

Presentation in the Accounting Week 2013

The Extent of Compliance with Mandatory Disclosure

Requirements in Bangladesh

Tuesday, January 29, 2013

Conference Hall, Faculty of Business Studies

The University of Dhaka, Dhaka-1000



Mizanur Rahman, Ph.D.

Associate Professor and the Sub-Project Manager (SPM)

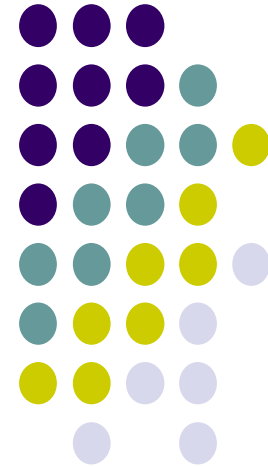
The Academic Innovation Fund (AIF) Research Project

Department of Accounting & Information Systems (AIS)

University of Dhaka

E-mail: mizan@univdhaka.edu, heqepbdcp2197@gmail.com

<http://acmd.com.bd>

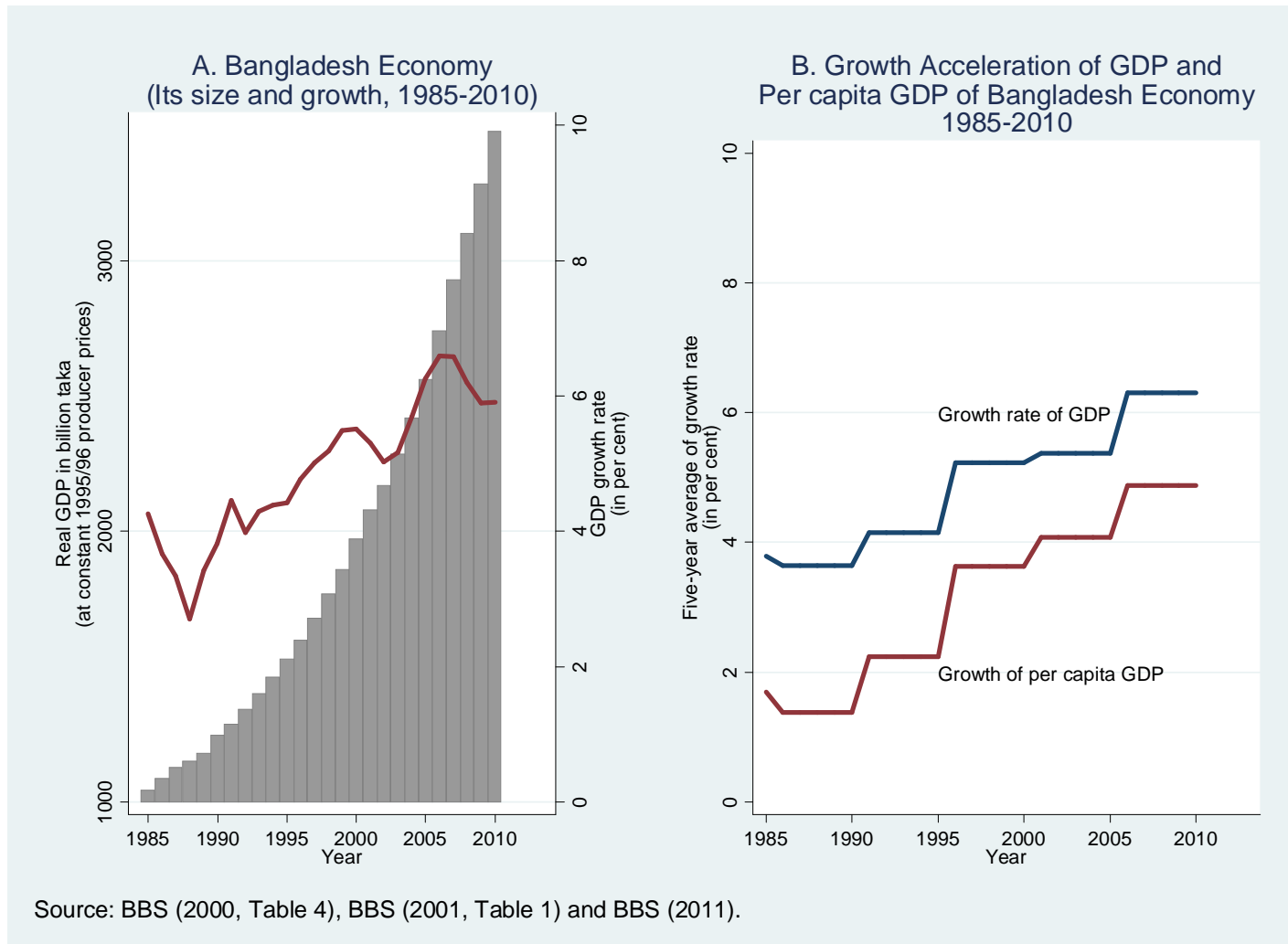


Key Messages

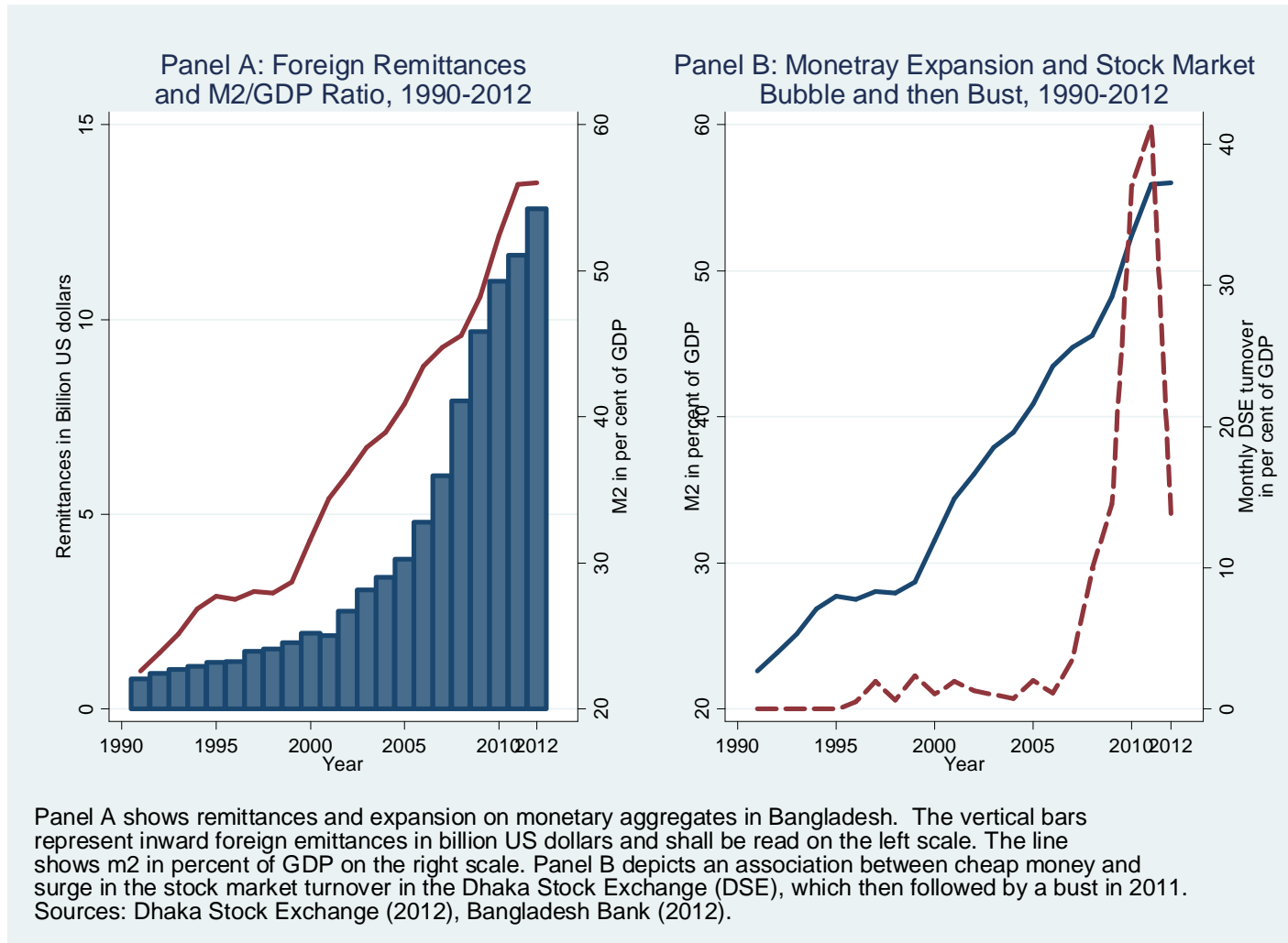


- The extent of compliance with mandatory disclosure requirements is significantly varying across companies.
- Cases of non-compliance are common.
- Decision relevance of published annual reports is hugely compromised.
- Probability of financial disclosure in corporate annual reports is varying between 0.39 to about 1.0. The finding is indicative of substantial management's discretion in the process of disclosure.
- Non-compliance and poor quality of disclosure can be attributed to regulatory failure.

Bangladesh Economy: Its Size and Pattern of Growth Acceleration



Remittances, Monetary Expansion, and Asset (Stock) Market Bubble & Bust in Bangladesh



Main Objectives of the Research



