock market performance are presented in the following table:

Table 6: Regression of search patterns

VARIABLES	Modèle (1) ROA	Modèle (2) ROS	Modèle (3) MBV
CI	0.0502*** (0.0175)	-0.264** (0.1186)	-0.021 (0.1315)
TAILLE	-1.045*** (0.296)	4.194** (2.1029)	-0.4356** (2.2306)
END	0.146*** (0.0119)	0.425*** (0.0774)	0.140*** (0.0800)
SA	-0.836 (0.527)	15.346 *** (3.4782)	-1.606 *** (3.9736)
Constant	8.061*** (1.797)	-35.793** (14.0606)	-12.393** (13.5492)
Observations	1,090	1,090	1,090
Année	YES	YES	YES
R-squared	20, 20%	15, 04%	7, 89%

***: significant at 1% **: significant at 5% *: significant at 10%

By first examining the regressions made, we observe that the CI has a significantly positive impact on the return on assets (ROAs). The regression itself is significant with R-squared of 20.20%. As a result, our results are supported in the literature (Chen et al, 2005, Riahi- Belkaoui. 2003), all of whom found a significant positive association between financial performance and intellectual capital. Our results confirm our assumption that CI has a positive and significant impact on the financial performance of the company. Therefore, the IC functions as a critical strategic lever for profitability of companies and it can help maintain a competitive advantage.

We also note that the IC has a significant negative impact on ROI, given the importance of the overall regression. This means that large companies are in fact in the same borrowing conditions as small businesses. More leveraged companies have the same access to the capital market as less leveraged companies. The observations are quite doubtful. Unfortunately, to our knowledge, we have no evidence of such an analysis for other emerging or developed markets. As a result, this focus may be attractive for future research for both emerging and developed markets.

For the stock market performance, we note that the R-squared is weak. This means that it is difficult to explain the market value of companies given their equilibrium figures. This is not a new observation, however, a similar regression in Zeghal and Maaloul (2010) accounted for approximately 30-60% of the variation in the sample in the UK market.

We also find evidence of the weak relationship between the company's market valuation and its fundamental value. This is justified by the fact that prices on emerging stock markets are influenced by other non-fundamental factors, for example, the political situation or the business climate.

Here we briefly summarize the main conclusions drawn from the analysis above.

Intellectual capital has a positive and significant impact on financial performance (ROA) and a negative and significant impact on the economic performance of companies measured by ROI. The study of the performance of the stock market measured by the ratio market -to-book gives us negative results and not significant.

Conclusion and limits of research

This research focuses on some important topics in the field of intellectual capital: the estimation of the CI and the assessment of the effect of CI on the performance of the company. CI estimation is a vital subject since the notion of CI is vague in itself. The intangible nature as well as the absence of accounting standards governing reporting CI makes it difficult to estimate the CI. Evaluating the effect of CI on business performance is another key topic because it allows companies to evaluate the effectiveness of their spending on IC components and regulatory institutes to develop a business. system of accounting rules to reduce the asymmetry of information on the market. Lev (2004), in his motivating article, calls for attention to the phenomenon of intellectual capital.

Intellectual capital is often associated with the market and book value difference that the market attributes to the intangible quality of management, professional practices, patented software, licenses, know-how, and so on. Under the conditions of a new knowledge economy, traditional productive resources - physical capital and labor - are just commodities. This means that these resources generate a standard profit level, theoretically equal for all firms in a given industry. What differentiates companies is the level of intellectual capital, and this increases the quality and efficiency if the use of CI improves the profitability of a company.

During this study, three issues were resolved. First, Sydler's (2014) proxy has been estimated for the five largest emerging markets. We obtained a dollar estimate of the intellectual capital of each company. However, this measurement has high variations and it is subject to a number of assumptions. Secondly, using this proxy for the CI, an analysis of the impact of CI on three aspects of the company's performance was conducted. It was revealed that the CI has a positive and significant influence on ROA and negative and significant on ROI and negative not significant on MBV. Based on the results of the analysis, we can suggest that companies in emerging countries invest primarily in increasing operational efficiency by reducing production costs, developing best practices, and so on.

The present study also has a number of limitations. They have derived each pillar of the IC based on an indicator that can capture only the parties, rather than the entire value of the IC. As a result, the correlation between the IF and market values should be low because many items of intangible assets, such as employee interrelations, corporate culture, etc., cannot be tracked.

We also treat the three components of the IC separately from each other, which means that we will not capture the potential effects of synergy with certainty by simply adding all the intangible assets together.

Our last limitation concerns the treatment of companies in our sample. Unlike previous studies, we do not deal with businesses individually; As a result, we generate depreciation and accumulation rates based on the entire sample. However, the rate of accumulation and depreciation is very likely to vary across companies, as companies have different strategies and priorities.

Our results hold several implications for future research. First, we believe that conducting the study with companies located only in one country would make the model more accurate and reliable. The reason is that the comparison of companies, located in various countries, is difficult because of the different legal structures and risks involved, such as monetary risks, political risks, and so on.

A final important point is to analyze individual interactions, which contribute to the creation of the IC. Therefore, it would be useful to incorporate the interactions between intangible assets in order to obtain more information.

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Evidence on the Value of Audit for SMES in Europe: Perspectives of Owner-managers, Company Accountants and Directors

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Abstract

Small and medium-sized entities (SMEs) account for the vast majority of companies and the majority of private sector Gross Domestic product (GDP) and consequently are vital to the EU economy and society. Audit can foster trust and confidence in SMEs by reinforcing the reliability of their published financial statements. For many years, however, audits of SMEs have been steadily declining in number across Europe. The European Commission has repeatedly raised audit thresholds and Member States have increasingly introduced, or modified, exemptions from statutory audits aligned with these higher thresholds. This report examines the evidence on the perceived value of audit for SMEs in Europe. This evidence comprises a survey of SMEs on their views on the benefits of audits and other recently published surveys and reports. The respondent sample is, however, somewhat unrepresentative and consequently care needs to be taken when interpreting the survey findings.

The key survey finding is that the top three most commonly cited benefits from having an audit were ‘audit provides a check on accounting systems and records’, ‘auditor provides useful advice to management’ and ‘improves internal control’, significantly ahead of ‘gives assurance to external providers of finance’. This finding and other evidence suggests that SMEs perceive the audit to have various benefits, benefits that go beyond the central purpose of the audit of providing assurance on published financial information.

The evidence has potentially significant implications for regulators and policy makers, standard setters and the profession including especially auditors. For the European Commission (EC) and national regulators the evidence may imply they have gone too far in exempting small companies from having to have an audit and raising thresholds as part of reducing regulatory burden on SMEs. Regulators might wish to reassess the existence and extent of audit thresholds given potential risks to the economy and the public interest. The setting of thresholds deserves a thorough and robust evaluation of both costs and benefits of audits for SMEs. And finally, if SMEs have a strong desire to receive advice from the auditor as part of the audit then this may ultimately demand that auditing and ethical standards be modified to clarify and allow for auditors of SMEs to render certain types of advice during the ordinary course of the audit engagement.

Background

Accounting Directive

In their information paper 'Audit exemption thresholds in Europe' Accountancy Europe provide a useful summary of the relevant EU regulation. Article 34 of the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council

Directives 78/660/EEC and 83/349/EEC (hereinafter the Accounting Directive) requires an audit for the following categories of companies: public-interest entities (broadly, those traded on a regulated market, credit and insurance institutions, and those specifically designated as such by Member States); and medium-sized and large undertakings.

Consequently, those companies defined as "small undertakings" are not explicitly required to have an audit and recital 43 of the Accounting Directive clarifies that this is the intention. Notwithstanding, Member States can impose an audit on small undertakings, albeit the audit should be appropriate for the conditions and needs of these companies and the users of their financial statements. Article 3(2) of the Accounting Directive defines "small undertakings" as those which, on their balance sheet date for two consecutive years, do not exceed the limits of at least two of the three following criteria:

- balance sheet total: EUR 4 000 000;
- net turnover: EUR 8 000 000; and
- average number of employees during the financial year: 50.
- Member States are permitted to increase the thresholds for a) and b) to a level not exceeding:
- balance sheet total: EUR 6 000 000; and
- net turnover: EUR 12 000 000.

Member States are additionally allowed to increase or decrease the Euro thresholds by up to 5% to allow conversion into a national currency at a round sum amount. Member States had until 20 July 2015 to adopt this directive into their national legislation with a view that the provisions first apply to financial statements for financial years beginning on 1 January 2016.

Audit Exemption Thresholds' Transposition

In February 2019 Accountancy Europe presented the European picture of audit exemption thresholds' transposition in its information paper 'Audit exemption thresholds in Europe – 2019 update'. While the longer-term trend is for audit exemption thresholds to rise, and Member States increasingly to align with them, since 2016 there has been no clear trend up or down. This has a significant impact on the accounting profession and their SME clients. For example, France is about to increase substantially thresholds (the financial size criteria will quadruple). Professor Alain Burlaud, Conservatoire National des Arts et Métiers (CNAM) estimates that the consequences of the imminent increase in the audit exemption threshold will result in 153 000 SMEs no longer being required to have a statutory audit, 8 000 to 10 000 SMP employees losing their jobs and 500 statutory auditors losing 70 to 100% of their revenue. Moreover, the change is sudden and as such offers little opportunity for French SMPs to adapt to offering different services.

