The Effect of Regulation on the Quality of Published Information Disclosure of Listed Companies in Tehran Stock Exchange

Rasoul Sadeghi BARZANI

Management Department, Islamic Azad University Arak Branches, Iran,
E-mail: m_dalvi53@yahoo.com

Abstract   *Immediate disclosure regulations information was delivered in 1380 by the Council of the Stock Exchange and the Securities Market Law was passed in 1384. The main objective of this study was to investigate the effects on the quality of information disclosure regulations adopted by the Company are reported profits. The present study investigated the effects of regulatory approval in three intervals since 1378 and Exchange 1380 pre-regulation Between 1384 and 1381 years after the adoption of the provisions of the Securities Market Act Between the years 1385 and 1387 of the Act deals with the securities market .Based on information provided quality velocity data (timeliness) and prediction error (reliability) is measured. The sample consists of 119 companies listed in Tehran Stock Exchange Shrek selected data variables collected using Kruskal and Wallis is analyzed. The results showed that there was a decrease in the percentage of earnings forecast error, which seems to be related to the uncertain business environment. Dividends declared official after the regulations have been more time. After the enactment of regulations, the quality of disclosure in terms of timeliness has improved.*

Key words   Disclosure regulations, expected dividends, earnings forecast misfeasance, data quality

1. Introduction

The importance of access to relevant information about the decision to the extent that societies Democracy, transparency and access to information in terms of the Investor Rights .World Bank to assess the country's business environment, information disclosure is one of the important indicators. In 2001, the Nobel Peace Prize to George Akerlof, Michael Spence and Joseph was awarded due to the importance of information on the functioning of markets and how incomplete information may lead to market failure, were analyzed (Bellve *et al.*, 2005).

Rise in demand for financial reporting and disclosure of information asymmetry and agency conflicts of interest between managers and investors outside the organization. Important role in reducing these disclosure issues (Kothari *et al.*, 2008).

Governments, on the Securities Market Supervisory various purposes. Information flows accurately, efficiently and impartially, in good practice which helps capital markets, Needs of all users, and resolve economic growth is and stability in the community (Baily *et al.*, 2003).

Mandatory disclosure by national or regional public authorities and professional organizations titer is set and all companies irrespective of their size and financial accounting systems and financial resources, and other effective factors disclosure is required to comply with it. The purpose of mandatory disclosure, the information needs of users and data quality assurance standards and laws (Popa *et al.*, 2008).

Article 2 of the Law on Securities Market Development Market transparent, fair and efficient securities has been emphasized in order to protect the rights of investors.

Costs and benefits of mandatory disclosure are not clear. Mandatory disclosure of potential features, it is binding. If the company is not obliged to disclose the circumstances of motivators for failure to provide information or data manipulation (Verrecchia, 2001).

This study examines whether the rules and regulations of the capital market development, has been attention. Could lead to improved information environment and the information asymmetry is reduced. This study examines the effects of environmental regulations on information disclosure of listed companies on the Stock Exchange of percentage error in predicting the time when official interest has been discussed. The changes in these variables revealed three periods of regulation (prior notification of the directive) Between 1380 and 1379, and the disclosure rules of the Securities Markets Act 1384 and the period from 1381 onwards and after the adoption of regulations Securities Market Act will be assessed years 1385 till 1387.

2. Research background

In general, the regulation theory that the provisions of the General Regulations of the inability of the market to justify the following: 1) information asymmetry, 2) the importance of external effects (Tadesse, 2005).

Selected due to inaccurate information asymmetry between investors and business entities leads to incorrect allocation of capital. Companies with better information, the motivation for the inflated value of their investment opportunities (Tadesse, 2005).

Watts and Zimmerman (1986) stated that through the minimal disclosure requirements, the information gap between informed and non-informed agents' decreases.

Another justification for disclosure regulation, the organizational consequences of outsourcing. Watts and Zimmerman raised Accounting information as public goods subject to 3 free-rider problem. The result of the imbalance between public and private information that leads to the production of information is inadequate, the disclosure is mandatory (Tadesse, 2005).

