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The Timeliness of Financial Reporting: An Empirical Legal Study of Russian Banks

Robert W. McGee*, Yeomin Yoon**, and Thomas Tarangelo***

Abstract

The timeliness of financial reporting has been an important topic in the accounting literature for decades. There is a tradeoff between the timeliness of reporting and the value of the information being reported. Prior to the advent of the internet, reporting had to be done using print media. However, now that many companies post their annual and quarterly reports on the internet, it is possible to report in a more timely fashion than has previously been possible. The problem is that companies in some countries do not make full use of this disclosure tool. They sometimes take many months to make the information available to the general public. The present empirical legal study examines the timeliness of financial reporting in the Russian banking sector and compares it to the SEC benchmark.

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I. INTRODUCTION[1]

A number of organizations have addressed the issue of timeliness in financial reporting. The Accounting Principles Board, the forerunner of the Financial Accounting Standards Board in the United States, listed timeliness as one of the qualitative objectives of financial reporting disclosure.[2] The Governmental Accounting Standards Board's Concepts Statement No. 1 points out that financial statements must be made available in a timely fashion so that decision makers can make more informed decisions.[3] In order to achieve this result, Concepts Statement No. 1 requires that entities must make their financial information available as soon as possible after the end of the reporting period.[4] Likewise, the Financial Accounting Standards Board has a similar Statement.[5]

The Government Finance Officers Association has made a list of practical administrative suggestions for issuing more timely financial reports.[6] Those suggestions include:

1. Recording activity throughout the year rather than waiting until after the end of the fiscal year;[7]
2. Closing the books in a timely manner to minimize delays in determining the final numbers that will appear in the annual report;[8]

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1. An earlier study using the same methodology reached similar conclusions. However, the earlier study examined fewer banks (73, compared to 79 in the present study) and examined fewer years (sample size 254, compared to 440 in the present study). The former study included data only up to 2007, whereas the present study goes up to 2010. Thus, the present study expands on the earlier study and confirms its findings. *See* Robert W. McGee & Thomas Tarangelo, *Corporate Governance, the Timeliness of Financial Reporting and the Russian Banking System: An Empirical Study* (Florida International University, Working Paper, 2008), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1141885.

2. AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS: ACCOUNTING PRINCIPLES BOARD, BASIC CONCEPTS AND ACCOUNTING PRINCIPLES UNDERLYING FINANCIAL STATEMENTS OF BUSINESS ENTERPRISES, STATEMENT NO. 4 (1970). This Statement was critiqued in R.W. Schattke, *An Analysis of Accounting Principles Board Statement No. 4*, 47 ACCT. REV. 233 (1972) (initial reactions were mixed).

3. Governmental Accounting Standards Board, Concepts Statement No. 1 of the Governmental Accounting Standards Board 20 (1987), *available at* http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391#gasbs25.

4. *Id.*

5. FIN. ACCOUNTING STANDARDS BD., STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 8, CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING: CHAPTER 1, THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING, AND CHAPTER 3, QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION (A REPLACEMENT OF FASB CONCEPTS STATEMENTS NO. 1 AND NO. 2) 20 (2010), *available at.* http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156317989 .

6. *See* GOV'T FIN. OFFICERS ASS'N., BEST PRACTICE: IMPROVING THE TIMELINESS OF FINANCIAL REPORTS (2008) (CAAFR), *available at* http://www.gfoa.org/index.php?option=com_content&task=view&id=1464.

7. *Id.* at 1–2.

8. *Id.* at 2.

3. Monitor changes in accounting rules and standards and their implementation dates so that adjustments can be made well in advance;[9]
4. Distribute financial reports electronically;[10] and
5. Include a clause in the Request for Proposal for the independent auditor that states a public release date for the financial statements.[11]

The Organisation for Economic Cooperation and Development (henceforth "OECD") has issued a series of publications that address various corporate governance issues, including timeliness in reporting. The publication that has the most general applicability is the OECD's *Principles of Corporate Governance*.[12, 13] The OECD has also published guidelines for multinational enterprises,[14] corporate governance principles for Russia,[15] and for South East Europe.[16]

The OECD's *Principles of Corporate Governance* refers to timeliness in several places. For example, shareholder rights include the right to receive relevant and material information on a regular and timely basis.[17] Shareholders should be informed promptly about the date, location and agenda of future meetings, as well as full information about the issues to be discussed.[18] Proxies should be issued on a timely basis.[19] The corporate governance framework should ensure that all material matters regarding the corporation should be made on time, including information relating to its financial situation, performance,

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9. *See supra* note 6, at 2.

10. *Id.*

11. Gov't Fin. Officers Ass'n., Best Practice: Improving the Timeliness of Financial Reports 2 (2008) (CAAFR), *available at* http://www.gfoa.org/index.php?option=com_content &task=view&id=1464.

12. *See* Organisation for Economic Cooperation and Development, OECD Principles of Corporate Governance (2004), *available at* http://www.oecd.org/daf/corporateaffairs/ corporategovernanceprinciples/31557724.pdf.

13. *Id.* at 4. The publication consists of a set of nonbinding standards and benchmark practices; the publication also offers guidance on how to implement these standards.

14. *See* Organisation for Economic Cooperation and Development, OECD Guidelines for Multinational Enterprises (2002), *available at* http://www.oecd.org/daf/ internationa linvestment/guidelinesformultinationalenterprises/48004323.pdf.

15. *See* Organisation for Economic Cooperation and Development, White Paper on Corporate Governance in Russia (2002), *available at* http://www.oecd.org/corporate/corporateaffairs/ corporategovernanceprinciples/2789982.pdf.

16. *See* Organisation for Economic Cooperation and Development, White Paper on Corporate Governance in South East Europe (2003), *available at* http://www.oecd.org/daf/ corporate affairs/corporategovernanceprinciples/20490351.pdf.

17. Organisation for Economic Cooperation and Development, Principles of Corporate Governance 18, 21, 33 & 47 (2004), *available at* http://www.oecd.org/daf/corporateaffairs /corporategovernanceprinciples/31557724.pdf.