Benefits of Audit for SMEs.

According to the International Standards on Auditing the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In so doing an audit provides assurance to shareholders that the figures in the financial statements show a true and fair view or are fairly presented. Other users of financial statements - employees, customers, suppliers, loan creditors, and tax authorities – also obtain assurance as to the reliability of the information. Reliability builds credibility and fosters trust and confidence in these entities. there are, however, many other potential benefits including the following:

- helps to identify weaknesses in the accounting systems and enables the auditor to suggest improvements;
- assures directors not involved in the accounting functions on a day-to-day basis that the business is running in accordance with the information they are receiving and helps reduce the scope for fraud and poor accounting;
- facilitates the provision of advice that can have real financial benefits for a business, including how the business is running, what margins can be expected and how these can be achieved. advice can cover anything from the tightening of internal controls to reducing the risk of fraud or tax planning;
- enhances the credibility and reliability of the figures being submitted to prospective purchasers;
- protects or improves credit ratings. banks and trade suppliers may rely in part on credit rating agencies' assessment of the company and will look more favourably on companies that have an audit;
- provides insurance loss adjusters with reliable data for claims;
- indicates the entity's ability to continue as a going concern;
- helps ensure appropriate disclosures; and
- gives assurance on the entity's ability to manage risk.
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OBJECTIVES

This report looks at the evidence on the perceived value of audit for SMEs in Europe in particular, the findings from this EFAA survey. It was conducted in collaboration with EFAA member bodies and other professional accountancy organisations as a short online survey. Since it was only run in the English language this likely negatively impacted the response rate from those not conversant with the language. The Accountants Association in Poland (SKWP) conducted the survey in Polish and the data were consolidated.

METHOD

EFAA launched the online survey in late February 2018 and kept it open through to the end of May 2018. The survey was written in a style that non-accountants would readily understand. Questions explored the benefits that SMEs perceive from having an audit and, where they are not required to have one, the motivations and reasons for choosing one or not choosing one.

RESPONDENTS

Complete responses were received from 386 SMEs across 29 European countries. Some two thirds of responses came from Poland and Romania. This renders the respondent sample somewhat unrepresentative and consequently care needs to be taken when interpreting the findings. Most (47.41%) respondents were owner-managers followed by the company's accountant (33.94%) and directors (16.58%). These respondents are well placed to make well-informed responses. Some 46.37% of the SMEs were family-owned businesses.

KEY FINDINGS

Sources of Finance

The table below shows the frequency with which SMEs used different forms of external finance (finance other than equity). By far the most commonly used sources are ‘loans from banks and other financial institutions’ (37.82%) and ‘hire purchase and leasing’ (31.61%). The nature and the frequency with which SMEs use external finance suggests that accountants have a role to play in advising on the appropriate amount and type of finance. It also raises the question as to whether the audit satisfies the information needs of lenders.

Did the company use any of the following sources of finance in 2017? *(Tick all that apply)*	**Yes (%)**
Loans (including mortgages) from banks and other financial institutions	37.82
Hire purchase or leasing	31.61
Directors’ loans	13.99
Forward payments from customers	12.95
Loans from family and friends	10.88
Grants from public or private entities	8.29
Debt factoring or invoice discounting	5.96
Debentures	2.33
Loans from company pension funds	0.52
Venture capital or business angel finance	0.52
Crowd funding	0.26
Other	3.63
None	31.61

Services of Accountant

The table below shows that around one quarter of 2017 accounts were prepared by an external accountant and barely one in six received any other non-audit services from an external accountant. It should be noted, however, that there were significant differences from one country to another. This relatively low market penetration by accountants can be interpreted in various ways. It may suggest the profession has an opportunity to increase SME awareness of and demand for the range of services accountants can offer. It may also suggest the need for accountants to make their service offerings more attractive through improving their cost effectiveness. Another interpretation is that accountants do not presently offer the kinds of services that SMEs are seeking and that the profession should design services to better meet these needs or better explain and promote existing services.

	Yes (%)	No (%)
Were the annual accounts for 2017 prepared by an external accountant?	25.39	74.61
Did the company receive any other non-audit services from an external accountant(s) in 2017?	16.58	83.42

Users of Company Accounts

The table below shows who, apart from the shareholders and filing organization, normally receives the company's accounts. While accounts are typically publicly available from the filing organisation this question refers to who normally asks or receives the accounts directly from the company. The most common recipients of the company's accounts were tax authorities (61.40%) and lenders (37.31%). Suppliers and customers tend not to receive the accounts directly from the company. Given the high use made by lenders and tax authorities suggests that the accounts tend to provide what they need. Of special interest is whether an audit makes the accounts more useful to these users.

Apart from the shareholders and filing organization, who normally receives a copy of the company's accounts? ***(Tick all that apply)***	**Yes (%)**
Tax authorities	61.40
The bank and other lenders	37.31
Directors or other employees who are not shareholders	26.17
Credit rating agencies	4.92
Credit insurance companies	4.40
Industry regulators	4.15
Major customers	3.37
Major suppliers and trade creditors	2.59
Other	11.14

Reasons for Audit

The table below shows the reasons for having an audit. Some 37.82% of respondents were required by law and another 17.87% by investors, lenders, suppliers or customers to have an audit while 18.39% were not required to have an audit but chose to have one. The sum coming to less than 100% indicates there may be other reasons not anticipated by the survey: the survey did not provide respondents the opportunity to specify other reasons.

Were the company's accounts audited in 2017 for any of the following reasons? *(Tick all that apply)*	**Yes (%)**
Required by law to have the accounts audited	37.82
Not required by law to have the accounts audited, but chose to do so	18.39
Shareholders want the accounts to be audited	9.33
Provider(s) of finance require audited accounts	5.18
Major suppliers or trade creditors require audited accounts	1.55
Major customers require audited accounts	1.81

Benefits from Audit

The table below shows the benefits to the company from having the accounts audited. Almost all survey respondents, including those whose companies were required to be audited, answered this question. The top three most commonly cited benefits were 'audit provides a check on accounting systems and records' (46.89%), 'auditor provides useful advice to management' (39.12%) and 'improves internal control' (37.05%), significantly ahead of 'gives assurance to external providers of finance' (26.17%). In other words, the primary benefits to having an audit accrue to internal users, specifically management, rather than to external users, such as providers of finance. This may not be so surprising given that most respondents were owner-managers. Notwithstanding this the finding may reflect a difference in the objectives of the audit for SMEs vis-à-vis large quoted enterprises and suggest the need for the profession to better promote the audit by stressing the wide range of benefits with heightened emphasis on benefits like improvements to internal control and a check on accounting systems and records.

What are the benefits to the company from having the accounts audited? *(Tick all that apply)*	**Yes (%)**
Audit provides a check on accounting systems and records	46.89
Auditor provides useful advice to management	39.12

Improves internal controls	37.05
Improves the quality of the financial information	29.02
Gives assurance to external providers of finance	26.17
Has a positive effect on the credit rating score	16.84
Improves operational efficiency and effectiveness	11.40
Deters or reveals fraud by directors or employees	10.10
Other	1.55
None	17.10

Alternatives to Audit

The table below shows whether SMEs, if allowed, would consider an alternative to audit. Almost all survey respondents answered this question, not only those currently required by law to have their accounts audited. Over half of the SME respondents (52.85%) would consider an alternative service to an audit though in practice this might be lower given the question above found a minority of respondents seek other services from an external accountant.

	Yes (%)	**No (%)**
If allowed, would the company consider an alternative service to an audit?	52.85	47.15

The following survey question sought to explore what benefits SMEs that said they would, if allowed, consider an alternative service to an audit, would seek an alternative. As the table below shows the benefits most sought after are ‘a check on accounting systems and records’ (31.35%), ‘advice on accounting regulations, company strategy, etc.’ (26.68%) and ‘a check on internal controls’ (25.65%). One might interpret these findings as evidence of a demand for an alternative service to audit. This would suggest merit in developing a new service to deliver these benefits. This might, however, be a premature and incorrect conclusion. Since the benefits respondents seek from an alternative mirror those cited above as the primary benefits of audit, in particular providing a check on accounting systems and records and internal control, then this points to a perception issue, that is a lack of appreciation as to the value and wide-ranging benefits of audit. This perception issue is best resolve through better promotion of the audit.

