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Mandatory and Voluntary Disclosures of Serbian Listed Companies - Achieved Level and Some Recommendation for Improving their Relevance

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Abstract

Purpose *– This paper investigates mandatory and voluntary disclosure practices of non-financial listed companies on the Belgrade Stock Exchange. The results help in determining the level of transparency of Serbian s listed companies and in formulating recommendations for improving the quality and relevance of disclosed information.*

Design/methodology/approach *–We focus on modeling both mandatory and voluntary disclosure indices for financial and non-financial information in order to evaluate the level of disclosure of 63 Serbian companies for reporting period 2012.*

Findings *– We found the low level of both mandatory and voluntary disclosures. Concerning mandatary disclosure, the information that is least frequently disclosed by the sample companies are those related to the material content of the financial statements (information on changes in accounting estimates and corrections of fundamental errors in the previous period, as well as related companies). Serbian companies usually disclose information that contributes to their greater visibility. Similar to the mandatory disclosure, usually published voluntary information are mostly "neutral" from the point of impact on the values reported in the financial statements, which do not contribute to a better understanding of the financial position, profitability and cash flows of the company.*

Research limitations/implications *– There is a limitation concerning the sample size (which is generally intrinsic to Serbian capital market size) and the sample structure (research is limited to listed non-financial companies). The study covers the annual reports for 2012 which in Serbia coincides with a crisis period. The same research methodology could be applied on a larger and comprehensive database (non-listed companies) and include period after 2012, which will allow the analysis of evolution of disclosure practices by companies within new accounting framework.*

Originality/value *– The authors give some recommendations for improving the relevance of financial and non-financial disclosures in order to increase the efficiency of capital markets.*

Keywords: Disclosure index, financial and non-financial information, capital market, transparency, recommendation.

JEL Classification: M41

1. Introduction

With the purpose of achieving competitive advantage, it is important that enterprises use their publicity policies for providing existent and potential investors with information that are relevant for making decisions on their capital investment. Reliable and high-quality information is one of the requirements that are placed in relation to the financial statements and other companies by investors and other interested parties. Not only the quality, but also the scope of the disclosed information affects susceptibility to the transparency of a company. Factors affecting the level of corporate disclosure are numerous, such as financial markets, industry affiliation, listing status, economic environment, size of the company, company strategy, and the like. In addition, companies are required to disclose certain information in accordance with the law, the requirements of the capital market and other regulations. All of them collectively called the mandatory disclosures. On the other hand, investors and other stakeholders require additional information, not just the regular (annual and semi-annual and possibly quarterly) reporting, but more often (ad-hoc), which is why companies resort to voluntary disclosures. In the case of companies whose securities are traded on the capital market, publishing as mandatory, and voluntary information affects not only improve their performance, but also the stability of the capital market (better allocation of capital) and the whole national economy. In addition, at the EU level, the stability of the financial markets is a prerequisite for the stability of the European Monetary Union. Within the process of corporate reporting, matters is not only the quantity of disclosures, but also the quality of disclosed financial and non-financial information.

The paper is organized in five sections. After a brief review of the literature dealing with these issues, in order to build the theoretical foundation of our research (second part), in the third section we present the model, i.e. the disclosure index - both mandatory and voluntary. This section describes disclosure items and their coding. In the fourth part of the paper, starting from a defined sample and data sources, we present some results of the research, in order to draw attention to the level of transparency of companies listed on the Serbian capital market and the factors that determine it. The final section is dedicated to recommendations for improving the quality and relevance of disclosed information

2. Literature review

Over the last five decades, a number of scholars and practitioners have been dealing with the issues of measuring the quality of disclosed financial and non-financial information, especially by listed companies. It discusses the various factors that affect the level and quality of both mandatory as well as voluntary disclosure of information about the company's business.