18. *Id.*

19. *Id.* at 43.

ownership and governance.[20] All material developments that arise between regular reporting dates should also be disclosed promptly.[21] The channels for the dissemination of information should ensure that information disseminated in an expeditous, , equal, and cost-effective basis.[22] The outcome of elections should be disclosed on a timely basis.[23] Creditors have the right to receive information about corporate difficulties on a timely basis.[24] Board members need to have access to relevant, accurate and timely information in order to fulfill their responsibilities.[25] The supervisory and regulatory authorities also have an obligation to issue their rulings on a timely and transparent basis.[26]

The U.S. Securities and Exchange Commission also recognizes the importance of timeliness and requires that listed companies file their annual 10-K reports by a certain deadline. The filing deadline depends on a number of factors. For example, large accelerated filers must file their annual 10-K report within 60 days of year-end and their quarterly 10-Q report within 40 days of the end of the quarter.[27] Other accelerated filers must file the annual 10-K report within 75 days of year-end and the quarterly 10-Q report within 40 days of the end of the quarter.[28] Other filers have 90 days from year-end to file the annual 10-K report and 45 days from the end of the quarter to file the 10-Q quarterly report.[29] Foreign private issuers have 90 days from year-end to file Form 20-F if they are a large accelerated or accelerated filer and 120 days if they are an other filer.[30]

One might expect that the SEC's accelerated deadline rule would have a positive impact on timeliness, but a study by Bryant-Kutcher, Peng and Weber[31] found that while firms that are subject to SEC's accelerated deadlines experienced improvements in both timeliness and informativeness, firms that were not affected by the SEC's

20. *See supra* note 17, at 22, 49.
21. *Id.* at 50.
22. *Id.* at 23, 56.
23. *Id.* at 54.
24. *Id.* at 48.
25. *Id.* at 25, 66.
26. *Id.* at 30.
27. Revisions to Accelerated Filer Definition and Accelerated Deadlines for Filing Periodic Reports, Securities Act Release No. 8644, Exchange Act Release No. 52989, 86 SEC Docket 2355 (Dec. 27, 2005).
28. *Id.*
29. Form 10-K, Securities and Exchange Commission (SEC) (June 26, 2009), *available at* http://www.sec.gov/answers/form10k.htm.
30. Foreign Issuer Reporting Enhancements, Securities Act Release No. 1310, Exchange Act Release No. 58620, 94 SEC Docket 403 (Sept. 23, 2008).
31. *See* Lisa Bryan-Kutcher, Emma Yan Peng, & David P. Weber, *Regulating the Timing of Disclosure: Insights from the Acceleration of 10-K Filing Deadlines* (2012), *available at* http://ssrn.com/abstract=1160036.

regulation also had similar improvements.[32] This finding led the authors to conclude that the improvements might be attributable to factors other than filing deadlines.[33] They also found that firms forced to file earlier had a significant increase in restatements, while companies that filed voluntarily did not, leading to the possible conclusion that the accelerated reporting rule might have the effect of decreasing reliability.[34]

The issue of timeliness has several facets. There is an inverse relationship between the quality of financial information and the timeliness with which it is reported.[35] Accounting information becomes less relevant with the passage of time.[36]

This paper examines the timeliness of financial reporting in the Russian banking sector and compares it to the SEC benchmark. Part II presents a review of the literature. Part III discusses the methodology used for the present study. Part IV presents the findings. Part V provides some concluding comments.

II. REVIEW OF THE LITERATURE

Studies have been done on various aspects of the timeliness of financial reporting. Some scholars have viewed timeliness as a subcategory of transparency, along with accuracy, consistency, appropriateness, completeness, clarity, convenience, governance and enforcement.[37]

Studies comparing the timeliness of disclosure to the kind of news being reported are mixed. Some studies have found that it takes longer to report bad news than good news.[38] One logical reason for this delay is that companies might hesitate to report bad news. A more cynical

32. *See supra* note 31, at 3.

33. *Id.* at 22.

34. *Id.* at 26.

35. W.J. Kenley & G.J. Staubus, *Objectives and Concepts of Financial Statements*, 49 ACCT. REV. 888, 888-89 (1974).

36. Roland K. Atiase, Linda S. Bamber & Senyo Tse, *Timeliness of Financial Reporting, the Firm Size Effect, and Stock Price Reactions to Annual Earnings Announcements*, 5 CONTEMP. ACCT. RES. 526 (1989); *see also* ELDON S. HENDRIKSEN & MICHAEL F. VAN BREDA, ACCOUNTING THEORY (5th ed. 1992); *see also* Janice E. Lawrence & Hubert D. Glover, *The Effect of Audit Firm Mergers on Audit Delay*, 10 J. MANAGERIAL ISSUES 151 (1998).

37. *See generally* Raymond S. Kulzick, *Sarbanes-Oxley: Effects on Financial Transparency*, 69 SAM ADVANCED MGMT. J. 43 (2004); *see also* Jeannot Blanchet, *Global Standards Offer Opportunity*, FINANCIAL EXECUTIVE, March/April, 2002, at 28; *see also* Ruth Prickett, *Sweet Clarity*, FINANCIAL MANAGEMENT, Sept. 2002, at 18.

38. Rex J. Bates*, Discussion of the Information Content of Annual Earnings Announcements*, 6 J. ACCT. RES. 93, 93-95 (1968); *see also* William H. Beaver, *The Information Content of Annual Earnings Announcements*, 6 J. ACCT. RES. 67 (1968).

reason to delay reporting is that some companies take time to massage the numbers or engage in creative accounting.[39]

There is sometimes a tendency to report earnings sooner when they are better than expected, and later when they are lower than expected.[40] This pattern was found to exist for Chinese firms[41] and Greek companies.[42] Some evidence suggests that municipalities report good news sooner than bad news.[43] However, such was not the case for Belgian companies.[44] One study found that it takes longer to report when a company incurs losses or when it reports extraordinary items.[45] A Turkish study found that it takes less time to report if a company has profits rather than losses.[46]

One study found that petroleum refining companies actually delayed reporting good news (extraordinarily high profits) during the Gulf crisis of the 1990s because of potentially adverse political repercussions.[47] Another study found that French, German and British companies reported bad news faster than good news.[48]

One reason why companies might report bad news sooner than good news is because of the ingrained principle of conservatism.[49] Companies that have more conservative reporting policies sometimes take longer to disclose information than companies with more liberal

39. *See generally* Dan Givoli & Dan Palmon, *Timeliness of Annual Earnings Announcements: Some Empirical Evidence*, 57 ACCT. REV. 486 (1982); Mary L. Chai & Samuel Tung, *The Effect of Earnings-Announcement Timing on Earnings Management*, 29 J. BUS. FIN. & ACCT. 1337 (2002); Brett Trueman, *Theories of Earnings-Announcement Timing*, 13 J. ACCT. & ECON. 285 (1990).