What are the benefits to the company from having an alternative service? *(Tick all that apply)*	**Yes (%)**
A check on accounting systems and records	31.35
Advice on accounting regulations, company strategy, etc.	26.68
A check on internal controls	25.65
Better quality financial information	18.65
Advice on improving operational efficiency and effectiveness	18.39
Verification of the existence or value of certain assets	11.92
Lower level of assurance than an audit at correspondingly lower cost	10.62
Improved credit rating score	9.59
Deterrence or discovery of fraud by directors or employees	8.81
Better able to attract external finance	6.48
Other	1.04

Audit Exemption

The final question asked whether the European Union audit exemption, which is presently only available to small companies, should also be made available to medium-sized companies. As the table below shows over half (59.07%) support extending the exemption. This suggests we can expect more pressure from business to increase thresholds and an even greater need for the value of audit to be enhanced and better communicated. This result is somewhat surprising in the light of the largely positive views of the audit expressed by respondents in previous questions and suggests that the profession needs to better explain and actively promote the benefits of audit.

	Yes (%)	**No (%)**
At present, in the European Union audit exemption is only available to small companies. Do you think audit exemption should also be made available to medium-sized companies?	59.07	40.93

OTHER EVIDENCE

Belgium

Only 6% of the 400 000 Belgian companies that are obliged to draw up and publish their annual accounts are required by law to have an audit. This statutory audit must be carried out in accordance with the International Standards on Auditing (ISAs). This leaves about 375 000 companies who can choose, for whatever reason, for a statutory audit on a voluntary basis or for a 'contractual' audit. In March 2019 a standard for contractual audits of SMEs, that can be performed by both the registered auditors and the external accountants, was published. This standard has been developed at the explicit request of the Minister of Economy. The definition of an SME is linked to the threshold for mandatory audits. The developers claim the new standard is based on the same principles as the ISAs and, therefore, will provide the basis for audits of similar quality to the ones performed in accordance with the ISAs. In using a bottom up approach it results in a standard that is much shorter, more understandable and easier to apply in an SME environment. The standard does not apply to statutory audits for which only the ISAs apply. However, the standard includes the possibility to apply the ISAs if agreed between the parties.

Denmark

In 2006 Danish companies with a net turnover of up to 3 million DKK were for the first time allowed to opt-out from the audit. Since then, the audit exemption threshold has been increased two times to the current 8 million DKK. In addition, companies with a net turnover of more than 8 million but less than 89 million DKK can now choose between a statutory audit or a less extensive "extended review." The number of companies opting-out form the audit has increased from 12 in 2006 to 112 000 in 2016. FSR Danish Auditors, who prepared a report on the basis of more than 252 000 annual accounts for 2016, estimated that between 11 000 and 19 000 companies would have had at least one remark from their auditor about bankruptcy risk, capital losses and other risk data. They conclude that the lack of risk information about the true health of the companies can be detrimental to the credibility of companies and ultimately in relation to their potential for attracting investment and capital but that ultimately it is the investors and creditors who risk being the losers.

Germany

The research paper 'What Drives Voluntary Audit Adoption in Small German Companies?' - the key results are summarised in the IFAC Global Knowledge Gateway article 'Research Insights: Drivers for Voluntary Audit in Small German Companies' - investigates the voluntary audit decision in Germany based on a random sample of 405 small firms responding to a postal questionnaire survey. The proportion of small German firms opting for voluntary audits is extremely low compared with that documented in other countries. Only 12 per cent of the companies investigated opt for voluntary audits while the equivalent ratios for other countries range between 26 per cent and 80 per cent. One reason for this may be Germany's lack of a mandatory audit history for small companies. Since previous practices are most likely to influence cost benefit perceptions, managers from Germany may value the costs and benefits of voluntary audit differently to managers from countries with a history of previously mandatory audit regimes. In line with previous research, the study finds that the likelihood of an auditor being hired voluntarily is correlated with the proportion of company owners who are not involved in management as well as the importance that managers place on accounting information for management accounting purposes. In contrast to previous studies on voluntary audit, the study does not find that the status as a family firm, ownership dispersion, or leverage (total debt divided by total assets) impacts a firm's voluntary audit decision. However, extending previous research, the study does find evidence that the legal form in which a company operates, the status as a subsidiary, and outsourcing of accounting tasks are further factors impacting a manager's voluntary audit decision. The study does not provide support for the argument that the existence of a supervisory board increases the likelihood of a voluntary audit.

By further examining the professional qualifications of those to whom accounting tasks are outsourced, the study provides evidence that the employment of an external tax advisor decreases the likelihood of a voluntary audit. In contrast, if accounting tasks are outsourced to an external accountant having the qualification of an auditor the likelihood of a voluntary audit increases. Subject to the professional qualifications of those to whom financial accounting tasks are outsourced, this result suggests that auditing can play a substitutive or a complementary role.

Italy

In January 2019 the Italian Council of Ministers approved a new law on business insolvency which has resulted in a significant lowering of the audit exemption threshold to EUR 2 000 000 for balance sheet total and net turnover and 10 employees. In their information paper 'Audit exemption thresholds in Europe – 2019 update' Accountancy Europe explain: "The lowering of the threshold was driven by the recognition that smaller companies not subject to any audit or control system were more prone to insolvency and that a certain level of controls and early warning mechanisms could help avert business failure.

Norway

In the paper 'Audit Exemptions and Compliance with Tax and Accounting Regulations' the researchers from BII Norwegian Business School examine small firms' compliance with tax and accounting regulations before and after a change in the threshold for mandatory auditing. Prior to 2011, all Norwegian firms were required to be audited. In 2011, a law change took effect that allowed small Norwegian firms to choose not to be audited. After this change in legislation, the Norwegian Directorate of Taxes conducted inspections of a representative sample of 2 117 Norwegian firms, with a focus on these firms' compliance with specific requirements in tax and accounting regulation. Using the results from these inspections to construct a score that measures these firms' compliance on the areas covered by the inspections, henceforth the compliance quality score (CQS), the researchers find that the firms that chose to opt out of auditing have lower CQS than do firms that chose to continue to be audited; that the CQS of firms that chose not to be audited declined after opting out; and that some of the opt-out firms fully mitigated the decline in CQS by engaging external accountants or auditors to prepare their annual financial statements. The authors conclude "the results should be of particular interest to politicians in countries that are considering increasing the thresholds for mandatory auditing, as our results show that (i) firms that choose not to be audited can experience a decline in CQS after opting out, and (ii) CQS can be maintained at the same level as before if opt-out firms engage external consultants that assist in preparing the annual accounts."

Sweden

In December 2017 the Swedish National Audit Office (NAO) published a report that examined the 2010 decision to abolish audit requirements for small limited companies. The reform covered almost three quarters of limited companies which were subsequently allowed to choose whether they want an audit or not.

Statutory audit requirements had been discussed on various occasions, mostly weighing the costs and regulatory administration against audit as a measure to help combat economic crime and tax evasion. In the period 2006 – 2010 the Government implemented a number of reforms and suggested abolishing the audit obligation for small companies which was decided by the Riksdag in 2010. The reform aimed at reducing the administrative burden on companies and the costs of an audit while at the same time strengthening companies' competitiveness and helping more companies to grow and employ more people.

The NAO audited the consequences of the reform and published a report 'Abolition of audit obligation for small limited companies – a reform where costs outweigh benefits'. It showed that limited companies which had opted-out of audit reported weaker subsequent growth, both in net sales and in staff numbers. Furthermore, there was no indication that saving of internal and external audit fees had a positive effect on the companies' growth or profitability. While companies in risk sectors opted out of audit to a greater extent there was a general increase of errors in annual reporting formalities. The NAO goes on to state that the work to combat economic crime has been made more difficult and finally concludes the Government should act to reintroduce the audit obligation for small limited companies.

Accountancy Europe's information paper 'Rediscovering the Value of Audit' also reported on the developments in Sweden and Denmark and concluded that exempting SMEs from audit poses the following risks to the economy: impairment to quality of published financial statements; negative impact on tax collection; higher incidence of business insolvency; increased economic crime including fraud, corruption, money laundering and terrorist financing; and limitations on access to funding.

United Kingdom

The study 'The Demand for the Audit in Small Companies in the UK', based on a survey of a representative sample of companies conforming to the EU definition of 'small', investigates whether the three size criteria in company legislation (turnover, balance sheet total and number of employees) are appropriate and sufficient proxies for the demand for the audit in small companies. The survey garners the views of the main users of the audited accounts, the directors of the small companies concerned. The study finds that 63% of the sample companies would continue to have their accounts audited if they were to become exempt. This suggests that the majority of those affected by the proposed changes to increase thresholds consider the benefits of having their accounts audited outweigh the costs. The results indicate that turnover alone could represent size, but that size is less important than the directors' perceptions of the value of the audit in terms of improving the quality of information and providing a check on internal records. Agency relationships with owners and lenders are also revealed as influencing the audit decision.

IMPLICATIONS AND CONCLUSIONS

The respondent sample is somewhat unrepresentative and consequently care needs to be taken when interpreting the survey findings. Nevertheless, the evidence presented above highlights the significant value and benefits of audit for SMEs and may have significant implications for regulators and policy makers, standard setters, the profession and auditors.