It is considered that with his studies on the practice of financial reporting in the United States, Cerf (1961) was a pioneer in this field. His research on disclosure index based on 31 items of published information shows that the level of transparency is positively related to firm size and listing status, but there is no statistical significance to the profitability of the company. Many researchers in the coming period applied Cerf's methodology. These studies have been mainly carried out in developed western countries (see Barrett, 1977; Firth, 1979; Belkaoui and Kahl, 1978; Spero, 1979; Michaïlesco, 1999; Wallace et al., 1994; Inchausti, 1997; Galani et al., 2011; Lopes and Rodrigues, 2007). As to European transition economies, it is worth mention the studies done by Patton and Zelenka (1997) and Hellstrom (2009).

Shortly after Cerf research, Singhvi (1968) began to deal with issues of corporate disclosure in developing countries. Based on a disclosure index comprising 38 items, his research indicates that disclosure is associated with size, profitability and managers' country of origin. Singhvi' s research is followed by a group of studies that examines the practice of corporate disclosure in developing countries, such as Mahmood (1999), Pradhan (1990), Wallace (1987), Ahmed (1996), Hossain et al. (1994), in Egypt, India, Nigeria, Bangladesh and Malaysia respectively.

There are also studies in which a comparative approach to evaluation of disclosure practice across different countries is applied. Barrett (1977) for example, studies the changes in the average disclosure levels in the period 1963-1972 and comprehensiveness of financial statements across countries. He shows, firstly, that there is a progress in the overall level of corporate disclosure for analyzed firms, and secondly, that in British and American firms considerably higher level of disclosure is indicated than in other five analyzed countries.

Transparency of financial reporting of Serbian companies can be analyzed in comparison to other countries in transition. Thus, for example, specific issues of disclosing financial positions of Romanian companies on the Internet were, among others, dealt with by Bogdan and Pop (2008), whereas Croatian companies were tackled by Pervan (2005). All of them concluded that within the observed period of time, companies had primarily disclosed mandatory financial information. The same situation could be seen in Serbia. In recent years, the problem of transparency of financial reporting on the Serbian capital market has been overcome by the privatization of state-owned companies. Similar to the Turkish case presented in the study by Selvi and Yilmaz (2010), the privatization process improved the corporate management and financial reporting of Serbian companies. Legal framework of financial reporting of the countries in transition and candidates for membership in the EU, such as Serbia, has become the subject of various studies. Extensive analysis was performed by Pervan, Horak and Vasilj (2010), who focused on the example of six countries in transition, including Serbia, and observed differences in the level of legal regulation of that issue among the countries.

Generally, the result of the most of the above mentioned studies is that company disclosure practice is a function of its size, listing status, ownership structure and other performances.

3. Development of models for measuring the level of mandatory and voluntary disclosures

Bearing in mind the goal of our research, starting from the previous models developed in the literature and in practice, we have developed two indices - the mandatory disclosure index and voluntary disclosure index.

3.1 Measuring the level of mandatory disclosure

3.1.1 Structure of the Serbian mandatory disclosure index (SMDI)

In developing of the SMDI we started from the regulations of the Serbian Securities Commission, legal regulations and requirements arising from IFRS with respect to the disclosure of appropriate information that enable the analysis of financial status, profitability and cash flows and provide the basis for predicting future business trends. We identified 25 items and divided them into five sub-segments of SMDI (Table 1).

Table 1: Mandatory disclosure index items

	Disclosure index items
A.	***General information about company***
	1. Share price information
	2. Information about subsidiaries and/or parent company
	3. Number of employees
	4. Shares owned by directors
	5. Corporate governance codex

B. *General financial reporting information*

6. Statement of the responsible person
7. Auditors' report disclosed
8. Remuneration of directors
9. Interim financial reports

C. *Accounting principles and practices*

10. Disclosure of accounting policies
11. Disclosure of accounting estimates
12. Disclosure of income taxes and deffered tax calculation
13. Disclosure of trasactions with related parties
14. Disclosure of segment information

D. *Reporting on significant events that have affected the business performance*

15. Disclosure of changes in accounting estimates and corrections of prior period errors
16. Disclosure of events after the reporting period
17. Disclosure of contingent liabilities and contingent assets
18. Disclosure of the effect of foreign currency traslation
19. Disclosure of other revenues and other expenses

