Chapter - 2

Literature Review

2.1. Introduction

This chapter presents the review of literature related to the subject under consideration. It summarizes the studies related to the growth and development of derivatives markets in India, information needs of users of annual reports and derivative accounting compliance studies.

2.2. Growth and Development of Derivatives Market in India

Development and increased use of derivatives have transformed the banking industry around the world. Derivative instruments as effective tools of risk management earned high merits by replacing all other financial tools previously used for management of risk. Derivatives help in efficiently and effectively managing the risk faced by financial entities and gives a chance to exchange risk, from the one who wishes to evade it, to the one, who wishes to admit it. The introduction of derivatives to India was well supported and encouraged by all concerned making it a great success in building a strong securities market.

Vashishtha & Kumar (2010) notes that the turnover of derivatives on National Stock Exchange has exceeded that of the equity market form Rs. 23,654 million in 2000-01 to Rs. 130,904,779 million in 2007-08 calling it as an explosive and a remarkable growth in terms of both quantity and amount of contracts. The research article gives a list of regulatory development regarding derivatives. The reports of the L. C. Gupta committee and J. R. Varma committee are the grounds on which the Indian derivative regulations are based. The two reports are consistent with the
principles of the International Organization of Securities Commission (IOSCO) that considers the general matters like protection of investors, efficiency and integrity of financial markets.

In a study by Shalini & Raveendra (2014), the authors have called the growth of the derivative market as a derivatives revolution. Derivatives within twelve years of its introduction in June 2000 have shown a phenomenal growth both in quantity and number of contracts traded. The study has given a detailed list of the growth of derivatives and the regulations for derivatives in India. The growth in the size of Indian derivatives market in terms of products for ten years as given by National Stock Exchange and Bombay Stock Exchange and the global trend in the size of the derivatives has been showcased.

With the increased usage and development of derivatives over the years and for Over-the-Counter derivatives being blamed for having aggravated the recent financial crisis, Arora and Rathinam (2010) have tried to analyze the structure of the regulations governing the OTC derivative in India. The study had suggested that, in India the OTC derivatives market had been well regulated and had not in any way contributed to the global financial crisis. Hence, there was no need for stringent regulations but a need for more transparent and standardized contracts with enhanced disclosures was felt. Both the OTC and the exchange traded derivatives market were considered complementary to each other that served different purposes of the financial market and helped in increasing the efficiency of the market and risk management activities of entities using them.

To overcome the opacity of the OTC derivative markets and its role in the financial crisis, the need for derivative trading on exchange platforms had increased.
But Arora & Rathinam (2010) argued that the two markets catered to the needs of completely different kinds of participants. The OTC derivatives market serves as a platform for innovation and testing of new products until they are established and standardized in one market and later to be traded on an exchange platform. Hence the study considered the two markets essential for the development of a healthy financial market.

In India the OTC derivatives market is well regulated and legalized. The regulatory body RBI allows banks and other financial institutions to use derivatives to their own balance sheet management while for hedging purpose to non-financial firms. Interest rate swaps and foreign currency forwards are the two types of derivatives that are dominant in the market.

For Indian banks, Interest rate risk is the most predominant risk faced, which is managed through hedging with derivatives. With the reforms in the financial sector through deregulation of interest rates, RBI introduced Interest Rate Swaps (IRS) and Forward Rate Agreements in 1999 and Interest Rate Futures in 2003 which was reintroduced in 2009.

Coming to the use of derivatives by Indian banks, Srivastava & Srivastava (2010) examined whether ownership of banks was associated with the use of interest rate derivatives using one large bank from each sector- SBI from public sector bank and ICICI from private sector. Secondary data from Bank for International Settlements (BIS) was used to analyze the global OTC derivatives market and annual reports of the two banks for the period 2006-2009 were used to analyze the Indian public and private sector banks. The correlation results showed that in case of public sector bank SBI, as the volume of asset, loan, deposit, demand deposit, ROA, ROE,
Interest margin, NPA and Tier I capital increased, there was a decrease in the use of Interest Rate Derivatives. While in case of private sector bank ICICI the case was reverse. Hence the study found that public sector banks were conservative with the use of Interest Rate Derivatives when compared to private sector banks in India.