40. *See generally* Anne E. Chambers & Stephen H. Penman, *Timeliness of Reporting and the Stock Price Reaction to Earnings Announcements*, 22 J. ACCT. RES. 21 (1984); William Kross & Douglas A. Schroeder, *An Empirical Investigation of the Effect of Quarterly Earnings Announcement Timing on Stock Returns*, 22 J. ACCT. RES. 153 (1984).

41. *See generally* In-Mu Haw, Daqing Qi & Woody Wu, *Timeliness of Annual Report Releases and Market Reaction to Earnings Announcements in an Emerging Capital Market: The Case of China*, 11 J. INT'L FIN. MGMT. & ACCT. 108 (2000).

42. *See generally* Stergios Leventis & Pauline Weetman, *Timeliness of Financial Reporting: Applicability of Disclosure Theories in an Emerging Capital Market,* 34 ACCT. & BUS. RES. 43 (2004).

43. *See generally* Peggy D. Dwyer & Earl R. Wilson, *An Empirical Investigation of Factors Affecting the Timeliness of Reporting by Municipalities*, 8 J. ACCT. & PUB. POL'Y 29 (1989).

44. *See generally* Jan Annaert, Marc J.K. DeCeuster, Ruud Polfliet & Geert Van Campenhaut, *To Be or Not Be . . . "Too Late": The Case of the Belgian Semi-Annual Earnings Announcements*, 29 J. BUS. FIN. & ACCT. 477 (2002).

45. *See generally* Robert H. Ashton, Paul R. Graul & James D. Newton, *Audit Delay and the Timeliness of Corporate Reporting*, 5 CONTEMP. ACCT. RES. 657 (1989).

46. *See generally* Asli Türel, *Timeliness of Financial Reporting in Emerging Capital Markets: Evidence from Turkey*, 39 ISTANBUL UNIV. J. SCH. BUS. ADMIN. 238 (2010), *available at* http://mpra.ub.unimuenchen.de/29799.

47. *See generally* Jerry C.Y. Han & Shiing-wu Wang, *Political Costs and Earnings Management of Oil Companies during the 1990 Persian Gulf Crises*, 73 ACCT. REV. 103 (1998).

48. *See generally* Begoña Giner & William P. Rees, *On the Asymmetric Recognition of Good and Bad News in France, Germany and the United Kingdom*, 28 J. BUS. FIN. & ACCT. 1285 (2001).

49. *See generally* Sudipta Basu, *The Conservatism Principle and the Asymmetric Timeliness of Earnings*, 24 J. ACCT. & ECON. 3 (1997).

reporting policies.[50] However, this tendency may be country-specific. In the Czech Republic, for example, conservatism seemingly did not play a role in the timeliness of reporting good or bad news, perhaps because the Czech tax system does not provide any incentives for accelerating or delaying financial reporting.[51] One study found that companies in countries that have a strong shareholder orientation tend to disclose earnings data sooner than countries that have a civil code system when it comes to share prices.[52]

There might be a relationship between the quickness with which information is disclosed and the effect the disclosure has on a company's stock price.[53] If the market accurately reflects information, which is the underlying assumption of the efficient market hypothesis, then one would expect that the longer one takes to report certain information, the less effect it would have on stock price.[54] Some studies have found this to be the case.[55]

Some studies have compared the timeliness of financial reporting in different countries. One study found that Belgian companies take longer to report financial information than do Anglo-Saxon countries.[56] This tendency toward slower reporting held true for the disclosure of interim information as well.[57]

50. *See generally* Frank B. Gigler & Thomas Hemmer, *Conservatism, Optimal Disclosure Policy, and the Timeliness of Financial Reports*, 76 ACCT. REV. 471 (2001).

51. *See generally* Irina Jindrichovska & Stuart McLeay, *Accounting for Good News and Accounting for Bad News: Some Empirical Evidence from the Czech Republic*, 14 EUR. ACCT. REV. 635 (2005).

52. *See generally* Ray Ball, S.P. Kothari & Ashok Robin, *The Effect of International Institutional Factors on Properties of Accounting Earnings*, 29 J. ACCT. & ECON. 1 (2000). For another study on this topic, *see* Jerry C.Y. Han & John J. Wild, *Timeliness of Reporting and Earnings Information Transfers*, 24 J. BUS. FIN. & ACCT. 527 (1997). *See also* Peter F. Pope & Martin Walker, *International Differences in the Timeliness, Conservatism, and Classification of Earnings*, 37 J. ACCT. RES. 53 (1999).

53. *See generally* Ray Ball & Philip Brown, *An Empirical Evaluation of Accounting Income Numbers*, 6 J. ACCT. RES. 159 (1968); Philip Brown & J.W. Kennelly, *The Information Content of Quarterly Earnings: An Extension and Some Further Evidence*, 45 J. BUS. 403 (1972).

54. *Id.*

55. *See* Ray Ball & Philip Brown, *An Empirical Evaluation of Accounting Income Numbers*, 6 J. ACCT. RES. 159, 176–77 (1968); *see also* Philip Brown & J.W. Kennelly, *The Information Content of Quarterly Earnings: An Extension and Some Further Evidence*, 45 J. BUS. 403, 415 (1972).

