

The Role of Continuous Disclosure Framework in the Context of Australia

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Abstract: The subject of this report is mainly about Australian reporting regime. Different from America, Australia does not implement periodic information disclosure system but carry out continuous reporting regime. In addition, this report primarily explored the necessity and the effectiveness of the continuous information disclosure regime of Australia. Nevertheless, combining the relevant literatures, the research built consensus around two points: it is essential to disclose information continuously in Australia, while this regime may not be always effective to some degree.

1. Introduction

In 1990's, because financial markets were evolving and changing, the relativity that ensures market to receive the general information timely was far greater than the periodic financial reports in a preformat [1]. Since September 1994, Australia has incorporated continuous disclosure information into the law and regulations. Under the Corporation Act of Australia, which was amended in 1994, all listed companies must report to ASX immediately when there are price-sensitive issues. Moreover, the definition of continuous disclosure given by ASX in 2008 is: Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information.

Beyond that, in a 1999 survey of directors of ASX listed companies, 80 percent of respondents expressed the view that continuous disclosure played an important role in improving disclosure in Australian capital markets [2]. The following report will discuss this in detail.

2. The legal background and the objective reasons of the continuous disclosure regime

2.1 The legal background of the continuous disclosure regime

Australian continuous disclosure is regulated by Corporate Act, ASX rules and ASIC

According to ASX, it comprises two parts consisting of the ASX Listing Rules and the Corporations Act which outlines the continuous disclosure principle and the statutory enforcement of this principle, including penalties for parties that fail to comply with the disclosure regime.

However, in Australia, the listed companies abide by the continuous disclosure information regulations of both Corporate Act and ASX listing rules, while unlisted companies only obey the Corporate Act's regulations of that.

Among that, the rationale for continuous disclosure is to ensure market integrity and transparency. The corporate law, which aims to improve the effectiveness of Australia's financial markets, does not allow any ambiguity about the continuing disclosure requirements [2].

2.2 The objective reasons of the continuous disclosure regime

Securities belong to an information-intensive industry that needs support by more information than any other industries. Investors depend on the disclosure information to make investment decisions, and the information disclosure can further have an impact on shares, and the efficiency of the securities market. However, according to the principal-agent theory, the information in the

securities market presents natural asymmetric, which is generated from the inequality of status. First, there is inequality between investors and management. Because of the separate ownership and control of the company, shareholders are weak in obtaining complete information compared to the management. Secondly, it is the asymmetry between the investors. For example, there is a difference between institutional and small investors as the personal relationship with the company and the access to the information, which violates the principle of fairness.

Owing to this, continuous information disclosure has its foundation. The more asymmetrical is, the stronger the intrinsic requirement of continuous information disclosure is.

3. The significance of continuous reporting regime

3.1 From the perspective of the efficient market hypothesis

Professor Eugene Fama raised the efficient capital market theory in 1965, which assumes that the market is divided into three types, namely weak-form efficiency market, semi-strong efficiency market and strong efficiency market [3]. Furthermore, with regard to studying Australian market, it belongs to semi-strong efficient market [4]. According to this theory, the adequacy of information disclosure is directly proportional to the efficiency of the market. The larger the range of information disclosure is, the higher the transparency and the more effective the market will be. In terms of accounting information of listed companies, increasing the proportion of corporate disclosure, reducing the inside information, making the information distribution between the company and investors tend to be symmetrical, will undoubtedly facilitate the development of market efficiency. Therefore, establishing a perfect continuous information disclosure regime will improve the efficiency of the market.

3.2 From the perspective of corporates

Firstly, continuous disclosure information can effectively improve the internal management of the company and constraint the behavior of company and the relevant personnel. On the one hand, the continuous information disclosure requires companies faithfully declare their own situation, not practice fraud and not cheat the public; requires companies to perform their fiduciary duty. Otherwise, they need to undertake corresponding legal liability. This serious legal liability has positively contributed to strengthen self-discipline and self-management of companies and other relevant personnel. On the other hand, in the case of information asymmetry, the corporate management right separates from its ownership right now, continuous information disclosure can not only make shareholders understand the company's real performance and other important information, but also reflect the operating capacity of the company's management.

Secondly, continuous disclosure information is helpful for corporates to raise funds, strengthen management and establish a good corporate image. It is hard to imagine that an issuer with a small reputation could be able to raise funds without disclosing the information. The relationship between information disclosure and the cost of capital is negative. This is consistent with the research results of existing literature: information disclosure reduces the information asymmetry of investors, which reduces the cost of capital of corporates [5]. Also, with respect to the principal-agent theory, continuous information disclosure can reduce agency conflicts, decrease the cost of capital of corporates, and strengthen the quality of information disclosure for the efficient operation of the market.