Sundaram (2012) in his study mentioned that in India, the derivative exchanges were still flourishing and the over the counter markets were becoming huge in their size.

While the OTC derivatives market was regulated by the RBI the exchange traded derivative markets were regulated by the Forwards Market Commission and the Securities Exchange Board of India. In the years 1990 with an intention to bring reforms to the financial markets, RBI allowed OTC trading for currency options and foreign exchange swaps. In the year 1999, the RBI technical advisory committee on interest rate futures introduced OTC interest rate derivatives like Interest rate swaps and forward rate agreements to hedge interest rate risk. To avoid speculative activities in derivative trading, regulatory restrictions were positioned. In 2011 credit default swaps were also introduced. MIBOR (Mumbai Interbank Offered Rates) and OIS (Overnight Indexed Swaps) were the most common swap contracts (Sundaram, 2012; Arora & Rathinam, 2010).

The annual report of Reserve Bank of India for the year 2014-15 reports on the measures taken by RBI towards reducing the complications involved in hedge documentation process that could lead to greater participation in trading and non-trading activities through over-the-counter and exchange traded currency derivatives. RBI has ever been in the process of expansion and intensifying the country’s financial markets through suitable regulations from time to time.
2.3. Literature Related to Perception Studies

In recent years there is an increase in the number of studies relating to verification of the usefulness of derivative information in annual reports of entities using derivatives for risk management and trading purposes. The Financial Accounting Standards Board (FASB) has stressed on the transparency and usefulness of reports generated by entities using derivatives. Such financial statements should assist the users in evaluating the impact of derivatives usage on an entity's financial position and its future cash flows.

2.3.1. Derivative Accounting Information and Users Requirements

In a study by Bean & Irvine (2014) on “Derivatives disclosure in corporate annual reports: bank analysts’ perceptions of usefulness” by, Accounting and Business Research, The researcher examined whether derivative disclosures as per IFRS 7, have met their objective of fulfilling the decision making needs of users of financial statements or not and why. Together the researcher had also attempted to find out if the information requirements of IFRS 7 were not useful and what derivative accounting information would be more useful.

Sixteen risk analysts from Australia’s four largest banks were interviewed with the help of a semi-structured interview. Prior to the interview a description of the research objectives and research questions were sent to each participant. The findings revealed that the analysts read their client’s annual reports and information provided made according to IFRS 7 were considered as a useful starting point.

The researcher has stated that the analysts were of the opinion that the annual reports allows them to identify the importance of derivatives for a company’s financial position and performance and appropriate for its business model. Derivatives
accounting information would also help them to benchmark their clients against the industry peers and competitors. But at the same time it was stated that information provided were generic in nature regarding the risk and risk management activities and potentially misleading end of the year focus in many annual reports.

The researcher has identified two important limitations that affected the usefulness of the information provided i) the information provided were generic and ii) misleading end of the year focus in many annual reports. The reasons for uninformative reports being company’s lack of formal risk management policies, commercial sensitivity of the information provided, lack of understandability of derivatives by accountants and auditors and failure to disclose economic risk. The researcher also highlighted the need to address these issues before adopting the IASB’s recommendations in the discussion paper for the conceptual framework project.

CFA Institute (2013) the study tries to examine the usefulness of derivative and hedging activity reporting made as per IFRS -7 and also examined ways to improve present and proposed reporting requirements. Primary data has been collected through interviews and survey techniques along with analysis of the annual reports of 2010 -11 of thirty IFRS reporting financial and non-financial entities. A Disclosure Quality Index (DQI) consisting of 22 disclosure items was used with a three point weighted disclosure scoring scheme where 100% = full disclosure, 50% = Partial disclosure and 0 % was given for no compliance has been used. A survey of 133 users of annual reports was conducted to know the general usefulness of IFRS 7 requirements and to rate the importance and satisfaction of various components of risk reporting.
The report recommended for proper and effective presentation of several derivative related information to be provided in the annual reports of banks. The results of the survey revealed that users attached - higher importance to risk disclosures covering all instruments, lower satisfaction towards the reporting practice prevailing at the time of the study and limited usefulness of the information provided by the reporting entities. Survey results showed that there existed an information gap between disclosures and user’s requirements, users showed lower satisfaction. The report mentioned that IFRS 7 does not provide sufficient information disclosures and the proposed standards do not address the requirements of wide range of users of derivative information. The result suggested for further enhancement of derivative and hedging information.