- **To define reporting regulations in Bangladesh and to measure both the extent and quality of corporate financial disclosure by the listed companies.**
- To measure disclosure levels (meaning the extent of compliance with mandatory disclosure requirements) in the corporate annual reports of the listed non-financial companies.
- To measure decision relevance of published annual reports for (i) investors, (ii) lenders, (iii) employees, (iv) suppliers, (v) customers, (vi) tax authority, (vii) assessing quality of corporate governance and (viii) assessing corporate social responsibility.
- To measure disclosure probability of major financial elements (39 items) in the corporate annual reports.

Research Methods



A disclosure index for a company i is defined below:

$$I_i = \frac{\sum_{j=1}^m \bar{d}_{ij}}{\sum_{j=1}^n d_{ij}} \quad (1)$$

Here d_{ij} represents a mandatory disclosure requirement j for company i and it is an indicator variable taking 9 if the item is judged to be irrelevant, 1 if the disclosure is made and 0 if the relevant disclosure is not made. Thus the numerator $\sum_{i=1}^m \bar{d}_{ij}$ represents the number of actual disclosure and the denominator $\sum_{j=1}^n d_{ij}$ represents the number of relevant disclosure requirements for the company. Since $m \leq n$, $0 \leq I_i \leq 1.0$ implying that the disclosure score has the lower bound of zero and the upper bound of unity.

