

A Study on the Supervision System with Voluntary Information Disclosure in Chinese Listed Companies

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Abstract

The voluntary information of listed companies is based on corporate image, the investor relates, which is to avoid lawsuit risk besides the compulsory information disclosure. The information, which the companies disclosed on their own initiative, is the important part of disclosure information. It is an effective way that demonstrates their core competitive ability. The author analyzed the problems on voluntary information disclosed, which existed in Chinese mainland listed company, proposed the suggestion of constructing supervision system which listed companies voluntary information to disclose.

Keywords: Listed companies, Compulsory information disclosure, Voluntary information disclosure, Supervision System

As the expansion of the increase of the number of listed companies and the increasingly drastic market competition, the competition has become more difficult in more and more listed companies. In order to catch the scarce resource--the capital, companies tend to choose the way of Voluntary information Disclosure. Listed companies, with voluntary to disclose the information refers to corporate image, the investor relation, avoid lawsuit risk besides the compulsory information disclosure. However, the supervision system is not good enough; the information disclosed voluntarily is hard to be proof the truth. Therefore, it becomes more and more important to build the supervision system with voluntary information disclosure for listed companies.

1. Motivation of Compulsory information disclosure

Information, the Voluntary disclosure, is the executives in listed companies on personnel benefit to disclose on own initiative. According to the economic theory of "the economic man rationality", the superintendents balance the behavior and do not take, completely based on the benefit and this behavior which is the costing. The superintendent's decision-making is also based on the cost benefit analysis, if the voluntary information disclosure brings the benefit is larger than the cost, then the superintendent can carry on voluntarily disclosed, otherwise, the superintendent rather does not carry on the voluntary information to disclose, their manners will change with the cost income relations changing. (Kai Xiang, 2004)

With the China capital market gradually development, the business management authority can reduce the average capital cost, enhance the financial analyst and investor's interest, enhance company confidence level, improve investment relations, stand out company competitive advantages, enhance company stocks market fluidity, but also may reduce the company's lawsuit risk ,because the disclosure is not enough and so on, by disclosing voluntary information besides the compulsory information disclosure. The China capital market information disclosure also can gradually move to the stage of paying equal attention to voluntary and compulsory disclosure, not the simply regarding of the compulsory disclosure, the voluntary information disclosure will certainly to be the effective way, by which listed companies can demonstrate the core competitive ability, communicate with the stakeholders, and describe the company future. (Xianzhong Song, 2006)

2. Content of Compulsory information disclosure

Listed companies, with voluntary to disclose the information is refers to corporate image, the investor relates, avoid lawsuit risk except for the compulsory information disclosure. Learning from foreign listed companies' experience of disclosing information voluntarily , and according to the situation in China, the listed companies voluntary disclosure of information include:

- i The forward-looking information, based on the company's "core competence". It contains the operation, the business plan, strategic planning, business environment and so on. All of information can help investors to make rational investment judgments and decision-making;
- ii Information communicated with the market intermediaries and investors or the evaluation information from them;
- iii Information of human resources. Under the conditions of the knowledge economy society, human capital

becomes more and more important. Particularly in the high tech, high-growth companies, employees are the company's most valuable asset. Research shows that these companies were significantly better than other companies, in the above-mentioned aspects of the voluntary disclosure of information;

iv According to the accounting standards of the conservative principles, there is also lack of proper disclosure rules or low in requirements disclosure, which is useful for the investment decision-making, such as fair value;

v Corporate governance, environmental protection and social responsibility do not have mandatory disclosure information, because of complexity from the measurement and disclosure (Derong Zhang, 2004).

3. Main problems exist in Compulsory information disclosure

3.1 Low Voluntary Disclosure Rate and low initiative

A number of listed companies regard voluntary disclosure of information as an additional burden, rather than a kind of obligation or the right, which should be given to the shareholders. Thus they will be passive to disclose the information, that's to say, they will take less disclosure as less as possible. With time going by, the concept of this understanding is accepted by people, so that the deviation in the information disclosure makes listed companies in a passive response. The main reason is that the listed company is too worry to tell the public the secret in its management, and thus the disclosure of information creates a psychological fear and evasive to them.

3.2 Lack of integrity of Voluntary information disclosure

Today, Chinese listed companies' practice of disclosing information voluntarily is not satisfactory. Many listed companies are reluctant to disclose, and some listed companies only disclose the company's financial information; but the "bad news" or involved matters with a certain risk, or other seriously matters, the companies are kept silent. Moreover, many listed companies do not disclose fully credibility, hoping the investors rely on the "popular", then to help them succeed. Chinese investors are not maturity, particularly in the processing, handling and analyzing information. Therefore, it is very difficult to judge the value of the company through the signal transferred by the company.

3.3 The voluntary disclosure of false information

Generally speaking, the voluntary information disclosure has high credibility. To the non-mandatory requirements information, managers often disclose the less likely to lead to the disclosure of risk information for reducing the risk of litigation and avoiding legal sanctions. In addition, the main motive of high-quality enterprises disclosing the information to the investors is to convey the signal quality of enterprises, so as to reduce monitoring costs. Voluntary information disclosure generally has higher quality. However, the absence of mandatory disclosure is as strict guidelines as regulate, and authorities have the tendency of opportunism, prone to the problem of moral hazard. What's more, the poor quality of the enterprises are based on the theory of signal transduction, transmission of false information, the voluntary disclosure of information is not the same to the mandatory information, as to undergo a rigorous audit. And voluntary disclosure of information is difficult to guarantee the quality.