2.3.2. Studies Relating to Financial Reporting and Users Requirements

Alzarouni et. al., (2011) in their study examined the usefulness of financial reports to users in the United Arab Emirates (UAE). The researchers examined whether the reporting practices at the time of the study fulfilled the users' requirements of information and the degree to which those needs were fulfilled. Primary data was collected through a questionnaire which focused around three themes like, important source of information for users, corporate annual reports significance in meeting the needs of users and the most important items that users look for in corporate annual reports. Out of 512 questionnaires, 395 responses were considered as usable. The results showed that corporate annual reports were considered as the most important source of information to its users and most of them relied on the corporate annual reports for taking economic decisions. The results confirmed that fund managers are the most users of annual reports while individual investors were the least users of annual reports. The overall disclosure score of 113
companies against 62 information items was 61%, with the mean values ranging from 0.33 to 0.90. Of the total number of users surveyed 56% perceived that the level of information reported were not sufficient.

Mohammad & Soheila (2009), mentioned that, developing countries to be self-reliant in their accounting system should be aware of the extent of information provided in the annual financial reports. Hence the authors have tried to examine the preferences of the preparers of annual reports regarding the nature and extent of information that managements should provide to the users of corporate financial statements of Iran. For this a questionnaire consisting of 81 items was distributed to 250 companies and 54 responses were received. A five point scale was used to rate the importance of items in the views of preparers. The study finds that the company annual reports were used for various reasons like decision making to buy, sell or hold shares, academic interest, company loan approvals, advising clients, and to evaluate company performances. And also used by different user groups like Bank Loan Officers, Academics, Stockbrokers, Bank Investment Officers, Investors, Auditors, and Tax Officers. According to the results the most important user group was company shareholders. The most influencing participant in the preparation of the company’s financial reports was the financial manager according to more than 60% of the respondents. Balance sheet was the most important section of information according to the respondents. The author has suggested the government to strengthen the accounting regulatory bodies with powers and responsibilities to formulate policies concerning financial reporting from both users and preparers attitude.

In a study by Chen, Hsu and Etheridge (2013), the researchers, try to examine the perceived usefulness of the annual reports and other information sources by individual investors in Hong Kong. The results indicated that financial statements
were less useful when compared to other sources of information, like advice from analysts, newspapers and magazines. The study also reported that the investors preferred the characteristics of relevance to be important than reliability when considering the usefulness of annual reports.

Mirshekary (1999), has used two approaches firstly, through a structured questionnaire to determine the user’s perceived importance of the selected information items. Secondly, through an unweighted disclosure index, defines the level of information provided on corporate annual reports of Iranian companies. A common questionnaire was used for both the approaches. A questionnaire containing 81 items which instructed respondents to indicate the relative importance of each factor on a five-point scale was used to examine the information needs of users. The disclosure index used in the questionnaire was expanded to 154 information items and then a scoring sheet provided for each company in order to rank them on the basis of information provided in annual reports. The results showed a significant association between the extent of disclosure compliance and liquidity, government ownership and companies attested by audit companies. Company size, profitability ratio, time lag, fluctuation of share price and type of business showed insignificant association with the extent of disclosure.

Binh (2012) focuses on voluntary information in the annual reports of a developing country – Vietnam. The aim of the study was to find out the gap in the view points of both Financial Analysts’ and Financial Managers’ about the ability of meeting voluntary reporting by non-financial listed companies annual reports. A list of voluntary items is prepared by eliminating all mandatory items of information and an un-weighted disclosure index was adopted in the study. The results show that though both financial analysts and financial managers agree upon the importance of
the voluntary information in the annual reports but their requirements of reporting are different. It shows that due to a significant increase in the number of listed companies and investors, there is a greater demand for enhanced information provided in the annual reports. Financial information category and forward-looking information are the most assessed information by both the type of information seekers. Also, most of the information provided in the annual reports of Vietnamese companies is not in demand. While general corporate information is the highest provided information in the annual reports and forward looking information stands second. The author concludes that financial information, forward looking and general corporate information has to be adequately and timely provided for the users of annual reports to take good business decisions.