Disclosure probability of a financial element k is measured as follows:

$$I_k = \frac{\sum_i \sum_{k=1}^m \bar{d}_{ik}}{\sum_i \sum_{k=1}^n d_{ik}} \quad (2)$$

Distribution of Disclosure Items by Parts of Annual Reports



Sl. No.	Parts of Annual Reports	Items of Financial Disclosure
1	General Disclosure of Corporate Information	19
2	Balance Sheet or Notes thereto	66
3	Income Statement or Notes thereto	44
4	Cash Flow Statement	43
5	Accounting Policies	23
6	Board of Directors' Report and Chairman's Report	30
	Total	225

Source: Accounting for Capital Market Development (ACMD, 2013)

Distribution of Disclosure Items by Major Financial Elements in Corporate Annual Reports



Sl. No.	Financial elements	Items of Financial Disclosure
1001	Accounting policy	14
1002	Accounts payables	1
1003	Accounts receivables	2
1004	Administrative expenses	2
1005	Advances, deposits and prepayments	3
1006	Audit expense	1
1007	Audit opinion	3
1008	Cash and cash equivalents	5
1009	Cash flow from financing activities	11
1010	Cash flow from investing activities	7
1011	Cash flow from operating activities	7
1012	Contingent liabilities	1
1013	Corporate governance	25
1014	Corporate information	13
1015	Cost of goods sold	1
1016	CSR cost	1
1017	Deferred tax liabilities	2
1018	Depreciation and amortization	3
1019	Dividend	5
1020	Earnings	14

Distribution of Disclosure Items by Major Financial Elements in Corporate Annual Reports



