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The timeliness of accounting disclosures in international security markets☆

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Abstract

In this study, we examine financial reporting lags, the incidence of late filing, and the relationship between reporting lags, firm performance and the degree of capital market scrutiny. We use a large sample of firms spanning 22 countries over a eleven-year period. A focal point of our analysis is whether the incidence of late filing, and the relations between reporting days and other variables, differ systematically between common and code law countries. Relative to U.S. firms, we report that the time taken and allowed for filing is usually longer in other countries and that the statutory requirement is more frequently violated. Timely filing is found to be less frequent in code law countries. Poor firm performance and longer reporting lags are more strongly linked in common law countries. We also find that whereas greater capital market scrutiny and more timely filing are related, there is less support for a relationship between the level of debt financing and timely filing in code law countries.

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Keywords: International Financial markets; International Accounting; Financial reporting

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1. Introduction

In the United States, the U.S. Securities and Exchange Commission required public domestic corporations to file financial statements within 90 days of their fiscal year end.[3] Alford, Jones, and Zmijewski (1994) (hereafter AJZ) examine the timeliness of accounting disclosures and report that firms who file beyond the filing requirement have poorer performance by both accounting measures and stock returns. The late filers have lower returns on equity, smaller growth in earnings per share, higher financial leverage, and lower internal liquidity for the fiscal year in which they file late. Market-adjusted stock returns are also lower during the fiscal year in which the firm files late. Furthermore, the authors find that market-adjusted stock returns for late filers are lower in the post 90-day period, past the time when an investor would already be aware that a late filing firm was potentially facing financial difficulty. These returns are also lower the later a firm files past the regulatory requirement.

Numerous authors have suggested that the timeliness and value relevance of financial reporting is strongly influenced by the fundamental nature of legal systems in different countries. In their characterization of accounting systems, Joos and Lang (1994) describe the Continental model, present in Germany, France, most of continental Europe and Japan, as one where public reporting is not emphasized. The focus of the Continental model has traditionally been on debtholders, due in part to the large debtholdings of banks. In contrast, the Anglo-Saxon model, present in the U.K. and former colonies, focuses on equity holders and presenting a "true and fair view" of the firm's financial operations. Similarly, Ball, Kothari, and Robin (2000) group countries into those with common law systems, where a shareholder governance model prevails and accounting practices are determined primarily in the private sector, and those with code law systems. The latter generally have a stakeholder governance model whereby major groups contracting with the firm (such as banks, debtholders and labor unions) are represented on corporate boards, and national governments establish and enforce accounting standards. Ball, Kothari and Robin hypothesize that there is less demand for public disclosure in code law countries because there is greater monitoring of the firm's operations by banks and other stakeholders with close relationships with the firm.

Other studies have highlighted the important distinctions between countries which closely correspond to the common vs. code law classification of Ball et al. (2000). For example, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) find that investor protection varies systematically by legal origin. Examining minority shareholder voting rights, they find that English common law countries provide the most protection to shareholders. In a related study, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) find that countries with the weakest investor protection have the least developed capital markets and lower levels of equity financing. Finally, Ali and Hwang (2000) characterize country accounting standards in five ways: whether the financial system is bank oriented or market oriented; whether the accounting standards are set by public or private bodies; whether a Continental accounting model or British-American model is present; the influence of tax rules on accounting standards; and the amount spent on external auditing services. These five factors are found to be highly interrelated. For example, the countries characterized as code law oriented in Ball et. al. are bank oriented with accounting standards set by governmental bodies. These Continental accounting model countries have high alignment between accounting and tax statements and spend relatively little on external auditing.

Virtually all previous research that examines the interaction between a country's legal system and the accounting practices of firms domiciled therein focuses on the value relevance of firms'

[3] The filing requirement in the U.S. decreased to 60 days for fiscal years ending on or after December 15, 2004. In the text to follow, we make reference to a 90-day requirement in the U.S. as that was the relevant requirement for our time period of data.