E. *Forecast relevant information*

20. Earnings per share
21. Dividend per share
22. Appropriation of retained earning
23. R&D activities
24. Risks
25. Expected business development in the future

The first two groups of the SMDI items are not direct product of the basic financial statements, but should provide confidence in the financial reporting process of the company. This information should reflect business conditions observed at the company level and at the level of the environment in which the company operates. General information about the preparation and disclosure of financial statements are discussed in the context of the assessment of transparency of the process. This provides confirmation of the credibility of financial statements.

Clear disclosure of accounting policies and accounting estimates (for example, the useful life of fixed assets, the actuarial assumptions used in determining provisions, the classification of financial instruments and the like) belong to the third group of the SMDI items. These disclosures should help users of financial statements to understand the tendency of management towards using the right to choice and (non)conservatism. The tendency towards openness in reporting is complemented with the information on related-party transactions (disclosure of transactions with subsidiaries and/or parent company), as well as segment information because it increases the value relevance of accounting numbers (Chen and Zhang, 2003), it improves monitoring over management decisions (Hope and Thomas, 2008).

Disclosures regarding significant events that have affected the business performances (the fourth group of SMDI items) are, in our opinion, essential for the assessment of management's tendencies towards disclosure of specific accounting policies. While disclosures from the previous (third) group included the most common and basic accounting policies, the fourth group included either more complex issues or more detailed disclosures.

As mandatory disclosures which may be used for the prediction of future net earnings (the fifth group of the SMDI items) we took into consideration those that are primarily required by rules of Serbian SEC and the Belgrade Stock Exchange. Information about earnings per share, dividends per share and appropriation of retained earnings provide historical data on past and expected earning capabilities and distribution policy that can be expected in the future. There are numerous studies that show the proper relationship of these variables, among which are: Aharony and Dotan (1994), McCluskey et al. (2006), Yip et al. (2010). In addition, risk disclosure is also the requirement of International Financial Reporting Standards, particularly IFRS 7, which is why such information can be seen as mandatory.

3.1.2 Coding of the SMDI

Previous studies were not based on a unique coding of items for calculating the disclosure index. The reason for this approach lies in the fact that it is impossible to determine the same weighting factor for all items, primarily because of the complexity of disclosure. Generally speaking, SMDI items in this study are coded with 0 (if the information was not disclosed) or 1 (if the information was disclosed). However, in specific cases, we use weights 0, 1 and 2. This is the case for 8 items. Disclosure of auditors's report we coded with 0 (if the report is not disclosed), 1 (if only auditor's opinion was disclosed) and 2 (if full auditor's report was disclosed). At the same time, some other items (Disclosure of accounting estimates, Disclosure of transactions with subsidiaries and/or parent company, Disclosure of income taxes and deferred tax calculation and Disclosure of contingent liabilities and contingent assets) are assigned weight 0 if there was no disclosure, 1 – if basic information was disclosed with no quantitative or narrative explanations and 2 – if the disclosure was complete, i.e. if it contained all the necessary explanations. On the other hand, for the item Corporate Governance Codex, weight 0 is assigned if the information whether the codex was applied was not disclosed, 1 – if the codex of some other organization (e.g. OECD or the Serbian Chamber of Commerce) was applied and 2 – if its own codex was developed and applied. With respect to information on the directors' remuneration, weight 1 is assigned if the sum of remuneration of all directors was disclosed, and weight 2 – if remunerations were shown separately for each director. Only narrative risk disclosures are coded with 1, while narratively described and quantified risks were coded with 2.

There is a possibility that some companies did not disclose some information either because it did not want to or because the information did not exist (for example, information on related companies, information on shares held by the director). Even when some item did not exist, we considered that the company should have disclosed such information (e.g. "There are no related companies and transactions with them", or "directors do not possess shares"), which is why, regardless of the reason for the absence of some information, such non-disclosure was assigned weight 0.

