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**Opening Address by Encik Sharkawi Alis  
Director of Market Supervision Division,  
Securities Commission  
at the  
Seminar on Financial Reporting and Compliance  
on  
7 October 1999  
Conference Hall, Securities Commission**

Distinguished Guests, Ladies and Gentlemen: Assalamualaikum wbt. A very good morning and welcome to the Seminar on Financial Reporting and Compliance.

### **Introduction**

Today's seminar is held to bring all of you together, to introduce to you all, preparers, auditors, users, regulators, and members of the public, the developments and programmes being undertaken by the Commission in the area of financial reporting. In addition, you will also be hearing viewpoints from the industry participants on the preparation and audit of financial statements including experiences by overseas regulators on surveillance and enforcement of accounting standards. I am indeed pleased to note your attendance and participation this morning which is itself a testimony of public interest and support for the development and regulation of financial reporting in Malaysia.

The financial crisis of 1997/1998 that hit the Malaysian economy has brought to light, deficiencies in the corporate reporting practices. As you all are aware, the most significant and in many cases the crucial element in the waves of corporate failure is the absence of strong corporate governance, lack of transparency and accountability. Whilst the economic down turn has taught us some expensive lessons, these weaknesses must continue to be addressed in light of the expected recovery of our economy right into the coming millennium and the Commission's objective in achieving a full disclosure-based regime by January 2001. One of the essential elements to the success of this policy shift in regulatory approach is to have high quality financial reporting standards by listed corporations.

The government and the Commission are mindful of the concerns expressed over the apparent lack of transparency and we are equally mindful of how transparency can promote fairness and efficiency in the financial market. Greater transparency in corporate activities through appropriate and continuing disclosure is one of the crucial factors in sustaining the attractiveness of listed corporations as investments and serve towards our objective of creating a resilient and self-sustaining Malaysian capital market. There is a clear connection between the efficient and effective capital market and high quality financial reporting standards.

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Ladies and Gentlemen:

This brings me to the theme of my address, which advocates focusing our energy 'Towards Greater Transparency in Financial Reporting and Compliance with Accounting Standards'.

### **The Financial Reporting Framework**

With the passing of the Financial Reporting Act 1997 (FRA), the Malaysian Accounting Standards Board (MASB) was established to function as the sole standard-setting body in Malaysia. The compliance with the approved accounting standards is enforced by the Central Bank, Registrar of Companies and the Commission. The FRA also sets in place an institutional financial reporting framework which is in line with those in mature jurisdictions. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard setting process, including preparers, users, regulators and accounting profession.

Accounting standards are nothing new to the accounting fraternity. The accounting profession had been adopting international accounting standards since way back in 1978, albeit with different degrees of compliance. Today, MASB takes on the role of promulgating high quality accounting standards. It is expected that full compliance with these standards will result in comparability, consistency and the promotion of greater accountability in the financial statements, thus creating a platform for the enhancement and greater transparency in financial reporting.

The progress in the domestic front is in line with the commitment of standards setters worldwide to the development of international accounting standards. Standard setters are guided by the belief that ideally the process ultimately will lead to the worldwide use of a single set of high-quality accounting standards for both domestic and cross-border financial reporting. The demand for those standards is driven by the desire for high quality, internationally comparable financial information that capital providers find useful for decision making in global public capital markets. In this respect, and, in most cases, our standards are set with reference to international accounting standards issued by the International Accounting Standard Committee, with the exception of those which are indigenous to the Malaysian scene.

### **Regulation on Compliance with Accounting Standards**

In line with these developments, the Commission has stepped up initiatives in ensuring high quality standards of financial reporting by listed corporations. Towards this effort the Financial Reporting Surveillance and Compliance programme was established with the primary objective of ensuring listed corporations' compliance with the accounting and financial reporting requirements in the preparation and presentation of financial statements. The programme is also intended to support the shift from merit-based to

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disclosure-based regulation. Acceptance and compliance with the financial reporting standards is a cornerstone to the success of a disclosure-based environment.

In tandem with the call and urgent need for strict compliance with accounting standards, the Securities Industry (Compliance with Approved Accounting Standards) Regulations 1999 came into force on 18 June 1999. A formalised structure of compliance and accountability is hence in place, signaling a new era in financial reporting in Malaysia. Our country is one of the few jurisdictions having such a structure. Later in the seminar, we will be hearing from representatives of the UK and Australian regulatory bodies on their similar structures to address issues of accountability, disclosure and compliance with accounting standards.

Within the current financial reporting landscape, the tone has been set for a higher degree of accountability. The new regulations require every listed corporation, its directors and chief executive officers to prepare and present the company's financial statements in accordance with the approved accounting standards. It should be stressed that failure to comply with these regulations is an offence under the Act.