In the absence of a valid obligation of proper disclosure, investors are able to identify firms with proper disclosure. There are two ways to require companies to disclose accurate;

1. Eligibility decision canceled the release of information about those who suffer from a lack of information disclosure and business benefits. This strategy will follow somewhat when the audit firm to examine the financial statements and is used by developers to sell shares through the underwriters.

2. Market mechanisms for credible disclosure requirements, the adoption of financial disclosure laws in most countries (Mabe, 2007).

Regulation Fair Disclosure America in August 2000, I was approved and became effective on October 23, 2000. These regulations prohibit the disclosure of information selection and large public companies are required to disclose (Bialy *et al.*, 2003).

Supporters of the law say that if some participants are market information about public disclosure is not done, the integrity of the capital market to be compromised. But critics who believed that requiring companies to disclose sensitive information cause a decrease in the amount and quality of information is because insurance companies use the information to competitors (Bushiest *et al.*, 2004).

Immediate disclosure of information by issuers in the form of information is that the market is aware of any investment at any time due to lack of access to information is denied (Debrecen *et al.*, 2005).

Information and incentive problems impede the efficient allocation of resources in the capital markets. Strategies for increasing the reliability of information disclosure and disclosure between managers and investors play an important role in reducing these problems. One of the main challenges to the economic, efficient allocation of savings in investment opportunities. While corporations and then willing to trade with each other, optimal allocation of savings to investment opportunities is difficult for two reasons. First, managers often are saving information than the value of their investment opportunities. They also wish to view more of their company's value. In this case, after the investment companies are faced with the problem of information. Secondly, the investment company may be trying to cope with the abuse of the rights of investors, which will lead to agency problems (Healy *et al.*, 2001).

There are several solutions to this problem:

1) Optimal contracts between business and investors, incentives for full disclosure of private data and reduces the problem of providing false.

2) Another solution to the problem of information asymmetry, principal's regulations that will require full disclosure of information (Healy *et al.*, 2001).

Immediate Disclosure of Information Circular Number 170/11392 Dated 1380/05/23 by-law and information disclosure of listed companies on the Stock Exchange Council was approved on 16.04.1382. Compliance with the provisions of paragraph one of Article 4 of the Securities Exchange Act of May 1345, which states that one of the duties of the Exchange Council adopted by laws and regulations necessary for the implementation of the Securities Exchange Act was notified.

The first Persian date November 2005, new Securities Market Law was passed by Parliament. Legislative issues of transparency and information are given, so that the fifth law, including Article 6, Clause 2, is dedicated to informing the primary and secondary market.

Tier	Disclosure requirements under Article 45 of the Securities Market Act
1	Audited annual financial statements
2	Mid-term six-month financial statements include the audited financial statements, quarterly financial statements
3	Information on the prices of securities and investment decisions is important.

One of the main differences between the separate status of the operation and supervision of securities markets has been the new and old law that allows, the stock market and corporate responsibility practices are responsible for supervising. Many foreign studies after fair disclosure notification laws in the United States in 2000, due to environmental regulations on fair disclosure of their test data. There is no agreement in the literature that (Straser, 2002) and (Baily *et al.,* 2002; Heflin, 2003). This indicates that the regulatory authority has increased the quantity of public disclosure. Focus on Variables such as dispersion and accuracy of analyst forecasts, changes in earnings announcement dates and Degree of information asymmetry.

Effects of regulation fair disclosure on market variables include the number of analysts predict Gomez et al, published announcement prior to the announcement earnings forecast error and volatility in the profit Companies from time series cross-sectional regression of firm fixed effects variables were analyzed. Tests on samples divided by size of company. Results show that forecasts of affiliated analysts and SMEs and large firms increased is associated with a small company. The next earnings announcement prior to the announcement of the observed increase in disseminating disclosure regulations, limited to large corporations and medium and small companies were no significant changes in emissions. The results showed that the prediction error decreases for large and medium-sized companies and small companies has increased. Holien et a marked decrease in the earnings release before the capital markets information environment, in terms of disclosure rules did not apply (Heflin *et al.*, 2003).

However, a significant increase in the number of voluntary disclosure rules were followed they also stated that the disclosure rules do not affect the accuracy and dispersion of analyst forecasts.