Finally, due to the externally available sources of information (see next section), in determining weights for some disclosure we did not discuss whether the information was accurate or not. Therefore, for the established SMDI we performed correlation analysis with the opinion of the external auditor.

3.2 Measuring the level of voluntary disclosure

3.2.1 Structure of the Serbian voluntary disclosure index (SVDI)

For the purposes of this study, we observed a voluntary disclosure as financial and non-financial information published in annual and interim reports and other ad-hoc reports, which have the character of non-mandatory disclosure in accordance with the regulatory framework for financial reporting in Serbia. We identified 39 disclosure items, which pertain to six categories of information (table 2).

Table 2: Voluntary disclosure index items

		Disclosure index items
A.	***General company background information***	
	1.	Corporate goals and mission
	2.	Vision of the company
	3.	History of the company
	4.	Internet disclosures
	5.	Location (e.g. on google map or other)
	6.	Photo-gallery
B.	***General business data***	
	7.	Description of the business
	8.	Description of the business environment
	9.	Description of the products/services
	10.	Description of the market barriers
	11.	Awards for products/services
	12.	Quality policy and control
	13.	Qualification structure of employees
C.	***Corporate governance***	
	14.	Description of the organization or organization chart
	15.	Reports from meetings of board of directors and oversight board (if any)
	16.	Name and function of members of board of dir. and oversight board (if any)
	17.	Education (qualific.) of memb. of board of dir. and oversight board (if any)
	18.	Shares owned by directors and members of oversight board (if any)
	19.	Compensation policies
	20.	Corporate Governance Codex available on the web-site of the company
	21.	Corporate Governance Codex practice disclosed
	22.	The Code of Conduct disclosed
D.	***Social and environmental disclosures***	
	23.	Information on contribution to the community
	24.	Awards for corporate social responsibility
	25.	Environmental protection expenditures
	26.	Environmental policy and programms
E.	***Past financial performances***	
	27.	Aggregated financial reports for at least the last three years
	28.	Shares price changes during the year
	29.	Liquidity ratios disclosed
	30.	Profitability ratios disclosed
	31.	Other ratios disclosed (any)
	32.	Charts, figures and the like used
	33.	Comparison of target and actual figures

F.	***Forecast relevant information***	
	34.	Future business trends discussed
	35.	Plan to achieve corporate goals
	36.	Development of new products/services
	37.	Projection of sales, cash flow
	38.	Plan of investments
	39.	Expected risks and opportunities

The first group of the SVDI items covers non-financial data relevant for understanding company profile (history, vision, mission of the company, location, photo gallery). Having in mind the dynamic business environment, traditional paper format of corporate reporting is often not tamely and hence is less useful for decision-making (Koreto, 1997). As a better and flexible medium for disclosure of financial and non-financial information (Marston and Polei, 2004; Cormier et al., 2009) we consider company web-presentation as a tool for attracting foreign investors, which is particularly important for Serbian companies.

Similar to previous studies (Botosan, 1997; Alfaraih and Alanezi, 2011; Vanstraelen, et al., 2003; Binh, 2012), we include in the second group of the SVDI items seven disclosures which could primarily derive from business report (management report or MD&A) and other publication (web or print) of a company. All this non-financial information should enable decision-makers to understand the business environment and the company's potential.

Based on the generally accepted view that the purpose of corporate governance is to reduce the agency costs incurred by principals by imposing controls to keep the agent's self-serving behavior in check (Jensen and Meckling, 1976), we identified nine disclosure items, which should reduce the informational asymmetry between principal and agent (the third group of the SVDI items). In previous studies, some authors have focused on certain disclosures relating to board structure, directors' remuneration, buyback of shares (Del Guercio et al., 2003, Tufano and Sevick, 1997), as well as variables that are positively correlated with the level of voluntary disclosure. However, there are studies which found a negative correlation between these variables (Hossain et al., 1994; Oliveira et al., 2006; Saha and Akter, 2013). Regardless, information about the number of shares held by directors have taken as an SVDI item, in order to better understand the possible discrepancies in the level of the index.