Grace & Ambrose (2013) are of the view that short term and long term review of the profitability and financial condition of a business entity are provided by the financial statements. The researchers try to identify the type of information required by the institutional investors and examine the perceptions of these investors about the usefulness of the disclosed information for taking decisions. The difficulties faced by the investors in using the financial statements are also examined. Two samples from twenty four institutions, making up to 48 respondents were selected for collection of primary data through administration of questionnaires. The results of the study revealed that the information disclosed in the financial statements were very much useful. With regard to the qualitative characteristics of the financial statements, completeness, comparability, and consistency of information disclosed as good and understandability, relevance, faithful representation, neutrality, predictive ability and timeliness were regarded as fair. The study also identified that the major difficulty of
the investors with the financial reports was the technical nature of language used for presentation and recommend them to be more user-friendly.

Alfrau & Almutawa (2014) the researchers try to examine the perceived importance and usefulness of the corporate annual reports by its users. The study identified four types of users to participate in the survey like a) financial advisors b) external auditors c) market regulators and d) accounting academics. Out of 220 self-administered questionnaire distributed among the participants, 143 responses were obtained. The results revealed that annual reports were rated as the most important source of information to take important decisions, followed by Interim Report, Advice from Specialists etc., Regarding the qualitative characteristics of financial reporting, timeliness and reliability of the annual reports were identified as the major issues by the respondents which could question the importance of annual reports as an important means of communication between the reporting entities and the users. Regarding the voluntary information provided, respondents were not satisfied with the quality and quantity of information disclosed.

The review of relevant literature relating to user needs shows that most of previous studies have stressed on the need for comprehensive information for attaining varied objectives of different user groups. The literature about the information needs of users of annual reports is concerned to one or two user groups.

The review of literature also attempts to examine previous studies related to the measurement of level of information provided in public reports and the firm characteristics associated with the level of information provided that are discussed below.
2.4. Review of Literature Related to the Extent of Information Provided and Association with Firm Characteristics

Studies relating to the analysis of the level of information provided in an entity’s annual reports, try to find out attributes that influence the level of information provided. Literature relating to the examination of the level of information disclosed and determinants influencing such disclosures are discussed below.

2.4.1. Derivative Accounting Information and Firm Characteristics

A Joint Report by ‘The Basel Committee on Banking Supervision and The Technical Committee of The International Organization of Securities Commissions ("IOSCO")’ ("Basel Committee", 1995), addressed the Public Disclosure of The Trading and Derivatives Activities of Banks and Securities Firms. This is a report on survey of annual reports of large internationally active banks of the G-10 countries. The survey was conducted with an intention to provide information regarding international best practices followed in disclosing the trading and derivatives activities. The annual reports of 67 banks and 12 securities firms representing the largest entities using derivatives of their countries were examined. The analysis of annual reports has not considered indirect communication of information by entities where few banks and security firms have disclosed a particular item through supporting data else ware. It was observed that the information provided have improved over the year of study. The report has made several recommendations based on the two reports firstly, the Fisher Report and framework for supervisory information jointly issued by Basel Committee on Banking Supervision and the IOSCO Technical Committee (1995) which is discussed in the next section.

Berkman et. al., (1997) examined the derivative disclosures in the 1994 annual reports of 116 New Zealand and 195 Australian firms. It was found that the New
Zealand firms provided more derivative related information when compared to Australian firms owing to mandatory disclosure requirements. The study showed that about 52% of Australian firms do not disclose derivative related information and hence are considered as non users of derivatives. The study states that non-disclosure owing to voluntary disclosure regime does not necessarily mean that the firm does not use derivatives. The study suggested that the firms using derivatives do not provide enough information relating to the accounting treatments of foreign currency, interest rate and commodity derivatives and there was a substantial scope for improvement in derivative disclosures.