Sl. No.	Financial elements	Items of Financial Disclosure
1021	Employment cost	8
1022	Finance costs	1
1023	Foreign currency payments	2
1024	Intangibles	5
1025	Inventories	5
1026	Investment income	2
1027	Investments	9
1028	Long-term loans	4
1029	Presentation of financial statements	9
1030	Production and output	1
1031	Property, plant and equipment	17
1032	Provisions	9
1033	Research and development cost	3
1034	Reserves	2
1035	Revenue	5
1036	Selling and distribution expenses	2
1037	Share capital	15
1038	Short-term loans	2
1039	Tax expense	3
		225

Source: Accounting for Capital Market Development (ACMD, 2013)

Disclosure Levels in Corporate Annual Reports of Non-Financial Companies



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.859	0.752	0.918
Pharmaceuticals	16	0.841	0.585	0.911
Ceramics	3	0.892	0.847	0.942
Cement	3	0.920	0.873	0.956
Engineering	18	0.802	0.602	0.956
Fuel and Energy	8	0.866	0.788	0.915
Food	12	0.831	0.591	0.949
IT and Telecommunications	8	0.858	0.782	0.909
Services	6	0.892	0.798	0.946
Total	91	0.847	0.585	0.956

Source: Accounting for Capital Market Development (ACMD, 2013)

Decision Relevance of Published Annual Reports for Investors



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.865	0.745	0.924
Pharmaceuticals	16	0.842	0.567	0.917
Ceramics	3	0.908	0.858	0.973
Cement	3	0.914	0.864	0.948
Engineering	18	0.805	0.588	0.962
Fuel and Energy	8	0.877	0.784	0.919
Food	12	0.833	0.618	0.948
IT and Telecommunications	8	0.850	0.756	0.898
Services	6	0.887	0.775	0.953
Total	91	0.849	0.567	0.973

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 193 disclosure items across parts of annual report constitute the checklist of financial disclosure for assessing decision relevance for investors.

Decision Relevance of Published Annual Reports for Lenders



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.862	0.769	0.946
Pharmaceuticals	16	0.839	0.586	0.918
Ceramics	3	0.895	0.860	0.941
Cement	3	0.922	0.888	0.956
Engineering	18	0.808	0.610	0.957
Fuel and Energy	8	0.878	0.796	0.920
Food	12	0.842	0.627	0.950
IT and Telecommunications	8	0.850	0.766	0.902
Services	6	0.888	0.778	0.955
Total	91	0.850	0.586	0.957

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 194 disclosure items across parts of annual report constitute the checklist of financial disclosure for assessing decision relevance for lenders.

Decision Relevance of Published Annual Reports for Employees



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.847	0.724	0.929
Pharmaceuticals	16	0.829	0.569	0.923
Ceramics	3	0.911	0.857	0.982
Cement	3	0.921	0.877	0.958
Engineering	18	0.820	0.625	0.986
Fuel and Energy	8	0.882	0.701	0.948
Food	12	0.835	0.658	0.953
IT and Telecommunications	8	0.849	0.733	0.932
Services	6	0.877	0.778	0.983
Total	91	0.847	0.569	0.986

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 105 disclosure items across parts of annual report constitute the checklist of financial disclosure for assessing decision relevance for employees.

Decision Relevance of Published Annual Reports for Suppliers



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.867	0.738	0.958
Pharmaceuticals	16	0.845	0.605	0.935
Ceramics	3	0.911	0.879	0.963
Cement	3	0.926	0.895	0.946
Engineering	18	0.830	0.632	0.969
Fuel and Energy	8	0.890	0.776	0.961
Food	12	0.875	0.716	0.975
IT and Telecommunications	8	0.855	0.800	0.902
Services	6	0.887	0.753	0.961
Total	91	0.863	0.605	0.975

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 134 disclosure items across parts of annual report constitute the checklist of financial disclosure for assessing decision relevance for suppliers.