56. Marc DeCeuster & Dirk Trappers, *Determinants of the Timeliness of Belgian Financial Statements*, (University of Antwerp, Working Paper, 1993), *cited in* Jan Annaert, Marc J.K. DeCeuster, Ruud Polfliet & Geert Van Campenhout, *To Be or Not Be … "Too Late": The Case of the Belgian Semi-annual Earnings Announcements*, 29 J. BUS. FIN. & ACCT. 477, 478 (2002).

57. Jan Annaert, Marc J.K. DeCeuster, Ruud Polfliet & Geert Van Campenhout, *To Be or Not Be . . . "Too Late": The Case of the Belgian Semi-annual Earnings Announcements*, 29 J. BUS. FIN. & ACCT. 477, 487–89 (2002). For a discussion of reporting financial information on the internet, *see* Hollis Ashbaugh, Karla M. Johnstone & Terry D. Warfield, *Corporate Reporting on the Internet*, 13 ACCT. HORIZONS 241, 255 (1999). These authors point out that, although using the internet can result in faster and more widespread dissemination, publishing statements that are two years old does not improve the timeliness of financial reporting.

It is difficult to determine, a priori, whether large firms report financial data faster than small firms. One might think that small firms report faster, since they have less information to assemble and organize. On the other hand, large firms might have more resources available to aid in the reporting process, which would cause them to be faster when it comes to financial reporting. A study examining this issue found that large firms report faster than small firms.[58] This study also found that when earnings are reported, the market reaction is bigger for small firms than for large firms.[59] A study of Australian firms found that it takes medium-sized companies longer to report than either larger or smaller firms, and that profitability was not a significant variable.[60]

One might think that smaller audit firms might have shorter audit delays than larger audit firms because they have fewer layers of bureaucracy. On the other hand, one might guess that large audit firms would have shorter audit delays because of their ability to marshal more of their forces to complete a job in a timely manner. One study found that smaller audit firms take longer to issue their audit opinions.[61]

When an independent accounting firm issues a qualified audit opinion, it is because the company being audited has not complied with the relevant generally accepted accounting principles. One might expect that it takes longer to release financial information in cases where a qualified opinion is about to be issued, since the audit firm and company have to discuss the reason for the deficiency and determine what to do about it and how to disclose it to the general public. A study of Australian companies with qualified audit opinions found this to be the case, and that the extent of the delay was longer in cases where the reason for the qualified opinion was serious.[62] Studies of U.S.[63] and French[64] companies reached the same result. Another study of Australian firms found that firms in distress took significantly longer

58. Roland K. Atiase, Linda S. Bamber & Senyo Tse, *Timeliness of Financial Reporting, the Firm Size Effect, and Stock Price Reactions to Annual Earnings Announcements*, 5 CONTEMP. ACCT. RES. 526, 548 (1989).

59. *Id.*

60. B. Davies & Greg P. Whittred, *The Association between Selected Corporate Attributes and Timeliness in Corporate Reporting: Further Analysis*, 16 ABACUS 48, 59 (1980).

61. Robert H. Ashton, Paul R. Graul & James D. Newton, *Audit Delay and the Timeliness of Corporate Reporting*, 5 CONTEMP. ACCT. RES. 657, 666 (1989).

62. Greg P. Whittred, *Audit Qualification and the Timeliness of Corporate Annual Reports*, 55 ACCT. REV. 563, 572 (1980).

63. Stuart B. Keller, *Reporting Timeliness in the Presence of Subject to Audit Qualifications*, 13 J. BUS. FIN. & ACCT. 117, 122 (1986).

64. Bahram Soltani, *Timeliness of Corporate and Audit Reports: Some Empirical Evidence in the French Context*, 37 INT'L J. ACCT. 215, 242 (2002).

to report financial results.[65] A Turkish study found that companies that had standard audit opinions took less time to report financial data than companies that had other kinds of audit opinions.[66]

A Canadian study found that the more assets a company had, the less time it took to issue the audit report.[67] That same study found that financial services companies and companies that have their year-end during the busy season also had short delays.[68]

One might expect that audit firms with more expertise in the industry would take less time to issue their audit opinion than audit firms with less expertise. One study found this relationship to be true when their clients had bad earnings data to report.[69] A Turkish study found that it takes Big Four audit firms[70] longer to issue their audit opinion than smaller audit firms.[71]

A number of other variables have been linked with audit delays. An Egyptian study involving 85 companies listed on the Cairo Stock Exchange found that audit delay was significantly affected by (1) board independence, (2) duality of the CEO, (3) the existence of an audit committee, (4) company size, (5) industry, and (6) profitability.[72] Ownership concentration had no significant impact on audit delay.[73]

A Spanish study of audit delay found that companies having the least delay were in industries that were subject to regulatory pressure such as the financial and energy sectors.[74] The size of the company relative to the industry sector also had a significant correlation to the length of audit delay.[75] Audit firm, regulatory change and qualifications did not have a significant correlation to audit delay.[76]

Some countries have rules regarding the maximum time that may elapse before financial reports become delinquent. One Turkish study of nonfinancial companies found that 28 percent of the companies that

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65. *See* Greg Whittred & Ian Zimmer, *Timeliness of Financial Reporting and Financial Distress,* 59 Acct. Rev. 287, 290 (1984).

66. *See* Türel, *supra* note 46.

67. Robert H. Ashton, Paul R. Graul & James D. Newton, *Audit Delay and the Timeliness of Corporate Reporting*, 5 Contemp. Acct. Res. 657, 666 (1989).

68. *Id*.

69. Gopal V. Krishnan, *The Association between Big 6 Auditor Industry Expertise and the Asymmetric Timeliness of Earnings*, 20 J. Acct., Auditing & Fin. 209, 227 (2005).

70. The Big Four accounting firms include PricewaterhouseCooper, Ernst & Young, Deloitte Touche, and KPMG.

71. *See* Türel, *supra* note 46.

72. *See* H.A.E. Afify, *Determinants of Audit Report Lag: Does Implementing Corporate Governance Have Any Impact? Empirical Evidence from Egypt*, 10 J. Applied Acct. Res. 56 (2009).

73. *Id*.

74. Enrique Bonsón-Ponte, Toms Escobar-Rodríguez & Cinta Borrero-Domínguez, *Empirical Analysis of Delays in the Signing of Audit Reports in Spain*, 12 Int'l J. Auditing 129, 138–39 (2008).