Basel Committee on Banking Supervision and Technical Committee of the International Organization of Securities Commissions ("IOSCO"), ("Basel Committee", 1996). Survey of disclosures about trading and derivatives activities of banks and securities firms: In its report on the reporting practices of banks and securities firms on the trading and non-trading derivative, several proposals on quantitative and qualitative reporting practices were given to motivate enhanced financial statement presentations. The Basel committee and the IOSCO technical committee have stressed upon the importance of significant disclosures made to the public in fostering the financial market stability and reinforcing the efforts of supervisors. Annual reports of 67 banks and 12 securities out of G-10 countries which were large and internationally active from 1993-1995 were reviewed. The report showed that there was an improvement in both quantitative and qualitative information provided by the banks and security firms nationally and internationally. Further, the report provided recommendations for improvement in reporting practices of large sized banks and security firms which were involved in derivative and trading activities at international level.
Aggarwal and Simkins (2004) in their study focus on voluntary disclosures related to currency derivatives in large industrial firms of United States for the year 1993. The study considered derivative related information after the introduction of the Statement of Financial Accounting Standard (SFAS) 107 which required voluntary disclosure of derivatives usage. They used a self constructed disclosure index with five quantitative items and one qualitative derivative information item measured on a five point scale ranging from ‘poor’ (if only one component is disclosed) to ‘excellent’ (if five components were disclosed).

The study found that in the absence of mandatory disclosure requirements, firms using larger amounts of currency derivatives and which were exposed to currency risks lack in disclosing information relating to their derivative activities. Market to book ratio showed positive association with derivative disclosures.

Chalmers and Godfrey (2004) examined the voluntary information by Australian firms from 1992 to 1996. The voluntary disclosures and the proposed mandatory disclosures were studied at the time when the exposure draft on financial instrument disclosures and the Australian Society and Corporate Treasures (ASCT) issued the industry statement on derivative disclosure (1995). The study covered both the voluntary and mandatory disclosure periods in Australia. They have used a self constructed disclosure index consisting of 14 items, out of which 8 items were quantitative and 6 items were qualitative derivative disclosure types. Similar to Aggarwal and Simkins (2004) the study had excluded firms relating to Banking and Finance industry, as those firms trade and hold derivatives. The dual use of derivatives makes them different from other firms. The comparison of the mean voluntary disclosure index during the period of study showed improvements in information provided over the years. Hence the study suggested that it was necessary
to bring mandatory disclosure requirements which would bring improvement in the
derivative reporting practices by companies. The study found a significant association
between the industry type (mining/oil firms) and voluntary derivative information
provided and that there was no significant relationship between leverage and the
firm’s voluntary derivative information reporting. The researchers were of the opinion
that voluntary disclosures by firms were influenced by the mandatory disclosure
requirements i.e., as the mandatory disclosure requirements become more strict and
stringent, firms may show less voluntary information being reported.

Hassan et. al. (2006), examined the transparency of derivatives reporting of
publically listed firms in extractive industries for the years 1998 to 2001. A disclosure
index including five types of information i.e., Accounting Policy, hedges of
anticipated future transactions, risk information, net fair value information and
commodity contracts regarded as financial instruments as required by Australian
Accounting Standard Board, AASB-1033 Presentation and Disclosure of Financial
Instruments was used. Further, the association between the measure of transparency
and various firm characteristics like size, performance, type of auditor, type of
extractive firm, leverage and growth opportunities was examined. A sample of 65
firms using derivative instruments at the time of the study were considered and
unweighted disclosure index was used to represent information transparency. The
average transparency score is 88.71% and there was an increasing trend in the
disclosure score from 86.29% in 1998 to 90.23% in 2001. Regression results showed
that firm size, price-earnings ratio, and debt-to-equity ratio, market to-book ratio,
research and development and profitability, were associated with information
transparency.
Prihatiningtyas (2011) investigated hedge accounting reporting practice under IAS 39 and IFRS 7 in listed firms in the Netherlands. Disclosure indices were constructed including both mandatory and voluntary information types. The study concluded that industrial sectors, listing status, firm’s corporate governance, and profitability were the determinants of hedge accounting reporting level. The study provided evidence that firm with higher level of information had a higher number of analysts following and lower forecast dispersion and suggested that superior hedge accounting information level increased information intermediation.