Bailey and colleagues of regulation fair disclosure on analyst forecast behavior in the time tested benefits (Bailey *et al.*, 2003). These data suggest that the increase in trading volume and distribution of the regulations analysts were predicting. They expressed the following provisions, analyst's dispute the idea has increased.

Start to study the effect of disclosure rules on changes in the level of voluntary disclosure by changes in the level of information asymmetry payment. His analysis was based on the economic theory that an increase in the quantity and quality of information disclosure can reduce the information asymmetry level. According to studies, the increase in the level of information asymmetry was observed (Straser, 2002).

Frankel and colleagues have conducted research on the company by 1720, increasing the number of ads prior to the announcement of earnings in the period following the disclosure regulations (23 October 2000) implies (Frankel *et al.*, 2003).

According to the above discussion the effect of disclosure rules (Circular immediate disclosure and Securities Market Act) on the quality of earnings forecasts by corporate profits and the prediction accuracy based on changes in the official interest are paid on time.

Accuracy of prediction errors of the mean forecast of earnings (difference between actual earnings per share and earnings per share forecast) (Healy *et al.*, 2001).

Timeliness is an important component of the information. Timely information is available to the users, which could be useful in the decision-making process (Hill, 2007).

Transparency is also an important part of financial reporting and the timeliness aspect of transparency. Therefore, the information should be disclosed in a timely manner. Characteristics of accounting information

over time Loses its relevance. Information before it loses its freshness property shall be made available (Mcge *et al.*, 2008).

3. The research hypothesis

1. Earnings forecast error for the period prior to the period after the adoption of regulations enacted more legislation.

2. The real earnings in the period after the prior approval regulations that is timelier. In the period after the adoption of the regulations, provisions of the first two periods (1384 – 1381) Second Regulatory Period (1385 – 1387) and the comparison is done for three periods.

4. Methods

The study - which compared the quality of disclosure in three different periods (the period after the regulations have been divided into two periods) ,Evaluate the effect of disclosure regulation is. According to the data distribution was not normal; Kruskal-Wallis test was used for comparison.

Society and Sample

Circular and Market Act 1345 apply only in the case of stock corporations Securities Markets Act 1384 and the firms listed on the stock exchange and public company registered with the binding. However, due to lack of data on Non-stock Corporation incorporated with the population of the study is limited to companies listed on the Stock Exchange of Tehran.

Companies were selected as having the following conditions:
1. The end of their fiscal year end is March.
2. He is not holding companies and financial intermediation.
3. During the study period, no change in fiscal year.
4. By the end of 1377 will be listed on a stock exchange board.
5. The data is available from the company.

According to the above criteria, 119 companies were selected as samples. This time range is from 1378 till end of 1387.

Collected data

In this study, the data collected from the fruit of the new database and website stock is used. The software spas were then used to test the hypothesis.

Research variables

In this study, the independent variable, based on approval of the disclosure regulations, they will be divided into three periods:

1 – 1 Pre-approval of Rules: periods prior notice immediate disclosure of the information circular, dated 1380/05/23 by the Exchange (the years 1387 to 1379 - 1380)

1 – 2 After the adoption of rules: the first period after the disclosure rules of the Securities Market Act (1381 till 1384) the periods after the disclosure rules of the Securities Market Act (1385 – 1386 – 1387)

Dependent variables included the percentage of earnings forecast error; the official time is a real benefit.

Earnings forecast error: Prediction error for profit calculated by the following formula is used:

First anticipated profit(Actual earnings - the earnings forecast) = percentage error in prediction benefit

Earnings announcement time: Companies end their fiscal year in March, the legal deadline profit (of Assembly) 31 June of the following year. The benefit of more time before being released. For this purpose, the number of days Official earnings report before the legal deadline, is used to calculate the variable of interest.

5. Research results
A) Descriptive statistics

The first step is to analyze the Data, variables and descriptive statistics are calculated separately for each year

In the period 1378 to 1387, average earnings forecast error, the process has not been uniform. In 1378 and 1380 the average earnings forecast error has been reduced. Regulations next year, 1381, the average has been increasing rapidly and has reached 56.79. In 1383 and 1384, no significant change in the years 1385 to 1387 period, the 1382.