Decision Relevance of Published Annual Reports for Customers



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.856	0.714	0.978
Pharmaceuticals	16	0.845	0.593	0.942
Ceramics	3	0.906	0.870	0.929
Cement	3	0.934	0.913	0.947
Engineering	18	0.845	0.711	0.958
Fuel and Energy	8	0.881	0.700	0.927
Food	12	0.860	0.722	0.952
IT and Telecommunications	8	0.876	0.829	0.952
Services	6	0.900	0.850	0.974
Total	91	0.863	0.593	0.978

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 65 disclosure items across parts of annual report constitutes the checklist of financial disclosure for assessing decision relevance for customers.

Decision Relevance of Published Annual Reports for Tax Authority



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.859	0.753	0.942
Pharmaceuticals	16	0.850	0.559	0.947
Ceramics	3	0.888	0.843	0.962
Cement	3	0.941	0.911	0.969
Engineering	18	0.800	0.553	0.979
Fuel and Energy	8	0.894	0.798	0.973
Food	12	0.842	0.623	0.959
IT and Telecommunications	8	0.833	0.714	0.921
Services	6	0.885	0.770	0.963
Total	91	0.849	0.553	0.979

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 141 disclosure items across parts of annual report constitutes the checklist of financial disclosure for assessing decision relevance for tax authority.

Decision Relevance of Published Annual Reports for Assessing Corporate Governance



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.885	0.813	0.959
Pharmaceuticals	16	0.870	0.642	0.955
Ceramics	3	0.930	0.919	0.939
Cement	3	0.895	0.788	0.952
Engineering	18	0.847	0.627	0.984
Fuel and Energy	8	0.867	0.800	0.945
Food	12	0.847	0.500	0.952
IT and Telecommunications	8	0.910	0.862	0.964
Services	6	0.933	0.919	0.939
Total	91	0.875	0.500	0.984

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 90 disclosure items across parts of annual report constitutes the checklist of financial disclosure for assessing decision relevance for assessing quality of corporate governance.

Decision Relevance of Published Annual Reports for Assessing Corporate Social Responsibility



Industry Code	Descriptive Statistics			
	No. of firms	mean	min	max
Textile	17	0.869	0.778	0.983
Pharmaceuticals	16	0.849	0.565	0.953
Ceramics	3	0.879	0.803	0.932
Cement	3	0.900	0.746	0.984
Engineering	18	0.832	0.597	0.984
Fuel and Energy	8	0.862	0.791	0.948
Food	12	0.833	0.391	0.965
IT and Telecommunications	7	0.872	0.811	0.951
Services	6	0.908	0.855	0.946
Total	90	0.857	0.391	0.984

Source: Accounting for Capital Market Development (ACMD, 2013)

Note: A number of 85 disclosure items across parts of annual report constitutes the checklist of financial disclosure for assessing quality of corporate social responsibility.

Disclosure Probability of Major Financial Elements in the Corporate Annual Reports



Sl. No.	Financial elements	Items of Financial Disclosure	Disclosure probability
1001	Accounting policy	14	0.684
1002	Accounts payables	1	0.947
1003	Accounts receivables	2	0.919
1004	Administrative expenses	2	0.708
1005	Advances, deposits and prepayments	3	0.784
1006	Audit expense	1	0.947
1007	Audit opinion	3	0.928
1008	Cash and cash equivalents	5	0.992
1009	Cash flow from financing activities	11	0.852
1010	Cash flow from investing activities	7	0.915
1011	Cash flow from operating activities	7	0.929
1012	Contingent liabilities	1	0.860
1013	Corporate governance	25	0.923
1014	Corporate information	13	0.854
1015	Cost of goods sold	1	0.922
1016	CSR cost	1	0.393
1017	Deferred tax liabilities	2	0.833
1018	Depreciation and amortization	3	0.840
1019	Dividend	5	0.887
1020	Earnings	14	0.863

Disclosure Probability of Major Financial Elements in the Corporate Annual Reports



Sl. No.	Financial elements	Items of Financial Disclosure	Disclosure probability
1021	Employment cost	8	0.597
1022	Finance costs	1	0.967
1023	Foreign currency payments	2	0.720
1024	Intangibles	5	0.598
1025	Inventories	5	0.869
1026	Investment income	2	0.551
1027	Investments	9	0.765
1028	Long-term loans	4	0.737
1029	Presentation of financial statements	9	0.947
1030	Production and output	1	0.583
1031	Property, plant and equipment	17	0.843
1032	Provisions	9	0.701
1033	Research and development cost	3	0.470
1034	Reserves	2	0.673
1035	Revenue	5	0.843
1036	Selling and distribution expenses	2	0.786
1037	Share capital	15	0.896
1038	Short-term loans	2	0.617
1039	Tax expense	3	0.732