75. *Id*.

76. *Id*.

publish separate statements and 16 percent of the companies that publish consolidated financial statements exceeded the regulatory deadline for reporting.[77] A study comparing the timeliness of financial reporting for U.S. and non-U.S. companies found that U.S. companies report sooner and U.S firms are less likely to exceed to statutory maximums.[78]

Another Turkish study found that nonfinancial firms take longer to publish their financial statements, that companies issuing consolidated statements take longer to report than companies that do not issue consolidated statements, and companies that have earnings report sooner than do companies that have losses.[79]

A few studies have compared the timeliness of financial reporting in transition economies to financial reporting in the more developed market economies. One might expect, a priori, that companies in the more developed market economies would report sooner, because they have more resources and because they have been doing it longer, and are thus farther up the learning curve. Studies of the Russian energy sector found that Russian companies take significantly longer to report than do non-Russian companies in the energy sector.[80] A study of the Russian telecom industry reached the same conclusion.[81]

A study of Chinese and non-Chinese companies found that Chinese companies take significantly longer to report financial results.[82] However, a study comparing new EU countries that are also transition economies to EU countries that are not transition economies found no difference in timeliness.[83]

77. *See* Türel, *supra* note 46.

78. *See* C. Mitchell Conover, Robert E. Miller and Andrew Szakmary, *The Timeliness of Accounting Disclosures in International Security Markets*, 17 INT'L REV. FIN. ANALYSIS 849 (2008) (presenting a 22-country study over 11 years).

79. *See* Rabia Aktaş & Mahmut Karğin, *Timeliness of Reporting and the Quality of Financial Information*, 63 INT'L RES. J. FIN. & ECON. 71 (2011), *available at* http://www.eurojournals.com/IRJFE_63_04.pdf.

80. Robert W. McGee, *Timeliness of Financial Reporting in the Energy Sector*, 4(2) RUSSIAN/CIS ENERGY & MINING L.J. 6 (2006); *see also* Robert W. McGee, *Corporate Governance and the Timeliness of Financial Reporting: A Case Study of the Russian Energy Sector* (Andreas School of Business, Working Paper, 2007).

81. *See* Robert W. McGee, *Corporate Governance in Russia: A Case Study of Timeliness of Financial Reporting in the Telecom Industry*, 7 INT'L FIN. REV. 365 (2007).

82. *See* Robert W. McGee, & Xiaoli Yuan, *Corporate Governance and the Timeliness of Financial Reporting: An Empirical Study of the People's Republic of China*, 3(1) INT'L J. BUS., ACCT. & FIN. 19 (2009).

83. Robert W. McGee, & Danielle N. Igoe, *Corporate Governance and the Timeliness of Financial Reporting: A Comparative Study of Selected EU and Transition Countries*, 43rd Annual Western Regional Meeting of the American Accounting Association, San Francisco, May 1-3, 2008, 74–87, reprinted in Robert W. McGee, editor, CORPORATE GOVERNANCE IN TRANSITION ECONOMIES (Robert W. McGee, Ed., 2008) 189.

The World Bank has conducted similar studies examining the issue of timeliness of financial reporting in developing or transition countries.[84] In these studies, timeliness was classified into the following five categories, based on how closely the practice of timeliness came to meeting the OECD benchmark: observed, largely observed, partially observed, materially not observed, and not observed. The differences between categories are somewhat arbitrary. Different teams were hired to conduct studies in different countries. However, in general it can be said that companies in the countries that earned the "Observed" label reported results in a timely manner all or nearly all of the time; those that earned the "Largely Observed" label were somewhat less diligent in reporting in a timely manner; those who earned the "Partially Observed" label were timely sometimes; those labeled as "Materially Not Observed" usually did not report in a timely manner; and those labeled "Not Observed" generally did not see the need to report financial results in a timely manner. Table 1 lists the countries that were classified into each category.

84. Links to these studies may be found at www.worldbank.org/ifa/rosc_cg.html.

Table 1
The Timeliness of Financial Reporting[85]

Observed [0 country]	**Largely Observed [9 countries]**	**Partially Observed [19 countries]**	**Materially Not Observed [11 countries]**	**Not Observed [1 country]**
None	Hungary	Armenia	Azerbaijan	Moldova
	India	Bhutan	Bosnia & Herz.	
	Jordan	Brazil	Croatia	
	Korea	Bulgaria	Georgia	
	Malaysia	Chile	Macedonia	
	Mexico	Colombia	Nepal	
	Pakistan	Czech Republic	Senegal	
	Poland	Egypt	Slovakia	
	Thailand	Ghana	Ukraine	
		Indonesia	Uruguay	
		Latvia	Vietnam	
		Lithuania		
		Mauritius		
		Panama		
		Peru		
		Philippines		
		Romania		
		Slovenia		
		South Africa		

As can be seen, none of the countries are operating at the highest level, although some countries are doing better than others. The most frequent category, with 19 members, was the partially observed category. The largely observed and partially observed categories had about the same number of members; each had about half as many members as the partially observed category. Moldova was the only country in the lowest category.

As a general rule, one might conclude that the more developed countries are doing better than the less developed countries, and countries that are members of the European Union are doing better

85. Data for the table were gathered from the various World Bank corporate governance reports, which may be found at www.worldbank.org/ifa/rosc_cg.html.

than European countries that are not EU members. However, there are exceptions to this general trend. For example, Croatia and Slovakia are both EU members, but both are in the next to the lowest category in terms of timeliness.[86]

The World Bank has not done a similar study for Russia, so it is not possible to classify the extent of Russian compliance with the timeliness requirement with a great deal of precision. However, if one were to guess, a reasonable assumption would be that the Russian[87] degree of compliance might be similar to the Ukrainian[88] extent of compliance, since the level of accounting development in the two countries is similar in many ways. One reason for the present study is to measure the degree of compliance with the timeliness benchmark for Russia. The banking industry was chosen for examination because banking is often the most developed industry as far as financial reporting is concerned.[89]