Table 1. Descriptive statistics of error in prediction benefit Interval of the real advantage to the proposed moratorium

skewness	Sprains	standard deviation	average	maximum	Lowest	Company number	Specificity	Year
3/24	14/96	68/95	54/72	492	0/01	115	Prediction error	78
0/99	0/16	16/00	17/83	67	1	117	Timeliness	78
2/33	6/71	53/00	43/60	305/94	0/65	117	Prediction error	79
1/36	1/81	18/27	19/46	94	0	118	Timeliness	79
4/15	22/70	41/62	30/96	304/75	0/1	114	Prediction error	80
1/33	2/01	19/01	20/81	102	1	118	Timeliness	80
10/35	109/99	239/47	56/79	2586/53	0/20	117	Prediction error	81
1/04	0/97	20/32	24/57	103	0	119	Timeliness	81
3/09	13/09	53/49	45/54	349/17	0/47	118	Prediction error	82
1/05	1/23	21/80	27/72	104	1	118	Timeliness	82
3/86	19/18	73/01	49/87	532/91	0/04	117	Prediction error	83
0/69	-0/21	23/43	30/95	103	2	117	Timeliness	83
4/01	22/30	65/95	45/82	509/76	0/32	119	Prediction error	84
0/71	-0/45	23/69	27/30	104	0	118	Timeliness	84
5/01	28/29	158/90	70/71	1121/01	0/06	112	Prediction error	85
0/62	-1/04	22/95	26/48	74	0	117	Timeliness	85
4/00	18/78	142/41	74/04	995/14	0	114	Prediction error	86
0/53	-1/19	23/88	27/48	79	0	118	Timeliness	86
6/53	52/25	192/60	82/51	1774/36	1/07	118	Prediction error	87
0/72	-0/75	22/98	25/91	79	0	117	Timeliness	87

B) Test data normality

Test data for the test of normality Kolmogorov-Smirnov is used. Null hypothesis is that the data distribution is normal and the results are presented in Table 2.

According to the table above, 95% H 0 hypothesis is rejected. The data distribution is not normal. So to choose the appropriate statistic for testing the hypothesis of non-parametric tests should be used. According to Kruskal-Wallis hypothesis test is appropriate.

$$X^2_{k.w} = H = \frac{12}{N(N+1)} \sum_{i-1}^{k} \frac{R_i^r}{n_i} - 3(N+1)$$

$$H_0 : \mu_1 = \mu_2 = \mu_3$$

H_1: Average of at least two groups are not the same

C) Test hypotheses

First assumption: percent error between predicted earnings in the period before approval of the disclosure rules, after approval of the disclosure provisions of the first period and after the adoption of the disclosure provisions of the second period, there are significant differences.

Table 2. Test statistic, Kolmogorov - Smirnov

Test		Test statistic, Kolmogorov - Smirnov		
	Variable	Number	Statistics K-S	Possibility

Earnings forecast error	355	4/59	0/00
The time interval of the real advantage	357	2/15	0/00

In conclusion we can say that the percentage of earnings forecast error, there is no significant difference between the three time periods. The mean percentage error of the forecast profit after provisions increased and the hypothesis of the study population for the company, regardless of size, has been tested which can enter the controlled variable can change the size of the hypothesis test.

Period	Mean forecast error	Mean rank
Before approving the disclosure rules (1378-1380)	44/14	167/25
Before approving the disclosure rules (1381-1384)	48/44	172/35
Before approving the disclosure rules (1385-1387)	76/85	194/45
Sing=0/096 df=2 x^2=4/68		

Second hypothesis: the time between the actual profits in the period - prior disclosure regulations, after approval of the disclosure provisions of the first period and after the adoption of the disclosure provisions of the second period, there are significant differences.

Period	The mean interval of the real advantage to deadline	Mean rank
Before approving the disclosure rules (1378-1380)	19/30	155/42
Before approving the disclosure rules (1381-1384)	27/56	198/24
Before approving the disclosure rules (1385-1387)	26/35	183/34
Sing=0/005 df=2 x^2=560		

The sig is less than 5%, 99%, H_0 and the research H_1 hypothesis is confirmed. In conclusion we can say that the real interest to declare moratorium period of three when there is a significant difference. Thus, the interval of the real advantage to the moratorium in the aftermath of the first rules of two other courses and general provisions of the period after it has been before.