For regulators and policy-makers perhaps most important implication is that empirical facts-based approach should form the basis for policy-making. Policy-makers should undertake a comprehensive impact analysis that carefully examines the benefits as well as the costs of SME audit. Moreover, the evidence on the value of audit suggests that the EC and national regulators have been over zealous in exempting small companies from having to have an audit and raising thresholds as part of reducing regulatory burden on SMEs. Regulators might wish to reassess audit thresholds.

The conclusions of Accountancy Europe based on the experience of Sweden and Denmark suggest there may be significant risks associated with SMEs not being audited that impact the public interest. This may provide a case for the EC and national regulators to carefully reconsider the existence and extent of audit exemption.

Standard Setters

Standard setters may need to not only make audit standards more scalable, and so conducive to the performance of a high quality and affordable audit, but also may need to better articulate the objectives and benefits of the SME audit with greater emphasis its value in providing a robust check on accounting systems, records and internal control.

Concerns over scalability of standards issued by the International Audit and Assurance Standards Board (IAASB) have intensified in the past few years as evidenced by developments including: the Nordic Federation proposing the ‘Standard for Audits of Smaller Entities’ (SASE), which elicited this response from the IAASB; Accountancy Europe hosting a panel discussion on ‘Simplifying Auditing Standards for Small or Non-Complex-Entities’ exploring possible solutions; some jurisdictions, like Belgium as described above, developing a standard for voluntary audit, and the IAASB embarking on an project to explore possible actions to address perceived issues when undertaking audits of less complex entities as explained in the March 2019 Board paper ‘Audits of Less Complex Entities–Discussion’. At the time of writing an IAASB discussion paper is about to be issued and a conference to discuss it being planned for 16 -17 May 2019 in Paris.

Standard setters and regulators may need to accept that SMEs have different objectives and benefits in mind from having an audit, or an alternative service, to their larger listed counterparts and that this may need to be reflected in their standards and regulation. In particular, if SMEs have a strong desire to receive advice from the auditor as part of the audit then this may ultimately demand that auditing and ethical standards be modified to clarify and allow for auditors of SMEs to render certain types of advice during the ordinary course of the audit engagement.

Profession and Auditors

For the profession and auditors, given that presently most SMEs are exempted from the need to have an audit, it is crucial that they robustly demonstrate and communicate the relevance and value of audit and assurance services for small businesses. This is crucial given that for some SMEs the value of such services may not be immediately perceived. For this reason, it is vital to understand and respond to what the stakeholders need. The profession should better promote users understanding of audit and other services that meet those needs, as well as to develop new offerings, or modify existing ones, as the demands arise. In the case of SMEs, the focus should not only be on delivering what is prescribed by the legislator, but also on understanding clients' needs, demonstrating how audit and other services meet these needs, and adapting services where necessary. To assist SMPs in the promotion of their services IFAC has published a brochure 'Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services', that explains and differentiates the range of audit, review, compilation, and agreed-upon procedures services. It can help current and prospective clients understand the range of services available, as well as their benefits.

Other Developments

As noted above in Italy the audit threshold has recently been reduced as part of a package of measures to help SMEs avoid financial difficulties and even bankruptcy. With a similar objective Early Warning Europe (EWE) has established early warning mechanisms in four EU Member States - Poland, Spain, Italy and Greece - providing support to 3 500 companies in distress in 2017-2019. EWE aims to present a Next Generation monitoring and early warning method based on machine learning and big data to identify companies that are at risk of a bankruptcy.

Further Research

Our research indicates that SMEs value the useful advice auditors provide to management. There is merit in exploring this further to determine the nature and extent of the advice SMEs would like to see provided as part of the audit engagement. As indicated above this may ultimately demand that auditing and ethical standards be modified to allow for certain types of advice to be rendered by the auditor in the ordinary course of the audit engagement. In addition, there might be value in further investigation into new or alternative assurance and related services for SMEs. Finally, the apparent contradictions in the survey findings, on the one hand respondents are pro audit and see various advantages but on the other over half would consider an alternative service and nearly 60% prefer exemption for medium-sized, warrants further investigation.

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What can the European Profession Learn from the 2018 IFAC Global SMP Survey?

Paul Thompson
Director at EFAA

The 2018 IFAC Global SMP Survey asked practitioners from small- and medium-sized practices (SMPs) across the globe about their challenges, with a close look at the impact of technology and talent issues. Particularly, it gauged how much SMPs plan to invest in technology, training and marketing, their projected revenues across various practice areas, and the types of advisory and consulting services they provide. Of the 6,258 respondents from 150 countries that completed the survey, almost 40% were from Europe. This article provides a summary of the European results and selected comparisons with the global picture. Finally, this article presents potential implications of the findings for SMPs and European professional accountancy organizations (PAOs).

Respondents

A large number of European respondents were concentrated in certain countries (including Italy, Romania, Russia, France, United Kingdom, Germany and Spain). Due to this, care needs to be taken when interpreting the data.

A majority (64%) of respondents were either sole practitioners or practitioners from practices with two to five partners and staff. Most (69%) of these responses came from partners, sole proprietor, or owners, and most were male.

The high response rate from Europe was aided by promotion by the European Federation of Accountants and Auditors for SMEs (EFAA), Accountancy Europe and the World Bank's Centre for Financial Reporting Reform (CFRR).

Three Top Challenges for European SMPs

The top 3 challenges faced by European respondents were keeping up with new regulations and standards (61%), attracting new clients and retaining existing ones (54%) and competition, either from other practices or professions (44%). In 2016, keeping up with new regulations and standards was the top challenge (47%), attracting new clients was the second top challenge (47%), and pressure to lower fees came in third (41%). The top challenge of keeping up with new regulations and standards has significantly increased in its intensity in the past two years and represents a much greater challenge for European SMPs than for SMPs globally. Meanwhile, experiencing pressure to lower fees has fallen out of the top 3 challenges in Europe at 39% but continues to be the top challenge globally at 48%.

CHALLENGES FACING SMPs

Challenge	Europe*	Global*
Keeping up with new regulations and standards	61%	45%
Attracting new clients and retaining existing clients	54%	46%
Competition (e.g., other practices or professions)	44%	46%
Technology developments	41%	38%
Pressure to lower fees	39%	48%
Rising costs and managing cash flow	38%	39%
Attracting new and retaining existing staff (at all levels)	38%	39%
Serving clients operating internationally (globalization)	22%	24%
Succession planning	18%	24%

*Combining high and very high

Implications for SMPs and PAOs

European professional accountancy organizations (PAOs) need to ask themselves whether they are doing enough, or have plans in place, to help their SMPs keep up with new regulations and standards as well as attract and retain clients. The former may demand increased advocacy directed at regulators and standard setters to slow the pace of change and reduce complexity and volume. The latter may require PAOs to promote the role of accountants and the purpose and value of professional services offered by SMPs.

Talent and Technology

The survey addressed in detail issues of talent and technology, as these are often seen as key to the future success of SMPs. Questions on talent focused on the ability to attract and retain next generation staff. Over half of European SMP respondents (52%) reported difficulties attracting next generation talent, double the 26% (30% for all respondents) that said they have no difficulty. The top challenge facing European SMPs when attracting next generation talent is the lack of candidates with the right mix of skills (74%). The most common talent management initiatives European SMPs have introduced or are planning to introduce in the next 12 months are flexible working hours or work days (48%), and virtual work arrangements, including working from home or off-site (38%).

Regarding technology development issues, the survey revealed that the adoption and use of cloud options for client interface and servicing (e.g. virtual CFO services) was the most common technology that has been implemented or plans to be implemented in the next 12 months by European SMP respondents (36%).

Implications for SMPs and PAOs

European PAOs may need to consider whether they are doing enough to assist their SMP members to attract and retain talent, especially finding next generation talent with the right mix of skills. SMPs may need to be more flexible in work hours, location and arrangements if they wish to remain an attractive destination for younger people. Meanwhile, allied with their transition into advisory/consulting services, many European SMPs are investing in cloud solutions to support the likes of virtual CFO services. PAOs should consider how they can help stimulate and inform the market for high quality, affordable cloud solutions.

SMP Investments

The 2018 survey included a question asking what percentage of total practice revenue do SMPs anticipate allocating to the following areas over the next 12 months: training (e.g., technical, soft skills, mentoring etc.); marketing, branding and business development; and technology investment (e.g., software, hardware, cloud etc.). On average, European SMPs expected to invest the most in technology followed by training in the coming year. This mirrors the global results.

Implications for SMPs and PAOs

European PAOs need to consider what steps they might take to help the market provide high quality, affordable technology and training solutions for SMPs and to help SMPs invest wisely in these solutions.

SMP Outlook

Respondents were asked whether they expect practice fee revenue growth in four service areas over the next 12 months. These service areas include the following: accounting, compilation and other non-assurance/related services (e.g. agreed-upon procedures engagements); audit and assurance (including review and other assurance engagements); tax (including compliance and planning); and advisory/consulting and other services.