Although the practice of reporting on social and environmental aspects of the business is at a very low level in Serbia (Spasić and Stojanović, 2013; Knežević et al., 2009), in this study we include as a determinant of the level of voluntary disclosure the four basic information (information on contribution to the community, awards for corporate social responsibility, environmental protection expenditures and environmental policy and programs).

Disclosures included in the fifth group of the SVDI items are, in our opinion, essential for the assessment of management's tendencies towards discussion and analysis of financial data including ratios and graphs about performances and explanations of past business.

The relevance of the forward-looking disclosures has been recognized by various researchers and event professional bodies (AICPA, 1994; Vanstraelen, et al., 2003; Beattie and Pratt, 2002). Disclosures which may be used for the prediction of future earnings belong to the sixth group (with six items relating to forecast relevant information) and may be derived from company's business report. Although the content of the business report is, in principle, created voluntarily, Serbian Securities Commission requires listed companies to include several information as mandatory (for example, earnings per share, dividends per share, R&D activities, appropriation of retained earnings, etc.). For this reason, our study concentrates mainly on the narrative description of expected business development from management' perspective.

3.2.2 Coding of the SVDI

SVDI items in this study are coded with 0 (if the information is not disclosed) or 1 (if the information is disclosed). However, in specific cases, we use weights 0, 1 and 2. This is the case for 3 items.

Two items (Description of the business and Plan of future investments) are assigned weight 0 if there is no disclosure, 1 – if basic information is disclosed and 2 – if the disclosure is complete, i.e. if it contains both quantitative and narrative explanations. On the other hand, for the item Web-disclosures, weight 0 is assigned if a company does not have own internet presentation, 1 – if the web site of the company is only in Serbian and 2 – if the internet disclosures are available at least in one foreign language.

4. Testing of the model and some results of research

4.1 Sample determining and data collection

The sample includes 63 companies from the Belgrade Stock Exchange (5 from the Prime market, 2 from the Standard market and 56 from the Open Market). Banks and other financial organizations (e.g. insurance companies) are excluded from the sample, given that they are subject to special rules of the National Bank of Serbia regarding financial reporting and have a different form and content of financial statements. The sample includes only non-financial companies whose ordinary shares with voting rights are listed on a specific market segment.

Prime market does not include financial institutions as issuers, which means that all companies belonging to this market segment were included in the sample. Standard market includes shares of 3 issuers, one of which is a bank, so that the sample includes two non-financial companies.

The open market involves the total of 99 issuers, one of which issues preference shares only, whereas 98 issuers issue ordinary shares with voting rights (5 issuers listed preference shares in addition to ordinary shares). The initial sample of 98 issuers was first reduced by 11 (banks and other financial organizations), and then by 3 additional issuers that are in the process of restructuring within the privatization process. Namely, according to the Law on Privatization (Zakon, 2001), state-owned enterprises with poor performance before privatization undergo restructuring under the supervision by the state. In addition, 4 companies with losses in excess of capital were also excluded from the initial sample since they were regarded as companies that were likely to be introduced in the process of bankruptcy. The remaining sample of 80 companies (98-11-3-4) was further analyzed in accordance with the multiple criteria. We decided to exclude another 24 companies with market capitalization less than 100 million RSD (equivalent – less than 1 million EUR). With respect to these companies, we observed an extremely small number of transactions on the capital market. In addition, the reason for non-inclusion of these companies in the sample lay in the fact that their total joint market capitalization equaled 0,61% of the total market capitalization of all issuers on the Open market. Thus, the sample from the Open Market numbered 56 companies.

For calculating SVDI we used financial statements, business report and other reports prepared and published exclusively by the company for reporting period 2012. These reports are available on the website of the Belgrade Stock Exchange and on companies' own websites (if they have any). We did not take into consideration the information published by the Belgrade Stock Exchange for each issuer (for example, on the website of the Belgrade Stock Exchange it is possible to find information on the movement of share prices), but only disclosures found in the reports prepared and published by companies themselves.