In a study by Amoako & Asante (2012), Six banks listed on the Ghana Stock Exchange on or before 2008 were chosen to examine the compliance with the International Financial Reporting Standard 7 (IFRS 7). Ghana had adopted IFRS 7 in the year 2007, and for banks it was 2008. A self-constructed compliance checklist, containing the disclosure requirements of IFRS 7 financial instruments, spelt out in the full volume of IFRS 9 was used in the study. The level of compliance was determined by using an unweighted scoring method against the Mandatory Disclosure Index (MDI) used in the study. A relative score was computed based on the ratio of what a bank had disclosed and what was expected to be disclosed under IFRS. There was a high compliance level in both the years of consideration with a score of 94.7% in 2008 and 98.2% in the year 2009. The author said that the improvement in the information provided from 2008 to 2009 was because of better understanding and familiarity with IFRS 7 presentation requirements by the management and staff of Ghanaian banks. The strong monitoring and enforcement mechanisms by the Bank of Ghana and the banks being audited by ‘big 5’ auditing firm were the reasons for high level of compliance with IFRS 7 requirements among the banks.
Ameer (2010) examined the elements that influenced the demand for foreign exchange and interest rate derivatives in developing countries. 112 firms that disclosed data on derivatives for a period of five years 2003-2007 were examined. Dummy variables 1 for hedging firms and 0 for non hedging firms were used to find out the firms’ hedging decisions. Notional amounts or gross value of derivatives has been used to find out the amount of derivatives used by the firms. The determinants for the use of foreign currency and interest rate derivatives were examined using linear regression. A firm’s foreign sales activity, size, managerial ownership, liquidity and growth opportunities showed a strong relationship with the use of derivatives. The study also found that firms that used derivatives were firms that had greater foreign sales and growth opportunities.

2.4.2. Financial Reporting Studies and Association with Firm Characteristics

Studies relating to the extent of information reported and usefulness of financial information provided in the annual reports along with the evidence of association with the extent of reporting and firm characteristics are discussed below.

Cerf (1961), pioneered the study on the relationship between extent of corporate disclosure and company attributes. With a random sample of 527 listed and unlisted firm, the extent of information provided and their association with twelve explanatory variables such as profitability, asset size, method of trading shares, stock ownership, industry, frequency of external financing, stability of growth in earnings and dividends, product, degree of competition, association with CPA firms and management characteristics were examined. A weighted disclosure index consisting of 31 information item was used to measure the extent of disclosure. The results showed that there was a positive relation between disclosure and asset size, profitability, and shareholder number. The results also showed that the firms fail to
sufficiently disclose information related to depreciation, inventories, recognition of income on long term contracts and income tax allocation. Evidence also proved that specific items required by shareholders like sales breakdown, research and development (current and planned), capital expenditure (current and planned), and information on management and their policies etc., were also not adequately disclosed.

Singhvi and Desai (1971) provided evidence on the quality of corporate disclosure and association with firm characteristics. They evaluated the quality of information for the financial year April 1, 1965 to March 31, 1966. Annual reports of hundred listed companies and fifty unlisted firms are studied. A weighted disclosure index representing adequate corporate disclosure consisting of 34 information items was used in the study. Weights were assigned to the information items based on their relative importance as indicated by committee members on corporate disclosure and security analysts. Firm characteristics like size, listing status, number of stockholders, listing status, CPA firm, rate of return and earnings margin were examined for association with corporate disclosure. The results showed that size, listing status, number of stockholders and type of CPA were positively associated with corporate disclosure quality.