Respondents from Europe were, in general, less optimistic regarding increases for all four service lines than the rest of the world. Barely 20% of European SMPs anticipated revenue increases for audit and assurance services, compared to 36% of respondents globally. This reinforces reports that this service line continues to decline in importance as a source of revenue for SMPs, especially in Europe. The bright spot is advisory/consulting services, with some 43% of European respondents predicting revenue growth in this area in the coming year. The shift from audit and assurance towards advisory is likely being driven by a range of factors including SMEs taking advantage of increasing audit thresholds and opting not to have an audit, as well as the growing realization that SMPs can add value through expert advice.

Implications for SMPs and PAOs

If they have not already done so, SMPs should consider offering business advisory. Technology developments have greatly enabled SMPs to offer insightful advice built on data analytics, provided remotely and in real-time. PAOs meanwhile need to examine whether they are doing enough to help SMPs transition from a traditional compliance-based model to one focused on advisory and consulting services. PAOs might wish to learn how their counterparts in the US and Australia, where SMPs have already witnessed significant growth in these areas, encourage and support SMPs making this change.

FORECASTED FEE INCREASES BY PRACTICE AREA

Service	Europe*	Global*
Advisory / consulting and other services	43%	51%
Tax	30%	40%
Accounting, compilation, and other non-assurance related services	28%	36%
Audit and assurance	20%	36%

*Combining moderate and substantial increase

Business Advisory and Consulting Services

The three most frequently provided business advisory and consulting services by European SMPs in 2018 were corporate advisory (51%), management accounting (39%) and human resources, policies and procedures/employment regulations (37%).

Implications for SMPs and PAOs

As trusted business advisors, SMPs must constantly be on the lookout for the opportunity to offer new services that clients will find useful. Their PAOs should be prepared to help in this endeavor.

Concluding Remarks

Overall, the results suggest that the keys to future success for European SMPs are leveraging technology, attracting top talent, playing a leading role in building trust in financial and non-financial information, and being the trusted business advisor for their main constituent.

European PAOs will find the survey data useful for helping them to determine how best they can help their SMPs realize their potential for growth. PAOs are encouraged to contact IFAC to obtain data from their jurisdiction.

Green Economy and Access to Finance in Georgia: Going Beyond the Commercial Banking Sector to Finance Business

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Abstract
This research will explore other possible financial vehicles that go beyond traditional sources of private capital offered by commercial banks. It will look at international experience and the opportunities to use public support, green bonds to raise green finance as well as the work of energy service companies (ESCOs) to finance green investments.

We have offered our view of what should be done in fact (not in paper in Georgia as it has been in the past 15 years) to change the situation and end the negative and harmful monopoly of the commercial banks and the National Bank of Georgia and to have in place the two independent sources to attract and invest resources in Georgia.

This will increase the capitalization of the country and is a proven way to eradicate the country's lagging and accelerate economic growth. Why should we focus on this issue? According to WHO's latest data, over 7 million people die each year because of breathing air with solid particles, and one of its main pollutants is vehicles. (Cereceda Rafael, Cuddy Alice. 2018). Georgia's Capital - Tbilisi - is occupying the 3rd place in the light of air pollution. Due to the critical situation, the public demand to live in a clean ecological environment, day by day increases.

In our research the following Questions are discussed and overviewed:

- Is it important to act on the issues of Georgia's position on the global scale?
- What unique components can be used to prolong the average life of people?
- What investors do the country need for building eco-projects and their realization?
- What type of ecofriendly technologies can be developed for potential customers in Georgia?

In that field we have studied the following: The links between economic growth, green growth (e.g. clean energy), high living standards and capital markets; Why the Commercial Banks are the main and the alone source of finance for green (and not only) investments in Georgia; Situation on capital markets of Georgia (stock and bond markets) - as an indicator of economic growth and an alternative source of financing; Possible benefits of non-bank financing, including for clean energy projects and the SME sector (e.g. small hydro, energy efficiency);
The role of government in supporting capital market development; The role of international community (donors, IFIs, international organization) to support Georgia's efforts to develop capital markets.

Georgia – Recent level of development

To illustrate the wide gap between the developed economy and the weak one, let us compare the current level of per capita GDP of Switzerland, Hungary, Poland to Georgian one (source: https://tradingeconomics.com/switzerland/gdp-per-capita; https://tradingeconomics.com/poland/gdp-per-capita; https://tradingeconomics.com/hungary/gdp-per-capita; https://tradingeconomics.com/georgia/gdp-per-capita);

The Gross Domestic Product per capita in Switzerland was last recorded at 76667.44 US dollars in 2017. The GDP per Capita in Switzerland is equivalent to 607 percent of the world's average. The Gross Domestic Product per capita in Hungary was last recorded at 15647.85 US dollars in 2017. The GDP per Capita in Hungary is equivalent to 124 percent of the world's average. The Gross Domestic Product per capita in Poland was last recorded at 15751.23 US dollars in 2017. The GDP per Capita in Poland is equivalent to 125 percent of the world's average. The Gross Domestic Product per capita in Georgia was last recorded at 4290.17 US dollars in 2017). The GDP per Capita in Georgia is equivalent to 34 percent of the world's average. In summary: An average income of middle-income Swiss citizen is more than 1.5 years' (18 months) income of Georgian citizen. An average income of middle-income Hungarian/Poland citizen is 3.7 times of income of Georgian citizen (Aslanishvili (2016) Market Foundation).

1.1 Green Bonds – International Practice

Huge efforts and financial resources are needed to ensure sustainable development and achieve climate and environmental objectives. It is estimated that total global investment needs are around USD 5-7 trillion per year. In particular, support of private finance is needed, with public finance serving to leverage such private capital. (Future we want. 2912. Outcome document of the United Nations Conference)

As a result of the analysis of the World Economic Forum, it is necessary to invest about $ 5.7 trillion in the Green Economy every year, from which 5 trillion funding should be directed directly to green infrastructure and business projects, and the remaining 700 billion will be able to effectively manage these projects.

A large number of financial instruments can also be applied by the government to support the scaling-up of green investments. These include, among others; instruments that provide direct financing from the budget (at the national and sub-national level), such as equity, grants, government soft loans; instruments that mitigate risks (e.g. guarantees, feed-in tariffs); instruments that help raise additional private funds (e.g. green bonds) **(Lindenberg, N., 2014).**

The concept of green bonds was launched almost 10 years ago, by leading development finance organizations such as the World Bank, the IFC and the EIB, together with pioneering investment banks. In little more than a decade, annual green bond issuance has grown from zero to nearly $170bn.

In 2019, global issuance is expected to reach a record $200bn. That growth is impressive — and a measure of investors' eagerness to address the greatest development challenge of our time.

Yet green bonds remain a small sliver of the $100tn global bond market.
In 2016, the Swedish Pension Fund (AP4) allocated 21.8% of its global equity portfolio to low-carbon projects.

AP4 aims to decarbonize its entire global equity portfolio by 2020.

Similar initiatives are taking place in other OECD countries as well (e.g. the Portfolio DE carbonization Coalition in the USA embracing 28 institutional investors have pledged to gradually decarbonize a total of USD 600 billion by designing investment portfolios with a smaller climate change impact).

Currently, Europe is leading the green bond market, with numerous Europe-based mutual funds focusing on green bonds. The EU is in the process of boosting the market for green bonds for infrastructure and SMEs.

Despite previous experience of some countries in the region with municipal bonds for water supply and sanitation infrastructure (e.g. Ukraine, Kazakhstan) none of the EaP countries and Central Asia seems to have issued green bonds so far to finance low-carbon investments.
However, Ukraine is considering the creation of a green bond market and have prepared "Green Bond Guidelines: Roadmap for Ukraine". The introduction of green bonds in also being considered in Kazakhstan.

In the majority of developed countries, many specialized financial institutions that support green investment and support of energy efficient projects in developing countries, including Georgia, have been created to support green projects. One of the examples is the European "Green Growth Fund", which implements energy in the energy industry and reduces greenhouse gas emissions in up to 20 developing economies.

The foundation was founded in Luxembourg in 2009 by the Development Bank of Germany and the European Investment Bank, which has financial support from other leading international financial institutions such as the Austrian Development Bank, the European Bank for Reconstruction and Development Bank, the International Finance Corporation, the Dutch Development Bank, etc.

The EU funded the new multinational program in the context of the Eastern Partnership (EU for Environment), which was implemented in Georgia in April 2019.

The EU4ENVRM program aims at helping EU partner countries to maintain and utilize their natural capital to boost the ecological well-being of the population and use new opportunities for development. For instance, enterprises (particularly small and medium sizes) will receive further assistance in terms of saving energy, water and materials: leading international experts will consult environmental management.

This new program will support Georgia's efforts to improve the challenges in the development of green economy development. For all 6 countries of the Eastern Partnership, this program has a total of 20 million euros. The results of the work carried out by the EU and local institutions are that within the 2019 exhibition Georgian companies have received more than 600 000 Euros order from international buyers.