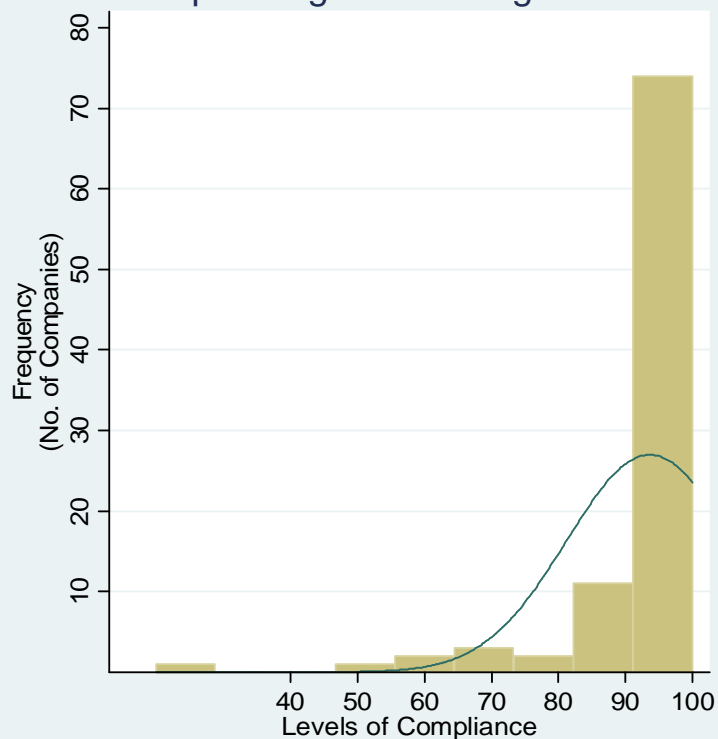
225

Source: Accounting for Capital Market Development (ACMD, 2013)

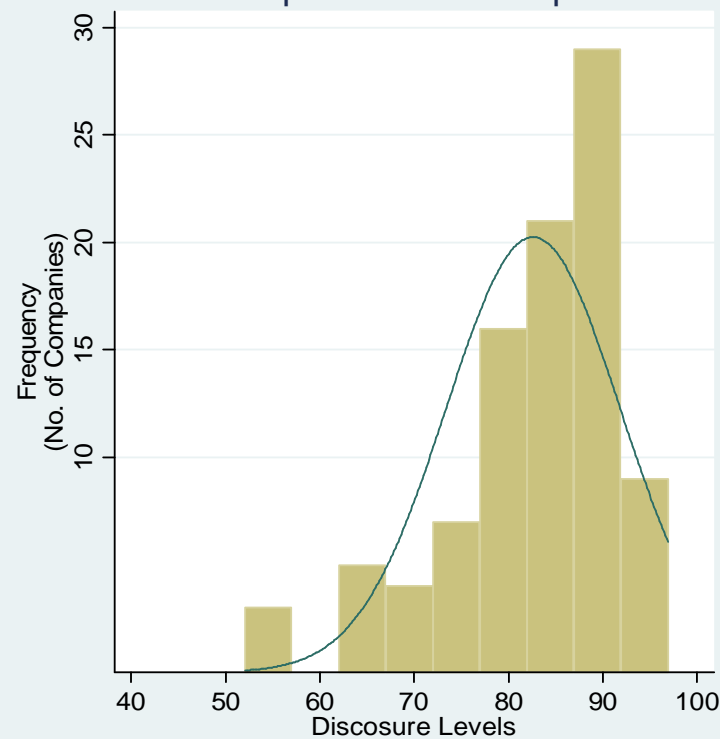


(De jure) compliance with SEC corporate governance guidelines and disclosure levels in corporate annual reports

(a) (De jure) Compliance with SEC corporate governance guidelines



(b) Disclosure levels in corporate annual reports



Source: (c)Accounting for Capital Market Development (ACMD)