The role of disclosure and transparency in financial reporting

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Abstract

Voluntary disclosure and transparency can preserve the interests of shareholders, and the company’s performance improves. in this paper, the importance of transparency in financial reporting and expressed its limitations and quality of disclosure and transparency, we express and at the end of the importance and benefits of voluntary disclosure, as well as major issues and the impact of voluntary disclosure of information in the market. we will examine.

Keywords: Transparency; Voluntary Disclosure; Information Disclosure; Investors; Information Risk.

1. Introduction

The main reason for the emphasis on voluntary disclosure and transparency is the essential foundation for the interests of shareholders are considered. approaches full disclosure and transparency in financial reporting can create a safe condition and ensure the protection of investors and increase profits. research has shown that voluntary disclosure also has a positive effect on firm performance, and the interest of shareholders and other interested parties is effective. In other words, the lack of clarity and ambiguity in reporting the suspicion of immoral behavior may lead to a reduction in the value of the company. the financial crisis in the global market, especially after the events of black september in 1997 and the financial scandals of Enron (Enron) and some transparency in a financial reporting process a deep interest in professional associations is. Public confidence in the capital markets, these countries have decided to attempt to formulate laws that guarantee the confidence of investors to meet the business cycle, and the information provided by them. In previous studies, it was found that a high level of information disclosure may reduce the risk associated with decisions. lower risk also led to an increase in the value of the company and there are some companies that look for transparent information disclosure, the fame of it. as a result, management approaches resulting in higher reliability, higher rates of price to earnings (P / E), and an increase in the liquidity and reduce the cost of equity returns. nature transparency of financial reporting in the literature anyhow, widespread access to information on the transparency and reliability of the performance period, financial situation, investment opportunities, corporate governance, and risk subsidiaries (Bushman and Smith, 2003). However, a closer view, transparency is generally divided into three categories: 1) definition based stakeholder information; 2) definitions based accountability and 3) transparency of law the first group (Vishwanath and Kaufmann, 1999) believe that the increased transparency and reliability of information flow and timely economic, social and political, which is available to all relevant stakeholders, the second category: Florian (Florini, 1999) as transparent disclosure of information by companies that are necessary to evaluate the performance and accountability of duty is enumerated, he believes that transparency is a tool to facilitate the process of evaluating the performance of companies. in fact, accountability and transparency in relation to the demand for transparency the market, the company responsible for the policies and actions being, the third category: the third dimension of transparency in legal liability because the company in order to implement the above approach by governments and legislatures are required to adhere to the requirements of disclosure and transparency of information. common to these definitions show that total transparency, quality of information output.

2. The role of transparency in financial reporting

Based on the conceptual framework for financial reporting, financial information must be dual relevance and reliability. However, the quality of information on the transparency, more appropriate and timely disclosure of information is of the view (Madhani, 2009), disclosure to the dissemination of information, but the reaction to the disclosure of accounting so it should not be surprising. the disclosure is limited to the financial information in the financial reports, but companies usually have a set of non-financial information disclosure are intended to influence the decisions of users 1. transparency is one of the most important factors affecting the company's attractiveness to investors and corporate governance is one of the key elements within the system, the degree of transparency depends on the willingness and ability of management to correct any distinctions informative for market participants. In the long run, capital markets will progress only through the establishment of a transparent information environment. In this environment, the transparency of financial information is a critical role. In fact, companies that fail to fulfill the standards of transparency, risk managers have high reputation overshadows them. In this case, by reducing the confidence of investors and shareholders...
of these companies face resulting in a loss of capital markets and the reduction of corporate credit standing and reduce the liquidity of the market. on the other hand (Madhani, 2009) believes that the benefits and importance of voluntary disclosure is to create a transparent system. voluntary disclosure of information and transparency of financial reporting in the long run helps companies to create competitive advantages. (Bushman et al., 2001) an evaluation plans for the company's transparency and clarity in analogy with the indicators used in other studies, was needed, their transparency is measured in three categories: 1) measure the quality of reporting, including the size of the assessment, timely and reliability of corporate disclosures (ie, audit quality), 2) size to obtain personal information, including analysis and common tables from the combined investment domestic and commercial activities, and 3) measure the quality of the information provided and owned by private or public, including the media (with the aim of informing and engaging in public).