1.2 Links between economic growth, green growth (e.g. clean energy), high living standards and capital markets

“Green” economy

The Rio Conference in June 2012 reflected a trend that focuses on the economic system.Term “green” economy was first used in 2013. The concept of green economy is transferred in the document of Rio de Janeiro conference dedicated to the sustainable development “future we want”. As United Nations Environment Program (UNEP) defines “green” Economy is an economy that provides growth of people's well-being in the long term and reduces inequalities in order to enable future generations to avoid environmental and its impoverishment risks.

The main focus in the definition on the growth of people's welfare, because nature conservation, protection and in some cases, improvement by itself serves to increase people's well-being. To be more specific a “green” economy means ecological needs’ that have been improving the social and economic situation of people through the rational use of resources, the preservation of the process of nature reproduction, ensuring the safety of living organisms and the growth of production.

“Green” economy goals also serve to provide resources for the future, due to the fact that non-renewable, exhausted resources will be replaced by renewable, environmentally friendly resources. Although the problem of providing resources in the future is much huger and global. The main sectors of the green economy are: Renewable energy (solar, wind, geothermal, marine, including waves, biogas and heat energy); Green buildings (green modifiers, green products and materials); Clean Transport (Alternative Fuel, Public Transport, Hybrid and Electric Vehicle); Water management (water and rain treatment systems, internal water landscape, water usage); Waste management (utilization, municipal waste, use of materials, soil fertility improvement, cleaning); Land management (organic agriculture, urban forests and parks, forest development).

"Green" Economy in Georgia

"Georgia-EU Association Agreement" focuses on sustainable development and green economy. In particular, Article 301 of the Agreement states that "the Parties will develop and strengthen cooperation on environmental issues, thus contributing to sustainable development and long-term goals of the green economy.

Tbilisi City Hall is particularly active in the direction of a “green economy “that developed the Environmental Strategy on 2015-2020 and Green City Action Plan for2017-2030.

According to the 2018 Global Green Economy Index (GGEI), Georgia is taking an intermediate position among world countries. On the other hand, according to the Environmental Performance Index (EPI), Georgia meets only in the second half of the world, but with improved indicators. Georgia is rich in natural resources and has the potential for rapid development.

The richness of Georgia has the potential for rapid development of natural resources. There are certain ways for developing countries to achieve global green growth. In many countries the green growth is understood as an inclusive economic development, which envisages the development and maintenance of environmental and social values.

According to the data of 2018, Georgia occupies the 44th place among 130 countries (0,5183). And the first five looks as follows:

- Sweden 0.7608
- Switzerland 0.7594
- Iceland 0.7129
- Norway 0.7031
- Finland 0.6997

The last places were distributed: Guinea-Bissau, Bosnia-Herzegovina, Benin, Haiti, Bahrain.

According to the data of 2018, Georgia ranked 94th in the ecological efficiency rating among 180 countries compared to 2016 (111th place), improved by 17 points. In total, Georgia received 55.69 points from 100 points (2018). Among the neighbors is the best situation in Russia - 63.79 points (52nd place), Azerbaijan - 62.33 points (59th place), Armenia - 62,07 points (63rd place). It is noteworthy that in 2016 this situation worsened in Turkey (108) and Ukraine (109th place).

1.3 Green Tourism as an Important Component of the Transition to a Green Economy and Economic Growth

In the mid-2000 the tourism industry accounted for 5% of global GDP and provided about 8% of total employment. This industry ranked fourth in world exports (after the fuel, chemical and automotive industries). Since tourism is playing an important role in economy, a green tourism is a considerable component of the transition to a green economy. Thus, all types of tourism should become green and sustainable, namely:

- make optimal use of environmental resources, which are a key element for the development of tourism, support key environmental processes and promote the conservation of natural resources and biodiversity;
- respect the sociocultural identification of local communities, help preserve their cultural heritage and traditional values;
- to ensure sustainable long-term economic activities that provide socioeconomic equitable benefits for all parties involved, including tourist satisfaction, stable employment and income-generating opportunities, and social services to host communities.

2 Georgian non – traditional funding (Capital Market in Georgia)

What is the present and the future for the stock and debt capital market in Georgia?

Here we have studied possible financial vehicles that go beyond traditional sources of private capital offered by commercial banks.

2.1 Georgian Capital Market – On-going trends and development

Problem Statement

The mission of research proposal is to find out the real solution to rapidly develop countries like Georgia based on modern capital market tools.Economic progress and improving living standards of the population depends largely on the provision of high economic growth. That issue itself heavily depends on energy sources and mostly on green sources.

To attract capital into green energy objects, it is obligatory to have reliable and strong market foundation and its tools. One of the real levers, and the most acceptable and practical forms of investment are to invest in equities through the stock market. It is clear for the developed world how important the organized stock market is. This includes Western Europe, USA, Canada, Japan, China and other countries with powerful stock industries such as the New York Stock Exchange; Euronext; NASDAQ OMX; the London Stock Exchange and many others.

The mediation business or brokerage/investment firms include Merrill Lynch; Morgan Stanley; Goldman Sachs; J.P. Morgan; Barclays Capital and many other investment banks.

Georgian corporate bonds eligible in Clearstream from September 2018. Clearstream Banking S.A. started offering settlement, custody and asset servicing for selected Georgian corporate bonds, which is in addition to the securities issued by the Government of Georgia and international financial institutions (the “IFIs”). By offering new services in Georgia, Clearstream further enhances the access to the Georgian capital market for international investors and is the sole international central securities depository (the “ICSD”) to offer such services. Non-resident corporate, non-resident individual and resident individual holders of Georgian listed corporate bonds issued prior to 2023 are exempt from capital gain and interest income (withholding) taxes.

MORE THAN 2 BILLION GEL SUCCESSFUL PLACEMENTS OF IPO DONE in Georgia during the last five years:

- FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V)
- Black Sea Trade and Development Bank
- Bank of Georgia
- Liberty Bank
- M2 Real Estate
- TBC BANK
- EBRD bonds
- ADB bonds
- Georgian Leasing Company
- Nikora

- Zedazeni
- EVEX
- GWP (Georgian Water and Power)
- Lisi Lake
- Teliani Wine
- Silknet
- Georgian Leasing Company
- Microfiance Organisation Crystal

(source: www.gse.ge)

June 28, 2019 Tbilisi, Georgia: TBC Capital has listed the largest Eurobond issue on the Georgian Stock Exchange. TBC Bank has successfully priced a debut US$300 million 5-year 5.75% (6% yield to maturity) senior unsecured notes issue (the "Notes“).

July 12, 2019 - The Asian Development Bank (ADB) raised 60 million GEL (about $21m/€18.70m) from two new issues of local currency bonds. The proceeds of the bond issues will be on-lent to Credo Bank to launch new products including home improvement and mortgage loans to lower income households in rural areas and on the outskirts of Georgian capital, Tbilisi.

TEGETA MOTORS LTD - On May 22, 2019, **GEL 30 million** worth of **3**-year bonds issued by the Tegeta Motors LTD have been admitted to the category A listing of the Georgian Stock Exchange.

Research has ascertained that Georgia faces the problem between the two-basic means of attracting monetary resources –Commercial Bank lending/loans and the stock market. In financially successful and developed countries, these two mechanisms--bank loans and the stock market—are designed to attract money and create a mutually beneficial synergy. In Georgia, there is only one mechanism to attract money resources – the bank loan.

In general, the Georgian commercial banking system tries its utmost to prevent the use of the second mechanism, the stock market, since it is considered a main competitor. The analysis of the structure of owners of Georgian Stock Exchange (source: securities registrar JSC Kavkasreestri – www.kavkasreestri.ge) shows that 58% of shares of the stock exchange is in hands of its competitor – Georgian commercial banks/holdings. ((Aslanishvili (2016) Market Foundation).

There is another stock exchange – Tbilisi Stock Exchange, where owners are just commercial banks/holdings and Georgian Stock Exchange as minority shareholder itself (fully under control of Commercial Banks/holdings).

It means that Georgian commercial banks will not allow the development of their competitor—the stock market-as it threatens their own preferential and successful financial position.

According to this analysis, Commercial banking and Stock Market have one mega regulator – the National Bank of Georgia. It should be noted, that an essential attribute of the stock market – the National Securities Commission of Georgia (NSCG)– was abolished. The power of the NSCG was transferred to the regulator of Georgian commercial banks and lobbyist of their interests - the National Bank of Georgia.

Simultaneously, very tough policies were enacted against non-commercial banking structures - brokerage firms, registrar companies and market participants.As the result—there are practically no non-commercial banking funding ability to attract finance in Georgia.
Fixation rule - unfortunately, there is no public trades and market price on Stock Exchange.Securities admitted to the stock exchange can be transferred by simple inscription on paper, without any auction or trading – it is enough simply to sign the paper document ((Aslanishvili (2016) Market Foundation).