Cooke (1989) has examined the annual reports of 90 firms to assess the significant relationship between few corporate attributes and the extent of information provided. The study was different from earlier studies, firstly because it related to listed and unlisted firms - 38 unlisted, 33 listed on the Swedish Stock Exchange, and 19 listed on both the Swedish and at least one foreign stock exchange during the year 1985. Secondly, the disclosure items are constructed based on the entire annual report and not just the financial statement. The information items covered a wide range of
users of corporate reports of Nigerian. The total numbers of items were 224 covering financial statements, measurement and valuation methods, ratios, projections, financial history and social responsibility. A scoring scheme to capture the level of disclosure by using a dichotomous procedure in which an item scores one if disclosed, and zero if not disclosed is developed. When an item was not mentioned in the annual report, it was assumed that it was not relevant and the company was not scored at all. On the contrary, if the item was considered relevant, such a company was scored zero. The method was unweighted based on the fact that each item is equally important. The disclosure score was calculated as the ratio of the actual score to the expected score. Descriptive statistics including Chi-square, Cramer's V, Contingency coefficient, lambda and one-way analysis of variance was used in analyzing the data and a high degree of association between the listing status and disclosure indexes was identified. Multiple regression analysis was used to identify the determinants of the extent of information. The independent variables selected were quotation status, parent company relationship, annual sales, total assets, and number of shareholders.

The study finds that, listing status and size are major explanatory variables for voluntary disclosure. Firms categorized as trading disclosed less voluntary information than other industries, whereas, multiple listed companies disclosed more information than domestically listed companies.

Wallace et al. (1994), investigated the impact of firm characteristics on information provided in annual reports and accounts of Spanish firms. They investigated 30 listed and 20 unlisted firms in Spain for the year 1991. They constructed an index of comprehensive disclosure of mandatory items as a proxy for information quality for each Spanish company. The score was based on the density (fullness) of information in the firm’s annual report. The list of information items was
restricted to 16 mandatory items in order not to penalize a company for not disclosing any item. The scoring rewarded both qualitative and quantitative information. Qualitative information was scored on the basis of the number of words describing the item. The indexes varied between range 29% to 80%. They classified their independent variable into three categories, structure related (total assets, total sales and gearing), performance-related (liquidity ratio, earnings return and profit margin) and market-related variables (auditor type, industry type, listing status). Using regression analysis, the index of disclosure varied significantly positive with firm size. The coefficient of liquidity was found to be significantly negative, which implied that the Spanish firms with low liquidity disclosed less information. The result also indicated that comprehensive information increased with listing status. The research provided evidence that the amount of detail in Spanish corporate annual reports and accounts was increasing with firm size and stock exchange listing, and decreasing with liquidity.

Meek et al. (1995) examined the factors affecting voluntary disclosures by United Kingdom, United States and Continental Europe multinational companies. These factors were classified into strategic, financial and non-financial information types, using 1989 annual reports. The explanatory variables considered were company size, country of origin, leverage, profitability, industry and degree of multinationality. Disclosure scores and disclosure index were created by utilizing the additive and unweighted method of Cooke (1989). The study reported that the results were statistically significant for overall level and information type with a variation of 14%, 46% and 33% in the case of financial, nonfinancial and strategic information respectively. Country, international listing status and company size were the three
most important variables measuring voluntary disclosure. Industry was influential in cases of financial and nonfinancial but not strategic information.

Owusu-Ansah (1998) carried out the study to know the impact of corporate specific attributes on the extent of mandatory disclosure by the listed companies of Zimbabwe. The author specifies that disclosure is the process of communicating economic information, financial or non-financial; or qualitative or quantitative which is concerned with the financial performance and position of a company. And he also opined that disclosure becomes mandatory, if companies were obliged under regulatory guidelines to disclose an item of information, if it is applicable to the reporting entity.