3.3 From the perspective of investors

Continuous disclosure information is beneficial to protect the legitimate rights and interests of investors and other stakeholders. Generally, investors make investment decisions based on the accounting information disclosed by the company. Moreover, as highly relevant earnings-related news for investors is voluntary earnings forecasts issued by firms' management, it is necessary for company to conduct management earnings forecasts and provide continuous disclosure information to investors.

Firstly, the asymmetry of information in the securities market can easily lead to Moral Hazard and thus harm the interests of investors. From the entrust-agent information asymmetry, the moral hazard presented as the managers using its own management information superiority to take some hidden actions that shareholders cannot observe and supervise, which cause the loss of shareholders. Therefore, the self-interest of people always makes the insiders like management and controlling shareholders of the listed companies take their advantages of information and discretionary power to do insider trading and securities fraud to damage the value of the company and eventually damage the interests of shareholders. Thus, the higher the degree of information asymmetry, the greater the space of moral hazard and opportunistic behavior, and there will be more losses for the corresponding investors.

Secondly, the asymmetry of information will also lead to the inflated agency fee in the chain of agency entrusted by listed companies, so that affect the interests of investors. Although the consignee has the obligation of diligence, the obligation cannot be measured in objective standards, the consignor can only speculate indirectly from the materials released by the consignee, and if the information released is not accurate and timely comprehensive, investors will pay much more than management deserved compared to the industry level.

Obviously, in this market, if there is not a sound and perfect continuous information disclosure system as behavior rules of relevant entities, the fraud will be prevalent, investment risk will be increased, the interests of investors will not be able to get protection, the investors will lose information, and the integrity of securities market will eventually be damaged.

3.4 From the perspective of market resource allocation

It is stated that improved disclosure has implications for the efficiency of capital markets and subsequent allocation of resources in the economy [6] Despite that the securities market has the nature of virtual, it has the same function of allocating resources as the other markets and the resource allocation process is guided by the securities' price. Because of the scarcity of resources, it is impossible to divide averagely and only in a small number of companies. Disclosure information provided by listed companies makes the investors have right investment decision-making basis and reduce the blindness of investment.

Thus, the popular one in the market which can realize financing purpose is the company which is good at operation and has huge growth. On the contrary, companies with poor business operations must withdraw from the market as they cannot raise funds in the capital markets. In this way, the healthy competition and the survival of the fittest of the capital market are realized, which avoids the improper allocation of resources.

4. Lack of effectiveness of the continuous reporting regime

However, the continuous reporting regime also has negative impacts: the existence and compliance of the continuous information disclosure requirement will bring the cost burden to listed company, including the cost of collecting, processing, auditing, and transmitting accounting information. It also contains the potential costs: litigation costs, proprietary costs, and the costs of impact on negotiating status. In order to pursue economic benefits, listed companies can only disclose if the revenue from an information disclosure is greater than the cost. Moreover, the "litigation cost" hypothesis [7] indicates that higher litigation costs will prompt more voluntary "bad news" disclosures by management. It can be seen that the contrast of revenue and cost seriously restricts the integrity and authenticity of information disclosure of listed companies.

As the stronger specialization of information disclosure, the interpretation is rather difficult for many individual investors. Compared with institutional investors, most individual investors do not have the ability to analyze complex financial accounting information. So far, there have not been companies trying to personalize information to different investors. If investors cannot receive and understand the disclosure information timely and accurately, and cannot make the most of

information to invest rationally, this may affect the confidence of the investors and the effectiveness of continuous information disclosure.

Furthermore, overly strict disclosure requirements may cause the phenomenon of information overload and too much information may cover up the material information. Hence, the continuous information disclosure is a double-edged sword. While ensuring the market and investors to gather full, timely and open information, it is necessary to pay attention to the reasonable degree of cost and burden incurred by the regime to the listed company. Meanwhile, it must be based on the company's perspective, and seek to avoid the occurrence of bad business opportunities due to the continual disclosure obligation.

5. Conclusion

In conclusion, through four aspects analysis from the perspective of efficient market, investors, corporates and resources allocation in Australia, it can be certified that the continuous reporting regime is necessary and has many advantages in accordance with the actual situation in Australia. For instance, this mechanism can increase the public regulation of business operations, restraint and prevent the occurrence of the fraud and improper conducts acted by management, enhance the transparency of listed companies, improve the company's internal management, encourage the corporate management to fulfill their duties, maximize shareholder wealth and social economic benefits, enhance the company's performance to further attract more potential investors, and maintain confidence in the market, as well as contributing to the equality of the investment. Nonetheless, this mechanism may not keep working for several reasons: it may cause costs burden to companies and confuse investors due to professional and overwhelming information.

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