4.2 Some empirical results

4.2.1 Level of mandatory disclosures

The research result on the previously described sample shows that the average value of the index is 20,17, which leads to the average level of disclosure compliance with national regulation and IFRS requirements in the sample of 61,12% (table 3).

Table 3: The values of the SMDI and the level of compliance with the requirements for mandatory disclosures of companies listed on BSE

	SAMPLE total	Sample by segment of the BSE			Sample by company size		
	∑	Prime	Stand.	Open	Large	Med.	Small
Number of companies in the sample	**63**	**5**	**2**	**56**	**39**	**13**	**11**
Subsegments of the SMDI							
General information about company	51,85%	73,33%	58,33%	49,70%	54,70%	50,00%	43,94%
General information about financial reporting	64,81%	83,33%	83,33%	62,50%	66,67%	64,10%	59,09%
Accounting principles and practices	72,42%	92,50%	62,50%	70,98%	78,53%	69,23%	54,55%
Reporting on significant events that have affected the business performance	49,74%	73,33%	25,00%	48,51%	51,28%	58,97%	33,33%
Forecast relevant information	62,81%	76,19%	64,29%	60,20%	69,60%	62,64%	38,96%
SMDI (max. 33)	**20,17**	**27,60**	**19,50**	**19,54**	**21,51**	**20,31**	**15,27**
Compliance level	**61,12%**	**83,64%**	**59,09%**	**59,20%**	**65,19%**	**61,54%**	**46,28%**

Source: Authors' estimate

The values of minimum (18,18%) and maximum (93,94%) levels of compliance indicate significant variations in the level of disclosure compliance with IFRS in Serbia. In comparison with the level of disclosure compliance in developed countries (e.g. in 81% Germany (Glaum and Street, 2003), 74% in Switzerland (Street and Gray, 2001), 86% in Greece (Galani et al., 2011)), accounting disclosure in Serbia is still at a low level. This suggests a need for the improvement in the level of information disclosure of the sample companies.

However, it is noticeable that there is a certain amount of information that some companies avoid to publish in their reports, although such disclosure is required by IFRS or national regulations (Table 4). Predominantly non-disclosure of such information is a major factor previously analyzed low-level of the SMDI.

Table 4: The least frequently disclosed mandatory information

	Disclosed information	Disclosure frequency
1.	Disclosure of changes in accounting estimates and corrections of prior period errors	15,87%
2.	Disclosure of transactions with related parties (parent and/or subsidiaries)	17,46%
3.	Disclosure of segment information	31,75%
4.	Disclosure of the effect of foreign currency translation	31,75%
5.	Share price information	34,92%
6.	Corporate governance codex	38,89%
7.	Remuneration of directors	40,48%

Source: Authors' estimate

It is evident that the information that is least frequently disclosed by the sample companies are those related to the material content of the financial statements. In particular, we refer to information on changes in accounting estimates and corrections of fundamental errors in the previous period, as well as related companies. Also, the lack of transparency is associated with the often non-disclosure of information on salaries of directors, the effects of operations on a segment and others.

On the other hand, usually because of strict requirements deriving from legislation and the rules of the regulatory bodies of the Serbian Capital market, there is information that is disclosed by almost all companies (Table 5).

Table 5: The most frequently disclosed mandatory information

	Disclosed information	Disclosure frequency
1.	Number of employees	100,00%
2.	Statement of the responsible person	100,00%
3.	Disclosure of accounting policies	100,00%
4.	Detailed disclosure of other revenues and other expenses	96,86%
5.	Interim financial reports	95,24%
6.	Disclosure of accounting estimates	88,89%
7.	Appropriation of retained earning	84,13%

Source: Authors' estimate

If we analyse the information presented by the majority of companies in the sample, it is evident that they are usually "neutral" from the point of impact on the figures reported in the financial statements, which is why they do not contribute to a better understanding of the financial position, profitability and cash flows of the company. In this sense, taking into account the previously analysed information rarest disclosed, it confirms the general conclusion about the low level of disclosure and accordance with the requirements of the legal and professional accounting regulations in terms of transparency of reporting in the Serbian Capital market.