The critical change, ladies and gentlemen, between complying with accounting standards prior to MASB and after, is that now, compliance is a requirement of the law. Accountants were previously the parties responsible for compliance with the accounting standards by virtue of their membership with the professional bodies. The impression presented to the Commission is that there is little awareness, if any, among the company directors that they are responsible for the preparation of their financial statements. It is hoped that with the regulations in place, directors and financial officers involved in the accounting functions would be compelled, to take ownership of the financial statements and will address any deficiencies in the preparation of their financial statements. With the responsibility and accountability fully understood, it is also expected that corporations will realise the importance of complying with accounting standards, thus urging them to comply voluntarily, that is compliance because they want to and not because somebody is watching over them.

In the past, users of financial information are provided with financial reports of listed corporations through the half-yearly reporting. The frequency of these reporting was found to be untimely, and the quality of information was less than satisfactory. This has led to users, in some instances, being caught unaware of substantial changes in the financial condition of such corporations. In the pursuit of strengthening corporate accountability, quarterly reporting by listed corporations was introduced. This requirement also seeks to provide users with timely and adequate information.

Some observers may be of the view that this new regime might be too onerous and demanding. It is apt for me to state at this juncture, that the prevalent inadequacy, inconsistency and diversity of disclosures among listed corporations and the preparation of financial statements, merit concern and call for a concerted action by the regulators

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and industry participants. Left unchecked, such practices could undermine the confidence of both users of financial statements and regulators.

Ladies and Gentlemen:

### **Financial Reporting and the Capital Market**

The role of financial reporting is the cornerstone of any market especially in an emerging capital market such as ours. The cost of capital is directly affected by the availability of credible and relevant information. If listed corporations were to be a viable attraction for capital, adequate disclosure and transparency of the corporation's financial performance and good corporate governance must be assured. When corporations tell more, it results in less uncertainty. Transparent information does not obscure information relevant to economic decision making. Hence, listed corporations applying accounting standards comprehensively in their preparation of financial statements would be providing users with information that is understandable; relevant; reliable; comparable and consistent.

Financial reporting is a complex process involving, as it does, the interaction of accounting standard setters, preparers, regulators, auditors, corporations, and to a greater extent, the influence of the investing community and corporate governance. While it may be gratifying for one of the constituents to lay all the blame at the door of another, the truth is that all share the responsibility for achieving the much-needed improvement.

High quality of financial reporting is not just a product of high quality accounting standards. It is also dependent upon a supporting infrastructure that works to ensure that the accounting standards are interpreted and applied in a rigorous fashion, and that issues and problems are identified and resolved rapidly. This infrastructure includes high quality auditing standards, responsible audit firms with international quality controls, quality audit profession and oversight by the relevant bodies. The product of high quality standards and supporting infrastructure enhances the quality of the financial information reported by corporations.

The weight given to financial reporting is indeed heavy, as financial information travels far; it goes beyond the company management to the myriad external users, and even across national boundaries to international investors. For the majority who strive within the law, their efforts will be rewarded in company success and investment appeal. For the recalcitrant, they would have to face the authorities and investors' disdain.

Adequate, reliable and timely information is a base for a vibrant and stable capital market. A check and balance mechanism is therefore necessary to ensure that the accounting and audit profession does a good job consistently, and the directors are well aware of their responsibilities in ensuring compliance and providing quality financial

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reporting to the shareholders. Management and the Board of Directors now have to take an active interest in being knowledgeable not only of the businesses they oversee but also of accounting standards and the financial reporting requirements to ensure that shareholders are adequately informed. Gone are the days when they could rely heavily on external auditors, as it is now a requirement of the law that in addition to their being responsible for the financial statements, the directors also need to comply with approved accounting standards.

### **Conclusion**

Ladies and Gentlemen,

The message is clear. Our listed corporations must have the stamp of quality. Muddy financial reports and financial reporting must go out the window. Transparent financial reporting is one of the principal reasons for a sound market infrastructure. The interests of all participants in the financial reporting process allow us to seek the widest possible commitment of excellence in financial reporting. We need the continued joint efforts of all parties concerned – directors, audit committees, auditors and company's financial management to realise the goal of having a built-in market integrity through high quality financial reporting that will provide the necessary confidence and information for informed investor decision making.

Ladies and Gentlemen:

We are confident that the task before us is achievable. We have seen the committed efforts of other jurisdictions, which have earned them recognition and placing their markets at the envy of the world. Once again, I would like to call upon all parties concerned to undertake this task with vigor, towards achieving world class financial standards. The Commission will continue to strengthen its efforts and emphasis on the need for greater transparency, accountability, and effectiveness in financial reporting.

On this note, let me thank the speakers who have come from far and near, and take time off from the busy schedules to make their invaluable presentations here today. I also thank the participants for showing their keen involvement by attending this seminar.