As the analysis shows, the management of joint stock companies (non-commercial banks) gradually lost any interest in equity trading in an open and transparent environment, once the law didn't require it. As the results – there is no de facto market price on any stock on Georgian Stock Exchange

Brokerage Firms:

- Galt & Taggart JSC
- Caucasus Capital Group JSC
- Silk Road Bank JSC
- Heritage Securities JSC
- TBC Capital Ltd
- Cartu Broker LTD

(source: www.gse.ge)

Is there ANY real positive trend? – STOCK MARKET

In 2013, the country's stock exchange turnover amounted to GEL 530,491 or 338-fold less compared to 2007

In the period from January 1, 2014 – July 14, 2019
Number of Trades - 667
Volume - 32,666,230
Total Value (GEL) - 2,770,069.42

(www.gse.ge)
At average per year – 461,678 Georgian Lari turnover – Approximately all trades go on Banking stocks and affiliated companies

Is there ANY real positive trend? – BOND MARKET

In the period from January 1, 2014 – July 14, 2019:
Number of Trades - 140
Volume - 13,243
Total Value (USD) - 13,810,688.40

At average per year – 2,301,781 USD turnover – Approximately all trades go on Banking Bonds and affiliated companies

2.2 Where is the Turnover and Market?

GRAY MARKET (OTC MARKET)
In the period from January 1, 2014 – July 14, 2019:
Number of Trades - 2,319
Volume - 6,031,596,962
Total Value (GEL) - 2,323,956,196.85

At average per year – 38,732,603 GEL turnover – Mostly turnover goes on Banking Stocks/Bonds and affiliated companies

Presently, Georgia's stock exchange has lost its key function as a foundation for price formation in the stock market. Therefore, any trading it shares or other securities publicly has become senseless.

Fixation of Deals out of Market (gray Market, OTC) represent the alone way of funds attraction. As practice shows, Commercial Banks distribute the adopted offer of stocks/bonds inside the banking/holding structure for own clients and submit the fulfilled IPO to Stock Exchange. Stock Exchange act as Notary, but not as Stock Exchange.
Any suggestion on legislative amendments as a solution in order to save and develop independent from Commercial bank's Georgia's stock exchange had been many times stopped and blocked by Georgian government, National Bank and Commercial Banks, working together to keep the current trend. ((D Aslanishvili (2016) Market Foundation...)
The alone way to get finance in Georgia is to be loyal to Commercial Banks and its affiliated structure(s) and show the readiness to give them access to your company share structure and management to receive funding.

2.3 "The Road to the Hell is Paved with Good Intentions"
So the reality is simple:
MANY TALKS OF SECURITIES MARKET, ALTERNATIVE SOURCE OF COMMERCIAL BANK LENDING, IPO AND STOCK MARKET DEVELOPMENT, BUT REALITY IS OPPOSITE....
Georgia needs the REAL Glass Steagal/Dodd–Frank Act in action, not in paper

Situation in Summary

- Commercial Banks/Holdings fully control non-commercial source of funding – "Georgian Stock Exchange"- 58 percent of Stake of GSE and 100 percent control of "Tbilisi Stock Exchange"
- Supervisory Board and Management of Stock Exchange in hands of Commercial Banks/holdings
- Commercial Banks and its affiliated structure mostly prefer to have IPO and trades OUT OF GEORGIA and its Stock Market (London Stock Exchange)
- Registrars (Transfer Agents) – the most developed are in hands of Commercial banks/holdings
- Licensed by NBG and GSE Brokerage Companies – almost all in property of Commercial Banks/holdings
- All emissions and successful placements of companies (Bonds/stocks) are done only by Commercial Banks and for their and affiliated companies
- THERE IS NO ALTERNATIVE SOURCES OF FUNDING IN GEORGIA EXCEPT COMMERCIAL BANK LOAN DIRECTLY OR INDIRECTLY (via their "green light" to issue bonds/stocks for Banks of affiliated companies)

Solution

Georgia needs the REAL Glass Steagal/Dodd–Frank/The Gramm–Leach–Bliley Acts in action, not JUST in paper. We need independent from Commercial Bank/Holdings the Supervisor and Stock Market structure. Commercial Banks/Holding should be prohibited from Stock Market activity.

Conclusion

- Main sources of funding for SME green investments in Georgia are Commercial Banks and affiliated structures;
- Capital market – stock and bond markets in Georgia-is not developed as alternative source of funding for any noncommercial banking structure;
- There is a lot of real benefits of non-bank financing, including for clean energy projects and the SME sector (e.g. small hydro, energy efficiency);
- Government can use State Bonds/obligations, its affiliated structures (Partnership fund) to support SME finance in green economy;
- Government of Georgia should intervene and change the "rule of games" on Capital market and to introduce the REAL Glass Steagal/Dodd–Frank/The Gramm–Leach–Bliley Acts in action, not JUST in papers;
- Georgia needs an independent from Commercial Bank/Holdings and National Bank of Georgia the Supervisor and Stock Market structure - to have the Real alternative source of funding;
- Commercial Banks/Holding should be prohibited from Stock Market activity (depositors risk mitigation – international practice);
- International community (donors, IFIs, international organization) should supervise the REAL implementation of abovementioned steps in Georgian reality to support Georgia's efforts to have the Real developed capital markets, available to finance business.

3 Possible investments in clean energy projects of Georgia (e.g. small hydro, energy efficiency)

Georgia has the greatest potential to become an important exporter of electricity received from renewable energy transformation. This gives our country a significant advantage in the entire region. This advantage can be considered as two important aspects:

- Energy independence, which is of paramount importance to maintain political stability in the region,
- Economic benefits, after fully satisfying domestic consumption, export of electricity to neighboring countries.

The first place among the natural riches of Georgia is the hydro-electrical. There are 26 060 rivers on the territory of Georgia, with total length of approximately 60 thousand km. The common stock of fresh water of Georgia, comprising 96,5 km^3 of glaciers, lakes and reservoirs of water reserves. From the total number of rivers, there are about 300 rivers with energy value, the annual total potential capacity of 15 thousand megawatts and average annual energy equivalent to 50 billion kWh. Georgia is a wealthy country with renewable energy resources, but it is a poor source of energy sources.

In 2016, 57.6 thousand terrestrial power plants were produced in Georgia, which is 1.4 million tons of oil equivalent. More than half of this energy was on hydropower resources - 58.3%. 28.2% of the biofuels and waste are still large in the energy produced. The remaining energy sources have a relatively small share of domestic production: coal - 8.7%, crude oil - 2.8%, geothermal - 1.5%, gas - 0.4%.

Energy consumed in Georgia is 3.15 times higher than the energy required, which is largely due to demand for non-renewable energy resources, which is not available in the country, but traditional energy resources are widely used in a number of fields.

As a result, in 2016, almost one-third of the country's domestic consumption of petroleum products (33.1%) and slightly less natural gas (30.5%).

In the world as well as in Georgia, the role of coal is reduced in the economy (5.8% of consumption). 20.8% of the domestic consumption comes from electricity, the source of which is the renewable energy / unprofitable energy or import of the internal one. Only 0.4% of domestic internal consumption comes from geothermal energy. Over the next 10 years, new electric power capacity is expected to turn Georgia into an important exporter of electricity.

With realistic calculations, electricity consumption in Georgia will increase by 3.5% per annum in the following years. As a result, net exports of 9.9 billion kWh electricity will be expected by 2027, which will be 37.6% of the total electricity generated.

The list of potential projects is drawn up by the Ministry of Energy of Georgia for the potential investors (Order N125 on Approving List of Potential Power Plants in Georgia (available to show). For each project, the average annual output is given. Some assumptions are used to calculate the value added by them (assumptions are taken from potential projects).

Export tariff - 0,080
Internal supply tariff - 0,048
Technical losses and their own consumption - 3%
Export Share - 80%
Share of internal supply - 20%

The following assumptions are used:
- Average Annual Production of Each Project Decreases Technical Losses (0.03%);
- The derivative output is divided between export and internal supply (80% -20%);
- The derivatives generated are multiplied by the cost of electric power of Kilowatt and the sum;
- The final added value is divided on macroeconomic indicators to assess its share.

The macroeconomic indicators used the GDP of 2017 at current prices (15,230 billion USD) and the export indicator of 2017 (2,348 billion USD).

Following the aggregation of the information received at the project level, it is possible to see the general picture, first of all, to project projects according to their status:
Construction and Licensing Projects (45 projects) - After completion of full exploitation, they will generate a total additional cost of 2.5% of current GDP (2017).

The second group consists of research projects under construction commitment (22 projects), the potential share of which is 2.2% of the current GDP. These are the projects for which the terms and obligations of construction are determined, but research works are still under way.
The next group is the projects at the stage of technical and economic research (80 projects); There are expressed interest in these projects by investors, although only research works are underway, after which the terms of their construction may be determined. The total contribution of these projects to GDP is 4.6%.

The fourth group is potential projects (99 projects), which are only theoretical and the investor's interest is not expressed. The potential share of potential projects in GDP is 3.2%.

Renewable energy current and potential projects are determined by several renewable energy sources. As mentioned above, hydropower has a vital role in the Georgian energy sector.

The total potential contribution of hydro power plants (both ongoing and potential) to the current economy is quite high and 10.2%.