4.2.2 Level of voluntary disclosures

Similarly, to findings concerning mandatory disclosures, the results of our research show that the mean value of the Serbian voluntary disclosure index (SVDI) is 20.33 (maximum 42.00), which corresponds to the average level of compliance with the expected disclosures of 48,41% (Table 6). The observed values of the minimum (14,29%) and maximum (97,62%) for the entire sample, indicate significant differences in the practice of voluntary disclosures of financial and non-financial information by Serbian companies.

Table 6: The values of the SVDI and the level of compliance with the expected disclosures of companies listed on BSE

	SAMPLE total	Sample by segment of the BSE			Sample by company size		
	∑	Prime	Stand.	Open	Large	Med.	Small
Number of companies in the sample	**63**	**5**	**2**	**56**	**39**	**13**	**11**
Subsegments of the SVDI							
General company background information	64,85%	88,57%	92,86%	61,73%	73,63%	68,13%	29,87%
General business data	56,75%	87,50%	81,25%	58,13%	66,67%	52,88%	26,14%
Corporate governance	39,86%	75,56%	55,56%	36,11%	44,16%	41,88%	22,22%
Social and environmental disclosures	29,59%	65,00%	37,50%	22,77%	33,97%	25,00%	2,27%
Past financial performances	51,02%	80,00%	78,57%	47,45%	51,65%	58,24%	40,26%
Forecast relevant information	43,31%	80,00%	71,43%	39,03%	48,72%	43,96%	23,38%
SVDI (max. 42)	**20,33**	**33,80**	**30,00**	**18,79**	**22,85**	**20,92%**	**10,73**
Compliance level	**48,41%**	**80,48%**	**71,43%**	**44,73%**	**54,40%**	**49,82%**	**25,54%**

Source: Authors' estimate

Regarding the belonging to market segment of the BSE, by nature, since the "Prime" and "Standard"-listing rules of the Serbian Securities Commission require more stringent monitoring system, there is the higher level of compliance with the disclosure requirements. In fact, this conclusion should be taken with caution due to the very small sample of the first two segments of the Serbian Capital market.

The analysis shows that companies usually opt for a policy of discretion (for example information relevant for assessing the quality of corporate governance and the future development of the business). Worrying is that very low level of these disclosures exists not only in companies from the Open market, but also in companies from Prime Standard segment of the Serbian Capital market.

We also analyzed the information that companies disclose the rarest and most often (Tables 7 and 8).

Table 7: The least frequently disclosed voluntary information

	Disclosed information	Disclosure frequency
1.	Compensation policies	6,35%
2.	Environmental protection expenditures	6,35%
3.	The Code of Conduct disclosed	11,11%
4.	Projection of sales, cash flow	19,05%
5.	Shares owned by directors and members of oversight board (if any)	23,81%
6.	Qualification structure of employees	23,81%
7.	Comparison of target and actual figures	25,40%

Source: Authors' estimate

The reason for the low level of disclosure of certain information could be found primarily in the undeveloped corporate culture among Serbian companies. The relevant empirical studies have pointed to a high ownership concentration in the Serbian companies, while the proportion of independent directors in the board is small if compared with a board structure in the non-financial companies in developed countries (Stančić et al., 2012). This results in a relatively low level of corporate governance quality (Manic, 2007). In addition, the low educational level of managers in the field of corporate governance and non-existence of effective sanctions for abuses and criminal acts (Denčić-Mihajlov, 2009), reduce the propensity of managers to presentation of not only voluntary, but also mandatory information in the corporate reports.