III. METHODOLOGY

Timeliness was determined by counting the number of days that elapsed between year-end and the date of the auditor's report. Some data was gathered from www.rustocks.com, a website that contains a

86. There are a number of possible explanations for these relationships. Less developed countries have a less developed capital market than the more developed countries, generally are not as concerned about the needs of shareholders, and do not have as much internal or external pressure to report in a timely manner. Countries that are members of the EU require their corporations to use International Financial Reporting Standards, which includes a timeliness requirement. Some less developed countries either have not yet adopted IFRS or tend to follow IFRS less rigorously. Since capital markets in developing countries generally are not as strong or developed as the capital markets in the more developed countries, equity markets tend to be weak, which means that companies that want financing tend to go to the debt market, especially banks, rather than the equity market. Banks are not overly concerned with the information potential clients give their shareholders, and are able to demand whatever information they think is needed to make a loan decision. In other words, where there is no demand for timely reporting, there will be no supply of financial information in a timely manner, at least not to the general public.

87. *See* ROBERT W. MCGEE & GALINA G. PREOBRAGENSKAYA, ACCOUNTING AND FINANCIAL SYSTEM REFORM IN TRANSITION ECONOMIES: A CASE STUDY OF RUSSIA (2005).

88. *See* ROBERT W. MCGEE AND GALINA G. PREOBRAGENSKAYA, ACCOUNTING AND FINANCIAL SYSTEM REFORM IN EASTERN EUROPE AND ASIA (2006).

89. Some recent information is available on corporate governance in Russia, although it does not address the timeliness of financial reporting. *See* Igor Belikov, et. al., *Russia and the World: A Comparison of Corporate Governance Practices*, Center for International Private Enterprise, (Oct. 31, 2011), http://www.cipe.org/publications/detail/russia-and-world-comparison-corporate-governance-practices. There has been a general improvement in corporate governance practices in Russian firms in recent years, especially in the case of small and medium size enterprises; improvement in the transparency of ownership structures has been slow; the quality of corporate governance in state owned enterprises remains low.

wealth of information on Russian companies. Other data was gathered by going directly to the Russian company websites or the Securities and Exchange Commission website.[90]

Such a methodology is less than perfect for several reasons. For one, the date on the audit report might not be the same as the date the information was released to the general public. However, there is no way to obtain the date the information was released to the general public, so the date on the audit report acted as a surrogate for the actual release date. A similar methodology was used in a study of Canadian companies audited by Canadian firms.[91]

Secondly, the sample only consisted of annual reports that were in the English language. However, this skewed sample does not constitute a fatal flaw, since it is likely that Russian banks that do not publish their financial statements in the English language are not seeking foreign investment,[92] so a sample that consists of only English language annual reports sufficiently captures the banks that are most likely looking for foreign capital. It is this group that is most likely to be concerned with the timeliness of financial reporting. Banks that are not trying to attract foreign capital have little or no pressure to publish their financial statements in any language, even though Russian law requires it, since the penalties for noncompliance are slight or none.[93]

A third possible criticism of the present study is that some Russian banks report only one or two years worth of data while others publish ten or more years of data. Analyzing data where the sample population differs by year is not as desirable as analyzing data where the sample sizes by year are about the same. However, the sample population was small to begin with, so the authors decided that it was better to enlarge the sample size even if that meant having sample sizes that differed by year. The alternative would have been to be forced to work with a much smaller sample size. In the few cases where banks reported more than ten years of data, the authors selected only the ten most recent years. Financial reporting practiced in Russia and other former Soviet republics has changed drastically

90. www.sec.gov.

91. *See* Robert H. Ashton, Paul R. Graul & James D. Newton, *Audit Delay and the Timeliness of Corporate Reporting*, 5 CONTEMP. ACCT. RES. 657 (1989).

92. This assumption is based on a priori reasoning. If Russian bankers want to raise capital in foreign markets, they must speak the language of the foreigners who might provide the financing, and that language is generally English (or at least financial statements that are in English). Thus, there is little or no need or incentive to publish financial statements in English unless the goal is to attract foreign capital.

93. This statement is based on one of the author's consulting experiences in Russia. This conclusion was reached after interviewing a number of Russian accountants and partners in the Big Four accounting firms in Moscow.

since the implosion of the Soviet Union,[94] and it was thought that using data that was more than ten years old would not provide a fair reflection of current accounting practices.

Finally, the data found was sometimes incomplete. Some annual reports disclosed the date of the audit report but not the auditor, or the auditor but not the date of the audit report. Some annual reports disclosed the accounting principles used while others did not. In cases where the company issued consolidated financial statements and also separate financial statements, the authors chose the date of the audit report for the consolidated financial statements.

The sample consisted of 440 years of data from 79 Russian banks, an average of 5.6 years per bank. Table 2 provides some details.

IV. FINDINGS

A. OVERALL

Table 2
Summary Statistical Data

	Days Delay
Range	18-376
Mean	112.8
Median	107.0

The average (mean) delay in reporting financial results was 112.8 days; the median was 107.0 days; the range was 18-376 days. One bank took more than a year to report financial results. Another bank took nearly a year (346 days). A few extreme delays like these skewed the distribution somewhat and explain why the median number of days (107.0) was less than the mean (112.8 days). Three hundred fifty-two (352) out of 440 (80%) took longer than 75 days to report, which is the U.S. Securities and Exchange Commission's deadline for accelerated filers. If one were to use the SEC 60-day requirement for

94. During the Soviet era, all banks were state owned. There was no need to issue reports to shareholders, since there were none. The reports that were filed were filed with government agencies in Moscow (mostly the Finance Ministry), and those reports used Russian Accounting Standards, which are basically irrelevant outside of Russia and the other former Soviet republics. Furthermore, Soviet banks did not use IFRS until after the implosion of the Soviet Union. No Russian language translation of IFRS was available until 1999, which was 8 years after the implosion. *See* ROBERT W. MCGEE & GALINA G. PREOBRAGENSKAYA, ACCOUNTING AND FINANCIAL SYSTEM REFORM IN TRANSITION ECONOMIES: A CASE STUDY OF RUSSIA (2005).

large accelerated filers as the benchmark, 391 of 440 (88.9%) would have missed the deadline.