After hydropower, Georgia is attractive for investors with wind energy, which is 2.0% for wind power plants.
Interest in the use of solar energy is scarce (0.3%), as well as bio waste recycling.

Overall, the potential contribution of all four types of projects in the economy is 12.6%, which is quite high.

Obviously, the research is based on certain assumptions, and all project implementation will require tens of years, and with the growth of the current economy, their contribution to economic growth in other equal conditions will be reduced. However, potential economic benefits of projects are more visible.

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Problems and Roles of Interpretation of Financial Information at Reportal.ge

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Abstract

In the Work presented history of the development Accounting and Auditing requirements during recent 25 year in Georgia, discussing requirements of the association agreement with EU and Georgia, signed in 2014 and adopted from July 1, 2016. Work is focused on "CHAPTER 6 Company law, accounting and auditing and corporate governance".

In the work has been reviewed and analyst steps, achievements and Challenges of the "the Service for Accounting, Reporting and Auditing (SARAS)", which is Subdivision of the Ministry of Finance of Georgia" the structure created to facilitate capital markets and economic growth".

At the same time was assessing how useful work have been done for stakeholders by SARAS, how can been improved usability of the system "Reportal" which is Created by SARAS and were publicly placed management and audited reports made by Georgian Commercial Companies.

In the work assessed quality financial statements and management reports, According of SARAS Monitoring results. And Same time provided challenges of the Academic and Consultation sector in the direction Interpretation of Financial Information in Georgia, according providing instruments and quality of the financial statements. Was proposed concrete directions how to improve "Reportal", for Becoming more useful and tips for improving Audit and accounting information quality.

Also, work is making following recommendation for Ministry of Finance:

- Needs for more improvements and flexibility of "Reportal" System, by which easily and multi dimensionally can be filtered existed information;
- Should be introduced more Monitoring and Assessing instrument for improvement of the quality audit and Financial reports;
- Should be done Management according achieved the results:
- Should be Introduced Encouraging Awards for Excellent audit and Managerial reports
- Plan and Implement, high quality, Lifelong learning programs for Accountants
- Promote Accounting and Auditing Profession
- Capacity Building for Accounting and Auditing firms
- Translate modern provisional literature in Georgia

Preliminary Assessment of the Audit and Accounting Reform Impact

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Abstract
This paper examines the ongoing Audit and Accounting Reform in Georgia with the aim to observe perception of and readiness for it among the private sector representatives. The reform puts the entire private sector of Georgia in new reality requiring companies to publicise their accounting information for the very 1st time ever, striving to improve accounting information quality and investment environment in the country. This radical change in the accounting field motivates us (researchers) to carry out participatory investigation of the ongoing processes in an attempt to measure current progress and estimate longer term impact. Special attention is paid to the problems vastly discussed in previous literature, namely competencies, perceptions and attitudes of local accountants. These factors can inhibit the reform's effectiveness and achievements if kept unattended, thus their mitigation should be on top of the reform executors' agenda and the progress of which should be measured along the reform stages which is our strategic goal.

The present study shows interim results (of the planned 3-year continuous study) basing its findings on accountants' survey with 75 responses collected and 3 expert interviews conducted in summer 2019 as well as taking into consideration the accountants' survey done by the state in summer 2018 to also have comparative results at hand. The descriptive analysis of the data suggests that: a) there has been no real progress in terms of accountants' competencies in international standards during the 2018-2019; b) general perception of the reform is positive, versus the low level of reform understanding reported, triggering our interest to further elaborate on these indicators in the future via assessing actual behaviour of the companies versus the recently reported positions; c) reform application will cause extra unavoidable costs for smaller companies, especially MSMEs, which could have been doing only tax accounting until now and need to invest in adapting to new requirements that can discourage the managers to ensure high quality information provision.

The findings lead us to the conclusions that the effectiveness of the reform can only be obtained in longer term, while in its first years the progress should be witnessed in mitigating the noted hindering factors.

Introduction of IFRS Standards and Challenges of Their Interpretation in Georgia

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Abstract

On 1st of July Georgia-EU Association Agreement has come in force. As the part of following agreement Georgia took certain responsibilities, from which one of the most important was to reinforce accounting system and to make it in compliance with IFRS standards.

The aim of following article is to evaluate possible results from implementing two new IFRS standards, that are effective for annual periods beginning on or after 1 January 2018 – IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers and pays detailed attention to contract characteristics, performance obligations and their fulfillments, while IFRS 9 provides new impairment model that is based on credit risk and states three stages of impairment recognition.

The thesis of the article is, that "Implementation of new IFRS standards will significantly decrease reported income of Georgian companies". Two types of information was used while working of research: a) Public information that is attainable on www.reportal.ge – audited financial statements; b) Macroeconomic forecast scenarios for IFRS 9 by National Bank of Georgia. Two blocks of selection criteria used for sampling: First block - Microfinance Organizations; second block - Companies which bonds are admitted on GSE.

Credit risk was divided into two parts: credit risk on global level that is based on set of macroeconomic indicators (1. Real growth of GDP; 2. Consumer price index – inflation; 3. Monetary policy (Refinancing) rate; 4. Real estate price index) and credit risk on individual level that is based on ratio analysis (1. Shares of loan allowances in total loans issued; 2. Analysis of days overdue).

The Practice of Introduction of International Financial Reporting Standards (IFRS) in Georgian Companies

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Abstract
As a result of Association Agreement signed with European Union in 2014, there was a new commitment to the country – 'Accounting and auditing field gradually draw closer to EU norms and standards', and also as a result of this agreement new phase of reforms started in Georgia. On June 24, 2016 new 'Law on Accounting, Reporting and Auditing' was published, within the framework of which almost all Georgian companies were obliged to present financial statements in accordance with the International Financial Reporting Standards (IFRS).

The main objective of the article is to study the situation of implementing International Financial Reporting Standards (IFRS) on the Georgian market. Article reviews the results of face to face interview with one of the Georgian Consulting Company's Senior Consultant, about implementing IFRS Standards and Quantitative research about Accountants attitude towards IFRS implementation in different Georgian organizations.

The research results showed that the market still needs some time to see positive results of the reform and most importantly promotion from proper people in this field. The most important is that, accountants need to understand more deeply difference between tax code and international financial reporting standards, which will eventually provide quality financial statement. Learn how to apply tax code and IFRS standards simultaneously to avoid penalties. Also, when submitting financial statement, not only accountants but both financial directors and owners need to think not only about its publicity but also to obtain useful result from it. It is more important to promote the new reform further and engage more interested parties in this.

Implemented Reforms and Challenges of the Capital Market of Georgia

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Abstract
The research of the presented paper aims to evaluate involvement of Georgian commercial entities in corporate securities market formation in the midst of conducted in Georgia reforms, as well as estimation of their readiness to participate in mentioned above processes.

The object of the study was a level of awareness among Georgian companies' financial representatives about Georgian corporate securities market existence and its specifications, as well as an impact of adopted reforms on the capital market development. As a research tools were employed: a) survey among the IFRS for SMES trainings participants, namely financial representatives from second, third and fourth categories entities and d) interview with Savvy (SARAS) trained trainers, official representatives from National Bank of Georgia (NBG), Georgian Stock Exchange (GSE), Georgian Securities Central Depository (GSCD), Caucasus Registrar, Broker companies- LTD TBC Capital, JSC Galt and Taggart, JSC Caucasus Capital Group, JSC Heritage Securities. Thus, in study were utilized methods of qualitative and quantitative research, comparative analysis, empirical research and statistical data processing elements.

Companies' financial representatives were not informed about corporate securities market capabilities in general and there appears to be a strict correlation between their preliminary awareness and future educational interest in this regard. We revealed that there is no relevant guide for commercial entities, concerning preparation and operation procedures on corporate securities market in Georgia. Despite a sharp trend among Georgian companies in accumulation of free financial assets on bank deposits, interest towards possibilities of corporate securities market is rising, so relevant financial education under way will drastically enhance capital market opportunities (for both emitents and investors).

As the result of a scrutiny were developed: methodology of teaching corporate securities market's concepts to the IFRS for SMES training participants, as well as a project of a detailed guide for commercial entities willing to operate on corporate security market.

The Readiness of Georgian SMEs Accountants in Meeting the Ongoing Changes of Financial Regulation-Abstract

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Abstract
The question of readiness of Georgian SMEs' accountants in meeting the changes of financial regulation became more relevant to ongoing strict deadline. In case of market economies Small and Medium Sized Enterprises play a major role, particularly in developing countries. 87% of all Georgian entities (approximately 83,000), are going through primary submission of financial statements. The fact that approximately a half of accountants see the necessity of improving their skills in IFRS, IFRS for SMEs and Tax legislation (SARAS Accountants Survey, 2018), should be taken into consideration; they are not so far thoroughly ready to submit the statements without involving some additional help or consultations. The determining factors in the improvement of standards are the necessity of external support from Audit Companies or Consultants for submitting qualified and reliable financial information, and inevitability of additional costs. The ongoing changes of Financial Regulation is being a rather challenging, laborious process.

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