6. Conclusions

Efficient allocation of resources in the capital market is the center of information disclosure and corporate information that should affect the decisions of investors, to expose. The institutionalization of mandatory disclosure rules and timely information disclosure can reduce the information asymmetry. Securities Market Act has caused a change in the Iranian capital market. Considerable attention to the law and information transparency in the capital market and guarantee it is the conviction of persons violating the sanctions imposed on the Islamic punishment law.

Effectiveness of the disclosure provisions of this study is to evaluate the quality of information disclosed profits. The results of this study showed significant differences between earnings forecast errors before and after the regulations were not disclosed. Research findings with the results of research on small companies and research Gomez (Gomes, 2006) Stressed (Straser, 2002) is compatible. It can be stated that the prediction error is due to environmental conditions and may be less affected by the regulations. The second research hypothesis that there is no significant difference between the actual earnings in the period before and after the moratorium was approved regulations.

Including limitation of the study is that the size of firms can vary the number of predictions and prediction errors that are not controlled. The specific learning companies and the accounting department can affect the timeliness of financial reporting that is not controlled in this study.

7. Suggestions
Research-based recommendations

Results of this study showed that there was improved quality of information disclosure rule In terms of timeliness has no effect on the accuracy of earnings forecasts .Therefore competent authorities to investigate the issue and provide a strategy for reducing forecast error. Independent analysts also suggest that institutions have entered the field.

Suggestions for future research
1. It is recommended that the disclosure provisions of the assessed level of voluntary disclosure.
2.   Disclosure provisions of the Act are examined before and after the initial release.
3.   Given that firm size is not controlled in this study, further research is recommended in terms of company size.

References
1. Bailey, W., Haito, L., Mao, C. & Zhang, (2002). Regulation FD and Market Behavior Around Earning Announcements: Is the Cure Worse Than the Disease?, http://ssrn.com/abstract=11364.

2. Bellver, A., Kaufman, D. (2005). Transparenting Transparency. Initial Empirics and Policy Applications, http://ssrn.com/abstract=808664.

3. Bushee, B., Leuz, J. (2005). Economic Consequences of SEC Disclosure Regulatin, Journal of Accounting, 233-264.

4. Debreceny, R., Rahman, A. (2005). Firm–Specific Determinants of Continuous Corporate Disclosures, the International Journal of Accounting, 249-278.

5. Frankel, R., Joos, P. (2003). Litigation Risk and Voluntary Disclosure, http://ssrn.com/abstract=280503.

6. Gomes, A., Gorton, A., Madureira, L. (2006). SEC Regulation Fair Disclosure, Information and the Cost of Capital, http://ssrn.com/abstract=599162.

7. Heflin, F., Subramanayam & Zhang, (2003). Regulation FD and the Financial Information Environment, the Accounting Review.

8. Hill, M. (2007). Qualitative Characteristics of Accounting Information, http://higheredMcgrow-hill.com.

9. Kothari, S., Li, X., Shorte, J. (2008). The Effect of Disclosure by Management, Analysts and Financial Press on Cost of Capital, Return, Volatility and Analyst Forecasts, http://ssrn.com/abstract=1113337.

10. Mabe, W. (2007). Globalization and Corporate Governance: How Capital Mobility Spurs the Adoption of Shareholder Rights Laws, Financial Disclosure Laws, Insider Trading Laws, Proquest Information and Learning Campany, UMI 3233006.

11. McGee, R., Yuan, L. (2008). Corporate Governance and Timeliness of Reporting, http://ssrn.com/abstract=131338

12. Park, J. (2006). Essays on Mandatory and Voluntary Disclosure: The Stock Market Reaction to Mandatory Segment Reporting Changes and the Credibility of Voluntary Management Forecast, Proquest Information and Learning Company , UMI 3222541.

13. Popo, A., Ion, P. (2008). Aspects Regulation Corporate Mandatory and Voluntary Disclosure, http://steconomice.uoradeo.ro.

14. Vereha (2001). Essays on Disclosure, Journal of Accounting and Economics, pp. 97-18.