SGX firms tend to focus on form in reporting: study

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One tendency is to disclose only mandated information

(SINGAPORE) Singapore-listed companies appear more concerned about form, rather than substance, when it comes to complying with rules and regulations.

A study of the top 100 companies listed on the Singapore Exchange found that while there was general high compliance in form, the quality and substance of financial reporting was lacking to some extent.

Some of the common deficiencies observed in the study - conducted by the NUS Corporate Governance & Financial Reporting Centre (CGFRC) and commissioned by the Association of Chartered Certified Accountants (ACCA) Singapore - were: incomplete compliance with the disclosure requirements; a tendency to disclose only mandated information; not explaining accounting practices; and inconsistencies in the way certain financial reporting standards (FRS) are applied across companies.

'Such trends would suggest that compliance is with the letter, rather than the spirit, of the law,' observed associate professor Ho Yew Kee, vice dean of NUS Business School and a principal investigator for the study.

The study focused on the financial reporting and disclosure practices of 100 companies as of Dec 31, 2005. The year 2005 was chosen because many new or amended FRS were in force by then and companies would have had the time to adapt to the mandatory and legally enforceable FRS introduced by the 2002 amendments to the Companies Act.

The research excluded financial institutions and certain other companies regulated by a different set of rules.

Penelope Phoon, country head for ACCA, explained how the findings should be read: 'We should review the study to fine-tune our perceptions about the nature and quality of financial reporting that we now have in order to be better able to decide on the nature and quality of financial reporting that we wish to have, taking into account a wide range of interests and preferences in an increasingly sophisticated economy and investment community.'

The study found generally high compliance with the FRS as far as form was concerned - given the legal status of the FRS as mandatory and enforceable.

For example, on FRS 1 (Presentation of Financial Statements) which prescribes the presentation of minimum line items on the income statement, all 100 listed companies reported their revenue and tax expenses. Such was also the case for FRS 12 (Income Taxes), FRS 14 (Segment Reporting), FRS 16 (Property, Plant and Equipment) and FRS 38 (Intangible Assets).

However, the study found that the quality and substance of financial reporting were lacking to a certain extent.

Firstly, there were incidents of deviation from the FRSs. For example, FRS 37 (Provisions, Contingent Liabilities and Contingent Assets) defines 'provisions' as liabilities, but 26 companies continued to name contra-assets as 'provisions'.

There were also incidents of incomplete disclosure, such as in the case of share-based payments. Only 35 companies disclosed the method used to compute the fair value of stock options, despite the fact that 72 companies issued such options.

The study also found a tendency among listed companies to disclose only mandated information. For example, all the companies in the sample disclosed their business segments but none of them disclosed cash flow information for their segments - information that is encouraged, but not mandated, by FRS 14.
Disclosures are also minimal for details on provisions, contingent liabilities, specific forms of intangible assets, and impairment to property, plant and equipment. The researchers believed that all these incidents suggest that companies will not disclose additional information unless specifically required.

Fourthly, certain observed accounting practices were not explained - such as the basis some companies had for classifying certain items as exceptional items.

Lastly, there were variations in the way certain FRS are applied. For example, there is significant variation in the classification of interest and dividend payments and receipts in the cash flow statement. 49 companies classified interest paid under ‘Operating Activities’ while 38 companies classified it under ‘Financing Activities’.

While such variations are allowed under FRS 7 (Cash Flow Statements), the researchers felt they could hinder meaningful comparisons across companies.

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