Content analysis method was used to score the annual reports of companies against a disclosure instrument consisting of 32 items which were further sub divided into 214 sub-groups. For avoiding a company from being penalized for non disclosure, a relative index has been used in the study. The relative index is the ratio of the actual information against the expected information. An un-weighted index was preferred against a weighted index, as it prevents making judgments about the relative importance of the information item as the author says even experts have less insight about their judgment process. Un-weighted index was preferred as it also allows the treatment of items in the interest of all users of annual reports and not restricted to any one particular group of users. The author also mentions that a dash in front of an item was treated as an item which was not applicable for the reporting company for that year. The regression results showed that firm age, profitability, MNC affiliation, size and ownership structure were positively significant where audit quality, type of industry and liquidity were insignificant.
Akhtaruddin (2005) tried to find out the reporting practices of listed companies in Bangladesh with three regulatory requirements and inspected the company characteristics that were associated with the extent of information provided. The annual reports of 174 companies were collected. The annual reports were checked against a self constructed disclosure index consisting of 160 items, including all the three regulatory requirements of Bangladesh, Companies Act 1994, Stock exchange reporting requirements and IASs. To overcome the limitations of weighted disclosure index, a non-weighted index, which does not consider all companies as identical was adopted. A relative index was used to overcome the not-applicable items. The information provided level ranged from 17.3% - 72.50%. The study found that company age and profitability were not significant factors of mandatory reporting of information.

Lajili & Zeghal (2005) in their study have examined risk related non-financial information reported in the 1999 annual reports of 300 Canadian companies and as to where and to what extent such information are made. Content analysis of the risk related reporting is done through making a mark in the worksheet the number of words related to risk reporting in each sentence. The total sum of the number of words and sentences were considered as the disclosure score for each company. The results showed that risk related disclosures were mostly qualitative in nature and were found in either the notes to accounts or in the management discussion and analysis section of the annual reports. Financial, market and commodity risks were the most frequently addressed risk categories. The voluntary disclosure requirement of risk related information, resulted in lack of quantitative and valuable information reported like sensitivity analysis information.
Hossain (2008), in his study investigated the extent of mandatory and voluntary reporting practices of banks in India. The association between company characteristics and the extent of disclosure was also studied. Out of 38 banks considered for the study, 18 were public sector banks and 20 were private sector banks. An unweighted disclosure index with 101 items of mandatory and 83 items of voluntary information which were identified as relevant and expected to be provided in annual reports of Indian banks was used in the study. The mean value of overall disclosure score was 60.21 which ranged from 48-73. The mandatory disclosure score was 88.65 and the voluntary disclosure score was 25.86 among the banks. The company characteristics like size, profitability, board composition and market discipline variables were significant whereas, variables like age, assets in place and complexity of business were insignificant in explaining the level of disclosure among banks. The researcher also mentions that Indian banks show highest standard of disclosure practices when it comes to mandatory items of information and there is scope for improvement for voluntary information among Indian banks.

Bhayani (2012), examined the corporate reporting practices among non-financial firms in India. A sample of 81 BSE 100 index firms for the years 2008-09 to 2010-11 were checked against a disclosure index with 74 voluntary information items used in the study by Meek. An unweighted scoring method was used where an item was given a score of 1 if it was present in the annual report and 0 if it was not present. The results showed that firms with large assets size, higher profitability, higher leverage, listing in foreign stock exchange, lower holding of promoters share and audited by big audit firms provided more information.

Mutawaa & Hewaidy (2010) have empirically investigated the level of compliance among Kuwaiti listed companies with IFRSs reporting requirements and
the association of disclosure with company size, leverage, liquidity, profitability, industry type, type of auditor, and company age. A disclosure checklist with 101 disclosure items was prepared and an un-weighted disclosure index was used to collect the data from the annual reports of 48 Kuwaiti listed companies. Results of statistical analysis indicated that the overall level of information provided by the sample companies was 69% of the IAS reporting requirements. Using regression the study had found that, company size and type of industry were positively associated with IAS-required information and other variables were statistically insignificant.

2.5. Summary

This chapter has discussed the various literature related to the present study. The literature review of studies throwing light on the growth and development of derivatives market in India have assisted in knowing the increase in the usage of derivatives by banks. Studies relating to user’s perception about financial reporting practices have helped in understanding how user’s of information, perceived, evaluated and used the information provided in the annual reports and the effects of such information on their behavior. Literature related to the quality and content of accounting information in the annual reports and firm characteristics associated with such reporting practices have help in understanding the major variables responsible for the level of compliance by firms.