From these findings, one might reasonably conclude that financial reporting in the Russian banking sector is not up to the standard of the developed market economies, at least in terms of timeliness. If one begins with the assumption that the sample included in the present study consists of banks that report in a more timely manner than the average Russian bank, then one could conclude a priori that the Russian banking sector, overall, is even farther from meeting the SEC benchmark than the banks in the present sample. Such an assumption seems reasonable, given the fact that the present sample consisted solely of Russian banks that report in English. Russian banks that issue their financial statements in English have more of an incentive to report in a timely manner because they are interested in obtaining capital in the international capital markets, whereas Russian banks that report only in Russian are not.

B. TREND

While drawing definitive conclusions based on our relatively small sample size is challenging, there are some general trends that can be seen by examining the data on an annual basis. Table 3 reports the results by year.

Table 3: Data Reported by Year

Year	n	Mean	Median	Range
1998	2	147.5	147.5	113-182
1999	4	87.8	67.5	42-174
2000	13	100.0	106.0	45-180
2001	17	83.1	70.0	44-184
2002	31	107.2	94.0	38-232
2003	48	108.3	141.5	29-346
2004	59	111.8	98.0	18-270
2005	60	110.7	107.5	31-181
2006	64	115.4	114.5	21-180
2007	54	125.1	120.0	25-258
2008	40	123.0	116.5	21-376
2009	35	123.9	113.0	21-181
2010	13	85.5	88.0	49-129

While data for all years were reported in the interest of completeness, some should be ignored. The first two to four years should be ignored because of the small sample size. The data for 2010 should be ignored because it is incomplete.[95] The authors completed gathering the data in mid-2011. As of then, only the timeliest of the Russian banks had reported their data for 2010. The least timely banks had not yet reported.

If we examine just the 2000-2009 period, the mean score increased six times and decreased three times; the median increased four times and declined five times. If we compare the mean score for 2000 and every year thereafter to the mean score for 2009, the mean score for 2009 was higher than the mean score for the earlier year in

95. The data for 2011 were omitted because some banks likely will not report their 2011 data until the fourth quarter of 2012, if not later. The data for 2012 will not be completely available until the fourth quarter of 2013 or later.

eight of nine comparisons. If we compare the median score for 2000 and every year thereafter to the median score for 2009, the median score for 2009 was higher than the median score for the earlier year in five of nine comparisons.

From these comparisons we can tentatively conclude that Russian banks, overall, are becoming less timely over time, which is just the opposite of what one might assume in the absence of statistical data. One might think that the financial reporting practices of the Russian banking sector are becoming more closely aligned with that of the more developed market economies over time, but that apparently is not the case. One possible explanation is that Russian companies in general tend to obtain financing from debt markets rather than equity markets, and potential creditors, like banks and insurance companies, are in a position to request whatever information they want in whatever timeframe they want, and often do so on a confidential basis. Thus, there is little or no penalty for ignoring the information requirements of shareholders or publicly disclosing information in a timely manner, since funding generally does not come from equity markets. Where there is no demand, there will be no supply.

C. ACCOUNTING STANDARDS USED

Since the Russian banks in this study use different accounting standards to report their financial results, the authors further separated and compared the data on the basis of accounting standards to see if the result might change.[96] The vast majority of Russian banks used International Accounting Standards or International Financial

96. It might also be mentioned that RAS are substantially different from either U.S. GAAP or IFRS. Many accounting issues are not addressed in RAS. Both U.S. GAAP and IFRS are far more comprehensive when it comes to coverage of accounting topics and issues. Also, RAS is more cash based, whereas both U.S. GAAP and IFRS require the accrual method of accounting. Under accrual accounting, revenue is recognized when earned, not received, and expenses are recognized when incurred, not when paid. In a cash system, revenue is recognized when received and expenses are recognized when paid.

All Russian banks are required by law to use RAS, whereas reporting with other standards (IFRS or U.S. GAAP) is voluntary, and is done only if the bank wants to attract the attention of investors who are familiar with some other set of accounting standards.

Russian banks must report using Russian standards within a certain period of time, although there is little or no penalty for not doing so. The Russian government does not have any requirements for reporting using other standards, although some foreign stock exchanges do (NYSE, London, etc.), but these requirements are irrelevant unless the Russian bank in question lists on a foreign exchange. *See* ROBERT W. MCGEE & GALINA G. PREOBRAGENSKAYA, ACCOUNTING AND FINANCIAL SYSTEM REFORM IN TRANSITION ECONOMIES: A CASE STUDY OF RUSSIA (2005).

Reporting Standards ("IAS/IFRS")[97] to report their results. However, a few banks used either U.S. Generally Accepted Accounting Principles ("U.S. GAAP") or Russian Accounting Standards ("RAS"). Table 4 reports the results. Table 5 reports the results of the student t-test calculations.

Table 4: Accounting Standards Used

Std.	n	Mean	Median	Range	SD	Std. Error
US GAAP	14	98.5	100.5	51-135	22.86	6.11
RAS	47	93.7	100.0	35-118	35.46	5.17
IAS/IFRS	366	115.5	107.0	44-376	48.13	2.52
N/A	13					
Total	440					

Table 5: p Values
Accounting Standards Used

	RAS	IAS/IFRS
US GAAP	0.55121	0.02041
RAS	-	0.00035

Banks that used RAS had the smallest reporting delay (93.7 days) but banks that used U.S. GAAP only took a few days longer to report (98.5 days), which was not significantly different (p = 0.55121). However, banks that used IAS/IFRS took an average of 115.5 days to report, which was significantly longer, compared to both U.S. GAAP (p = 0.02041) and RAS (p = 0.00035).