3. Financial transparency at international organizations

International organizations such as the international monetary fund 2 (IMF), world bank 3 (WB), application development, organization for economic cooperation and development 4 (OCED) and the regional development banks, UN insisted on fiscal transparency. These organizations are curious to know the technical and economic assistance they used to be at the right place and by persons competent to run the policy, especially financial transparency action. Further, the fund paid to evaluate the performances of different countries (the victim, 1386). In connection with international instruments relating to the audit of clarity, we refer to the United nations convention to combat corruption in the prevention of conditions such as behavior is audited. the specific components of the convention, including the provisions regarding the integrity of the office, records and other financial documents, illustrate the functions of deterrence, detection; investigation and prosecution were also considered. Like many preventive preparations of, auditor or auditors of the most dangerous and difficult to prevent corruption from happening yet, wherein the prevention or deterrence is not fulfilled the compensatory response preparation of put on the agenda. International organization of supreme audit Institutions as well as in several NGO international congress on accounting standards try and build consensus on a comprehensive audit concept, and these efforts continue. the auditor's role as financial regulators is crucial in this respect; therefore, the duties of the auditor have been responsible for. chartered accountant's chartered accountants in England and wales and America as one of the largest professional accounting bodies spokesman issued guidelines on this matter have confirmed. this problem is of particular importance since the adoption of the money-laundering act.

4. Restrictions on disclosure and transparency

Despite all the arguments concerning the acceptance of greater transparency exist; companies are reluctant to voluntarily disclose all information on their own. Kaufman (1999) for the costs associated with collecting, processing and disclosure of information, there is not disclosed the existence of interest related to external factors enumerated about their nine comments are briefly presented. collection, classification and disclosure require effort, time and financial resources. on the other hand, because of the costs and benefits are difficult to measure accurately and objectively; most companies are moving toward full disclosure below. if the strategic interaction between firms exist impact and inspiration, information disclosure are most likely to lose their competitive advantage and profitability declines. the effect of this phenomenon within the social value of private information. if companies are aware of this, the incentive for less than full disclosure and transparency so arise, the role of legislative bodies is required to disclose information and increase transparency in the information provided is outstanding. furthermore, such information is rarely complete, even in the best of circumstances is produced, and there are legal requirements. Kaufman (1999), believe at least three ways to achieve transparency, a) improving mechanisms (regulatory / legal) related to the disclosure of accounting policies in a way that more and better information to improve the quality and reliability, b) design safety mechanisms to limit moral hazard by exposing more, and c) the legislative institutions and policies to deal with the inevitable problems of information in the financial markets. why did they name a voluntary disclosure? in practice, the quality and quantity of information that companies prepare and publish information that shareholders and creditors need, there is a huge gap. institutional investors with timely information, reliability and completeness are required to manage the agency responsible for your investment decisions and judgments (Madhani, 2009). however, the creation and maintenance of a complex financial disclosure system is not cheap, because of a combination of several financial and non-financial items that are typically not easy to expose them. hence, based on the market structure in each country is assigned a set of rules for accounting and disclosures that companies are required to follow it (Bushman and Smith, 2003). companies generally, every day faced with many decisions and predictions, their revenue forecast by management, investors and analyst's meetings, assemblies shares or cancellation of purchase, the investor, the investor disclosure in news sites and other legal documents, information voluntarily disclosed to (Madhani, 2009). Pay no more than that.

5. Quality of disclosure, transparency and qualitative characteristics of financial statements

Voluntary disclosure, lack of information asymmetry between investors and managers, as well as the lack of information asymmetry between different groups of investors through a balance between the levels of consciousness, decreased. The voluntary disclosure reduces information asymmetry that is not dependent on the usefulness of this information. Based on the theoretical framework of financial reporting information that is useful, relevant, reliability, comparability, are timely and understanding. information relating to the economic decisions of users in the evaluation of past events, present or future, or to confirm or correct their past evaluations effective, to be useful, they must be reliable. Reliability of information that is free of error and bias tendencies is important and represents an honest expression of what is claimed or expected to express a reasonable manner. Hide important facts can lead to incorrect information. However, to be useful, must be of comparable properties. users of the financial statements of the entity's financial statements must be able to identify trends over time, changes in financial position, financial performance and financial flexibility compared to the business unit. Users will also be able to compare the financial statements of the various business units of financial position; financial performance and financial flexibility weigh them against each other; when delays occur EP in the report, it may lose its relevance attribute information. therefore, it is necessary for the users of its financial information as soon as possible. In an era of rapid changes in the business, timely disclosure of information to reduce the information gap is worth. In order to increase the usefulness of disclosure and transparency, financial reports should be presented in a manner understandable. In other words, it is not enough just to provide financial figures, but also to provide explanations or methods of calculation is necessary.
6. Importance of transparency and voluntary disclosure and its advantages