Table 8: The most frequently disclosed voluntary information

	Disclosed information	Disclosure frequency
1.	History of the company	90,48%
2.	Name and function of members of board of directors and oversight board (if any)	90,48%
3.	Description of the products/services	82,54%
4.	Other financial ratios disclosed (any)	80,95%
5.	Description of the business	80,95%
6.	Photo-gallery	79,37%
7.	Internet disclosures	77,78%

Source: Authors' estimate

Serbian companies usually disclose information that contributes to their greater visibility. This information provides a general picture of company and its business potential. Similar to the mandatory disclosure, usually published voluntary information are mostly "neutral" from the point of impact on the values reported in the financial statements, which do not contribute to a better understanding of the financial position, profitability and cash flows of the company.

5. Instead the conclusion – some recommendation for improving transparency and relevance of disclosed information

Confidence in the financial reporting process is built on the credibility and reliability of disclosed information. After the financial reporting scandals of the early 21st century, the predominant focus of scientific discussion and regulatory action was to establish an effective mechanism for supervising the quality of audit services, as well as the system of internal control over financial reporting. We believe that is made significant progress in the field and returns confidence in financial reporting. Therefore, the risk of erroneous and insufficient information is smaller, which stabilizes the capital market. In contrast, insufficient transparency creates distrust in the markets and its instability.

However, despite the steps forward in recent years has re-started the discussion about the need of disclosure reform (Marsden et al., 2011; ICAEW, 2013; AASB, 2013; Karmel, 2005, etc.). Starting from the above mentioned discussion, we highlight key issues, which in our opinion, should be in the focus of the accounting profession in order to improve the quality and transparency of financial reporting in the EU, especially in Serbia as a candidate country for EU accession. We chose that in this paper to deal only with issues that are directly related to the financial reporting process at the corporate level. Therefore, we will not consider internal control and institutional oversight mechanisms as tools for improving the quality of financial reporting.

In that sense, our following considerations should be interpreted as recommendations for improving the relevance and usefulness of disclosed financial and non-financial information for decision-making on the capital markets.

The application of IFRS or other national or international generally accepted accounting principles aims to harmonization of financial reporting, which not rarely lead to uniformity of reporting practice. The uniformity of reporting can often lead to the failure of significant disclosures that are not inherent in any company or are specific to a certain period of time. The tendency toward uniformity is particularly noticeable for example regarding to the disclosure of accounting policies. Sometimes, disclosed accounting policies are a mere recitation of accounting literature or manuals prepared by professional organizations. *Therefore, it is necessary the disclosure of accounting policies particularly highlights the specifics of a reporting entity as well as in what period of time they have a special significance to business performance*.

Closely related issues with the accounting policies are assumptions, accounting estimates and possibilities to choose between different accounting methods. As already noted (see Table 4) management sometimes avoids to disclose information on these issues. Even when it is disclosed, mostly there is no an additional, sensitivity analysis for different scenarios. Thereby investors do not have sufficient detailed information to assess the impact of such accounting treatments on the profitability and financial position. *Consequently, it is necessary to disclose the detailed effects of accounting estimates and assumptions used as well as the choices, supplemented with sensitivity analysis*.

Detailed disclosure of previous plans and actual results could help investors to better understand the expected earnings in the future. *Such disclosure should be supported by clear and complete disclosure of a company's risk exposures in order to evaluate their impact on future results.* Namely, together with plans of profit and cash flows, business (management) reports should contain more detailed comparative data on previous plans and achievements. In this way, investors can evaluate the reasonableness of management's efforts to optimize the return potential whilst considering risk.

Users of financial statements require the information in the financial statements and other reports of the company to be presented using graphs supported by qualitative explanation. Such disclosure should help decision makers to more easily compare some results over time and between companies in the same industry or at any market segment. *Consequently, the visualization of information should be improved.*

According to "A renewed EU strategy 2011-14 for Corporate Social Responsibility" (European

Commission, 2011), having in mind the Europe 2020 strategy (European Commission, 2010), it is necessary to enhance the visibility of CSR and disseminating good practice in this area. In that sense, *the focus of preparers of financial and other reports of a company should be improving company disclosure of social and environmental information.*

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