

# **The Role of Financial Statements in Disclosure and Transparency**

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**Presented by  
Demir Yener  
Senior Financial Sector Advisor and Corporate Governance Team Leader  
Europe and Eurasia Bureau, USAID  
Washington D.C.**

# Purpose



- The purpose of this presentation is to discuss the role of financial statements in the context of “transparency,” “accountability” and “standards” for effective corporate governance practice

# Agenda



- Discuss “transparency,” “disclosure,” “emerging standards,” “compliance” and “basic financial statements”
- Role of regulations
- Transparency and,
  - Accountability
  - Uncertainty
  - Confidentiality
- Disclosure
  - Financial Statements
  - Key Qualitative Characteristics of accounting
  - Constraints
  - Assumptions
- Implications on Corporate Governance

# The Level Playing Field



- Emerging Standards of Conduct
  - IOSCO
  - BIS
  - OECD Principles of Corporate Governance
  - IAS and ISA
  - Pension
  - Insurance
  - G-30 Rules on Clearing and Settlement

# Goals of Disclosure

- To promote informed decisions by the investing public through “full” and “fair” disclosure.
- Efficient Markets Hypothesis:
  - The weak form
  - The semi-strong form
  - The strong form
- Regulations
- Enforcement is an issue

# Disclosure

- Financial markets, disclosure and crises
  - weak from of efficiency
  - information asymmetry
  - lapses in enforcement
  - markets are inadequate in enforcing self regulation for disclosure
  - information -> bid-ask spread -> price discovery mechanism = market efficiency
- Full and fair disclosure
  - prevention of misleading or incomplete information
  - the quality of information

# Transparency and Accountability

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- Transparency: the principle of creating an environment where information on current conditions and actions are made accessible to all market participants
- Disclosure: The process and methodology of providing the information and policy decisions through timely dissemination and openness
- Accountability: the need for market participants to justify their actions and policies, and accept responsibility

# Financial Statements



- **Balance Sheet:** Reports the financial position of the firm at a given point in time
- **Income Statement:** Reports the operating performance results achieved during a given accounting period
- **Cash Flow Statement:** Reports the changes in financial position of the firm

# **IASC Framework for the Preparation and Presentation of Financial Statements**

- Lists concepts underlying the preparation and presentation of financial statements
- Guides standard setters in developing accounting standards
- Assists preparers, auditors, and users in interpreting IAS

# Key Qualitative Characteristics of Accounting

- **Relevance:** Nature and materiality
- **Reliability:** True and faithful representation
- **Comparability:** With other financial info
- **Understandability:** Informational content
- **Constraints:**
  - Timeliness
  - Benefit vs. Cost
  - Balanced disclosure
  - Fairness: Full or none
- **Assumptions:**
  - Accrual
  - Going Concern

# Conclusions

- Even though many steps have been taken forward in accounting reform, full compliance with IAS have not yet been achieved
- Increased transparency will attract more investments and will increase market efficiency
- Without complete IAS/ISA compliance, the main objective of creating the enabling environment for private enterprise development can not be achieved.
- The lack of adequate disclosure and transparency weakens the effectiveness of corporate governance practice.

# Investor behavior is affected by fear and greed