Voluntary disclosure, disclosure of information beyond the legal obligations that have been developed by the legislative bodies. Processing of information from the reporting entity to disclose information to the financial markets, there is little transparency and information asymmetry, normal relationship, transparency is little indication that there is sufficient information to communicate with investors, thus, a lack of information asymmetry between informed and those who are not aware exist. such lack of information asymmetry leads to spend a lot of information. In an efficient market, the value of the company as the present value of future cash flows using an appropriate rate of return is defined as modified in terms of risk, the purpose of financial disclosure, provide information useful to investors in evaluating the immediate and uncertainty of future cash flows. useful information provided through voluntary disclosure, improve the investment decision process and other users of the company's disclosure of information in a better position to affect the allocation of economic resources. Better disclosure of information, coordination and partnerships between companies and investors with regard to investment decisions based on the cost of the investment, the expected future cash flows, balance due to the higher rate would improve. determine the true value of the company's long-term capital market exposure is sufficient. regardless information, including greater disclosure of the company's intrinsic value, for companies with higher disclosure quality is expected to be spent on information disclosure of information disclosure of assets and competitors with similar market conditions, the quality of disclosure and transparency for businesses down, the less information will be spent. The benefits of full disclosure and reporting should include (Madhani, 2009): greater reliability management, more long-term investors, increase the transaction, higher ultimate ownership, greater liquidity, less volatility, Gap sales higher resolution, better access and lower costs, improved relationships with the investment community, and higher stock prices. Among these advantages, reputation management is a prerequisite for realizing the benefits of other advantages. when the management of good credit standing, he supported the activities of the market, even if the short-term decisions and his activities led to the current income. Increase voluntary disclosure reduces information asymmetry between management and investors and not to increase the liquidity of the stock. Increased liquidity could be more attractive stock to institutional investors. Today, companies are judged based on their disclosure policies and systems can disclose information to shareholders through the establishment of committees to strengthen disclosure. these committees and the information content and methods to determine the importance of information disclosure. the final level of disclosure, companies must be weighed against the potential benefits resulting from the disclosure of certain costs more to consider. In determining the basic benefits of voluntary disclosure, companies must disclose the basic expenses in mind. this means that the costs of acquisition and dissemination of information and cost competitive disadvantage that voluntary disclosure is relevant, should be considered (Madhani, 2009), one of the major limitations of transparency and voluntary disclosure, the balance between benefit and cost. the theoretical concepts of financial reporting, cost-benefits of information must be provided. hence, the evaluation of the benefits and costs is substantially a judgmental process that is more important for large companies. led by the company's costs, but the end users of the financial statements and in the second step, the company can benefit from secondary interests and gain competitive advantages to benefit from disclosure. Some believe that the disclosure of information by companies is not complete, because managers are skeptical about the availability of certain information. however, what is clear is that the companies according to legal procedures and answer any obligation to release any information that has a positive effect on the functioning of the market, as well.

7. Conclusion

Traditional financial reporting, we can’t fulfill the information needs of investors for investment decisions, markets, financial reporting as a substitute for the quality of their management. The voluntary disclosure and transparency of markets to reward more than financial reporting are made. Incomplete disclosure of information by companies not creates uncertainty among stakeholders. This lack of certainty, risk information to investors and creditors, and in these conditions they seek higher returns to capital are applied. Higher return rate leads to a higher cost of capital for the company and will eventually cause the stock price decline in the market. Disclosure procedures reasonably disclosed the political costs of non-compliance, the risk of higher taxes, lawsuits and legislation better.

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References