



# 2nd Meeting of the Eurasian Corporate Governance Roundtable

Sheraton Metechi Palace Hotel

Tbilisi, Georgia

7-8 June 2001



## *Transparency and Disclosure*

### Materiality and Timeliness

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hosted by

**The National Securities Commission of Georgia**

**The Georgian Stock Exchange**

**International Regional Federation of Accountants and Auditors Eurasia**

with the support of



**The Government of Japan**

**The Global Corporate Governance Forum**

## *Session III: Timely Disclosure of Material Information*

### **Introduction**

Good afternoon Ladies and Gentlemen,

Before we proceed with the substantive discussion on financial and non-financial disclosure, I would like to open this session by making a few remarks on two concepts that are central to the topic of disclosure in publicly listed companies - materiality and timeliness of disclosure.

### **Materiality**

According to the OECD Principles of Corporate Governance, good disclosure requires the provision of all material financial and non-financial information concerning the corporation. The concept of materiality is important because it serves as a filter to determine what information is truly relevant and useful, and should therefore be publicly disclosed. Applying the concept of materiality is helpful to both companies, who may be concerned about the costs and effort of complying with disclosure requirements, and regulators, who want to ensure that the information they demand is genuinely useful and sufficient for meeting their regulatory objectives, in particular to enable investors to make informed investment decisions. Accordingly, many countries utilize the concept of materiality to determine the minimum amount of information that must be disclosed by a company.

But what information is material? According to the OECD Principles of Corporate Governance, material information of a corporation is “information whose omission or misstatement could influence the economic decisions made by the users of information.” While the OECD Principles do not specify who such users of information are, the disclosure regime for publicly listed companies in many countries focus primarily on investors. Although the OECD definition of material information may be easy to understand, applying it may be much more difficult simply because this definition leaves room for interpretation and provides management with discretion to decide what information "could influence the economic decisions made by the users of information."

This definition also means that the materiality, or importance, of a particular piece of information varies from company to company, depending on the size of its profits, assets, capitalization, nature of operations, and other factors. For example, a transaction or development (i.e., new products or discoveries) that may be significant in the context of a small company may not be material to a large company.

To provide more specific guidance as to what information is material and should be disclosed, most, if not, all disclosure regimes require reporting companies to furnish certain types of information – these include non-financial disclosures such as company objectives, nature of business, related party transactions, strategies, trends and risks as well as financial disclosures such audited financial statements prepared in accordance with recognized standards. Yet, many of these mandatory disclosures are necessarily drafted broadly, using materiality as a threshold, so that they may be applied to a broad spectrum of companies operating under differing environments. Furthermore, this list of required disclosures can never be exhaustive as it is impossible to enumerate all types of information that are should be treated as material – hence, disclosure regimes again rely on the concept of materiality to ensure that other material information is disclosed.

Given this lack of precision and the fact that companies in this region may have not fully embraced the philosophy of disclosure, it is essential that securities commissions, stock exchanges, and others carefully monitor the disclosures of companies to ensure that all material information is furnished, not just favorable developments or information that is explicitly required, so that a balanced picture of the company emerges.

### **Timeliness**

As important as the concept of materiality is the provision of information in timely manner. Timeliness in disclosure requires information to be provided when it is still relevant or useful to its intended audience – and for publicly listed companies, the intended audience is primarily the investing public. This means that companies should disclose routine company information on a periodic basis (quarterly, semi-annually, or annually) and price-sensitive information immediately. Price-sensitive information includes changes in key management, major transactions, losses of major customers, significant changes in the company's economic environment, insider trading of shares, default on debt, and bankruptcy filing.

With respect to quarterly, semi-annual, and annual disclosures, excessive time lag between the date of the disclosure document (i.e., the date of the balance sheet or the time period of a cash flow statement) and the date it is released to the public may make such disclosures less relevant or useful. In many parts of the world, there is a tendency to require publicly listed companies to disclose routine information at more frequent intervals and with a reduced time lag. In Singapore, for example, the Stock Exchange has recently shortened the time period within which a company is required to distribute its annual report to its shareholders from six months after the company's year-end to five months. In addition, many stock exchanges have recently strengthened the requirements for immediate reporting of price-sensitive information.

I would like to close by discussing a related issue – access to information. Even if information is furnished to the authorities on a timely basis, its usefulness will be limited if it is available to only a limited class of investors. Consequently, efforts should be made to ensure that all investors have equal access to information disclosed. Ensuring that all investors, from small individual shareholders to large collective investment schemes, are provided with material information at the same time and with equal ease of access creates an “even playing field” for market participants and enhances the integrity of the capital market. Fortunately, new technological developments, such as the World Wide Web and E-mail, are providing authorities and companies with a cost-effective means for disseminating information to a wide and dispersed audience on a timely basis.