One possible explanation for the shorter reporting delay when RAS was used is because Russian banks are required by law to use RAS, which means they already have the information available but do not

97. A short explanation needs to be made regarding the distinction between International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS"). Actually, there is no difference. The International Accounting Standards Committee ("IASC") was the group that issued International Accounting Standards ("IAS"). It issued 41 standards. In 2001 it changed its name to the International Accounting Standards Board ("IASB"), at which time it started issuing International Financial Reporting Standards ("IFRS"). The IAS remain in effect, although some standards have been repealed or amended. Its official website is www.ifrs.org.

have to convert RAS to U.S. GAAP or IAS/IFRS.[98] However, that does not explain why the difference in reporting delay is not significant when comparing RAS to U.S. GAAP. One possible explanation is that the sample size for U.S. GAAP is small (n = 14). Another possible explanation is that the accountants who do the conversion might be more familiar with U.S. GAAP than IFRS, but this explanation is purely speculative.

The most obvious explanation to explain why it takes longer to report when using IAS/IFRS is because the RAS figures must be converted into IAS/IFRS, which takes time, but that does not explain why conversion to U.S. GAAP is faster. Although there are differences between U.S. GAAP and IFRS, the differences are generally slight, and even in cases where the difference is more than slight, the conversion from RAS to either U.S. GAAP or IFRS can generally be expected to take about the same amount of time. One might expect that conversion to U.S. GAAP might actually take longer, since U.S. GAAP has more rules and GAAP rules are often more complex than the IFRS version of a similar standard, but such was not the case.

D. AUDIT FIRM

Since the Russian banks in this study use different audit firms to conduct their audits, the authors further compared the data based on the different audit firm banks used. Most of the Russian banks in the sample used one of the Big Four firms but some used Russian firms or another international firm. Table 6 reports the data. Table 7 reports the p values.

Table 6: Audit Firm

Firm	n	Mean	Median	Range	SD	Std. Error
DT	107	120.0	117.0	35-376	47.52	4.59
EY	62	101.0	94.5	46-213	38.28	4.86

98. All Russian banks must report to the Russian government using RAS. They may also use other accounting standards, but are not required to under Russian law. The Russian banks included in the present study all reported using RAS, but generally did not publish their RAS financial statements in English. Those who did publish them in English were included in the present study.

The incentive to report in a timely manner could be less when using US GAAP or IFRS in cases where the Russian bank stock is not listed on a foreign stock exchange, but could be more when its stock is listed on a foreign exchange.

KPMG	102	115.1	105.0	44-346	50.31	4.98
PWC	116	117.6	110.0	46-269	38.71	3.59
R	31	109.5	101.0	29-270	54.77	9.84
BDO	5	110.4	90.0	86-171	36.36	16.26
GT	6	22.8	21.0	18-31	4.58	1.87
N/A	11					
Total	440					

Table 7: p Values
Audit Firm

	EY	KPMG	PWC	R	BDO	GT
DT	0.00527	0.47715	0.68312	0.34163	0.59796	2.097-34
EY		0.04434	0.00708	0.44258	0.60539	1.484-22
KPMG			0.69146	0.61323	0.79266	4.952-31
PWC				0.44665	0.68713	1.433-34
R					0.96415	6.899-10
BDO						0.00547

PricewaterhouseCoopers ("PWC") conducted the most audits (116), followed by Deloitte & Touche (107), KPMG (102) and Ernst & Young (62). All Russian firms combined conducted only 31 audits, followed by Grant Thornton (6) and BDO (5). In eleven cases, the audit firm could not be determined.

The banks audited by Grant Thornton were by far the timeliest, with an average reporting delay of only 22.8 days. Their delays were significantly less than those for the banks audited by the other firms. However, it should be pointed out that, with a sample size of 6, the conclusion is not as strong as it would be if the sample size were larger.

In terms of the speed with which audit reports are issued, the following generalizations emerge:

- Grant Thornton issues their audit opinions significantly faster than any other audit firm;
- Ernst & Young issues their audit opinions significantly fastest of the Big Four firms;
- Three of the Big Four firms other than Ernst & Young, the Russian audit firms, and BDO all take about the same amount of time to issue their audit opinions.

One possible explanation for why Ernst & Young takes less time to issue its opinions is because Ernst & Young has an international reputation for specializing in banks. However, the other three firms in the Big Four would likely dispute the claim that Ernst & Young is more of a specialist than the other firms, and the present study shows that Ernst & Young conducted fewer audits of Russian banks than any of the other Big Four firms. Thus, the reason for the faster time is unclear.

V. CONCLUDING COMMENTS

This study found that the Russian banking industry does not report financial results on a timely basis, as a general rule, and that recent financial history seemingly indicates that the situation is getting worse rather than better.[99] The study also found that some factors might have an influence on the timeliness of financial reporting. Banks that report their results using IFRS take significantly longer to publish their reports than do banks that use either U.S. GAAP or Russian Accounting Standards. For some reason, banks that retained Grant

99. An earlier study using the same methodology reached similar conclusions. However, the earlier study examined fewer banks (73, compared to 79 in the present study) and examined fewer years (sample size 254, compared to 440 in the present study). The former study included data only up to 2007, whereas the present study goes up to 2010. Thus, the present study expands on the earlier study and confirms its findings. *See* Robert W. McGee and Thomas Tarangelo, *Corporate Governance, the Timeliness of Financial Reporting and the Russian Banking System: An Empirical Study* (Florida International University, Working Paper, 2008), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1141885.

Thornton were significantly faster in reporting results than were banks that retained one of the Big Four accounting firms or a Russian firm, and those who employed Ernst & Young reported results significantly sooner than banks that retained the services of another Big Four firm.

The results of this study raise several questions for future research. Could these results be duplicated in studies of other Russian industries? Could they be duplicated in studies of the banking sector or other sectors in other Central and East European countries and former Soviet republics?

Why were Grant Thornton clients able to report significantly faster than the clients of other audit firms? Was this result a fluke, which might be the case, given the small sample size, or are there some underlying factors that need to be examined? Why were the banks that hired Ernst & Young able to report significantly faster than the banks that retained the services of other Big Four firms? Could this result be duplicated in studies of banks in other countries? Does Ernst & Young report the results of bank audits faster in other countries as well? Does Earnst & Young report results faster for other sectors of the Russian economy?

Why is the trend toward less timeliness rather than more? Are there similar trends in the banking sectors of other transition economies, and if so, why? Are there similar trends in other sectors of the Russian or other transition economies?

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