3.4 Content of voluntary information disclosure is not standard

At present, mainly Chinese listed companies are the compulsory disclosure of information, and voluntary disclosure of information in some documents are scattered, in reality, Chinese listed companies, disclosing voluntarily information, can not meet regulators, securities analysts and investors demand regardless of content or quality. Chinese listed companies in the voluntary disclosure of information content norms. The China Securities Regulatory Commission issued the "public offerings stock, the disclosure of corporate information content and format standards" of the relevant provisions of 1-6 in the annotated "Open-here," although voluntary disclosure of information to the left of the room, but the lack of specific guidelines and the corresponding policy support, the overall level of the listed companies to disclose information voluntarily is low. Therefore, Chinese voluntary disclosure of information is worthy of paying attention and needs to be solved.

4. Improve Supervision System of Voluntary information Disclosure in listed companies

As growing competition of capital in the market and the gradually standardization of legal system, there will be a growing trend of voluntary information disclosure for adapt with the complex and ever-changing and highly uncertain economic environment. For the problems existing in Chinese listed companies voluntary information disclosure, and learning from the practical experience on foreign listed companies, the author makes the following recommendations:

4.1 Actively encourage and protect listed companies voluntarily disclose information

With the gradually maturation of Chinese capital market, on the basis of the management company completing the mandatory disclosure of information provided voluntary disclosure of information. Therefore, the regulatory

departments should encourage listed companies to voluntary disclosure of information, add clauses in the policies and regulations, encourage listed companies to disclose the voluntary information besides existing laws, regulations and rules, meet the investors' growing demands. At the same time, in order to avoid some of the company's management should not be faced litigation risk and other problems, regulators need to study and formulate relevant policies for the company's voluntary disclosure of information act to protect them. "Deliberate manipulation" and "accidental factors" belong to different nature of the situations and treat them differently. It should investigate the law liability to parties in the first case. Otherwise, only the listed companies have adequate evidences and can explain reasonably, don't look into their liability.

4.2 Strengthen supervising and managing prevent to disclose the false information at will and protect the market order

Once the voluntary disclosure information published, it must accept the essential surveillance and the restraint equally with the compulsory disclosure information. But voluntary information disclosure is still lack essential surveillance rules currently, should establish a set of voluntary information disclosure supervising and managing system, standard voluntary information quality. For example: to establish voluntary information assurance and compensation system, to perform the heavy fine to the enterprise which misleads the investor and so on. The negotiable securities supervising and managing department and the Exchanges should strengthen supervising and managing to voluntary information disclosure market, prevent to disclose the false information at will, protects the market order. The voluntary information disclosure supervising and managing should contain following several aspects:

First, integrity, listed companies voluntarily disclose of the information are both "positive" information, also includes the "negative" information;

Second, systemic, whether listed companies from different angles, through various information disclosure to reveal the same, whether formed a distinctive pattern of voluntary disclosure of information;

Third, dynamic, long-term voluntary listed companies to disclose certain information, and constantly adjusted to improve the reliability of information;

Fourth, widespread, as long as all investors equal access to all listed companies to voluntarily disclose information;

Fifth, the comparative, whether the compulsory information disclosure is mandatory or not, it can be the standards of judgment for the quality of reference standards.

4.3 Giving full attention to the role of market intermediaries to establish the authority of the disclosure of company information quality evaluation system

Listed companies should strengthen communication with institutional investors, brokers, securities analysts and other market intermediaries. Understanding the company's external information needs to reduce the company's asymmetric information through voluntary disclosure of information. Giving full attention to the role of market intermediaries, establish the listed company disclosure information quality evaluation system by market intermediaries. Acts according to the specialized knowledge and after the company interior information full understanding and the analysis by the market facilitating agency which it has makes the omni-directional appraisal opinion, regularly promotes voluntary information disclosure quality rating results, provides certain authority to information disclosure quality appraisal opinion for the investor, shows the risk by the police which the ordinary investor possibly can face. (HongYin, 2004).

4.4 Strengthen CPA audit to voluntary disclosure of information

CPA audit is an independent, objective and impartial system, it can ensure the credibility of the accounting information. Voluntary Information is provided by the authorities. With speculative risks, the authenticity and reliability of voluntary information should be tested by certified public accountant. Although the audit of voluntary information is not as strict as the mandatory information, it should also have forensic capabilities by registered accountants carrying out the necessary scrutiny, to improve and guarantee the credibility of its information. Therefore, it is necessary to formulate and improve audit rules on voluntary disclosure of information, and to increase violation of professional ethics or legal responsibility for the responsibility of a certified public accountant.

4.5 Introduction of voluntary disclosure of information regulatory documents

On a global scale, the voluntary disclosure of information is an irresistible trend of development. With the increasing speed of the change of the economic environment, the requirement for the accounting information relevant are higher and higher, by the extraneous user, the existing compulsory disclosure information will be inevitably difficult to satisfy their information need. Therefore, the extraneous information user on the existence to the business

management authority disclosed voluntarily some information help policy-making the demand. We believed that, every the one which does not fall in the scope of the compulsory information disclosure content stipulation, and be helpful to the benefit counterparts to the policy-making information, all may be defined as the voluntary information disclosure. United States Financial Accounting Standards Board (FASB) in 2001 on the voluntary disclosure of the contents of information provides as follows: "operational data, the analysis of the data management, and forward-looking information, relating to the management and shareholders of the information, not be confirmed in statements of intangible assets". Therefore, China should and must make a comprehensive and in-depth investigation for stakeholder information needs, and model the frame which the Sterling committee proposed in FASB, namely confirmed some information is whether useful, by this to decide to provide the information or not, and standardize the content of the information disclosure. When the accounting standard setters sector and the securities regulatory departments are in the formulation of policies and programs should take into account that how to guide enterprises to carry out some of the disclosure of private information, and the securities regulatory departments should be introduced listed companies to disclose information voluntarily charter guidelines as soon as possible, to encourage and regulate listed companies voluntarily information disclosure.

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