

# Research on Accounting Information Disclosure of the NEEQ Market

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## Abstract

The National Equities Exchange and Quotations (for short, NEEQ) market has become a national securities trading place for almost two years. More and more companies have been listed on the NEEQ market, which means China's OTC market has entered a period of rapid development. However, with the rapid development of the NEEQ market, the accounting information disclosure problems arise. According to our country's institutional background, this article analyzes the accounting information disclosure problems of the companies which are listed on the NEEQ market, draws lessons from the foreign markets and puts forward relevant policy suggestions.

## Keywords

NEEQ, Accounting Information Disclosure, The OTC Market

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## 1. Introduction

NEEQ is the National Equities Exchange and Quotations (for short, NEEQ), mainly for the innovative, growth-oriented micro enterprises to provide services. The most distinctive feature is the low threshold, no earnings and enterprise scale indicators. As long as equity clarity, sound governance structure can be recommended by the listing broker, perform self-regulatory functions of the National SME share transfer system limited liability. Under this kind of regulations, the level of quality of accounting information disclosure is very important. Accounting information disclosure is that enterprises directly or indirectly issue the fiancé information that will make a big difference on the public making investment decisions. As we all know, high-quality accounting information disclosure helps to reduce information asymmetry, protect the legitimate rights of investors, and promote the healthy development of capital markets.

However, the problem of illegal accounting information disclosure still exists in many companies. On August 11<sup>th</sup> 2013, NEEQ took disciplinary measures to the head of companies which were listed on the NEEQ market.

Because of an illegal occupation of corporate deposit, the controlling shareholder, actual controller, chairman and general manager of Taigu Technology Ltd. have been punished by the NEEQ. According to the information released by the NEEQ, 9 companies are taken to the self-discipline regulatory measures. Why accounting information disclosure problems appear continuously? What is the reason for it? This article analyzes the accounting information disclosure problems of the companies which are listed in the NEEQ market by collecting the disclosure data of the listed company, and then draws lessons from the foreign markets and puts forward relevant policy suggestions.

## 2. Accounting Information Disclosure Problems of Companies Listed on the NEEQ Market

### 2.1. Non-Standard Accounting Information Disclosure

The NEEQ market has issued 2736 revised reports from July 14<sup>th</sup> 2014 to July 14<sup>th</sup> 2015. And 215 of them were financial revised reports. The revised reports issued in 2015 were to supplement the undisclosed information and correct the wrong numbers of the annual report, such as wrong disclosure of important events, connected transaction, corporate governance and extraordinary item etc. (Table 1).

### 2.2. Inadequate Disclosure of Accounting Information

March 14<sup>th</sup>, 2014, NEEQ for the first time published illegal information disclosure of two listed companies in 2013 annual report. As can be seen from the announcement, The one company directly replaced wrong date with right data, missing correction of previous errors; the other one did not disclose the correction of the previous accounting errors which in its annual report. What's more, major issues should be disclosed in interim reports. But, there are the following questions: (Table 2).

**Table 1.** An analysis of the reasons for non-standard disclosure.

ID of listed companies	Reasons for non-standard disclosure
430509	Malformed lead to some form data not shown, in the form of specific error: "Error! Reference source not found."
832097	Due to staff negligence, the salary of independent directors is mistaken and the financial statement note is not filled.
831934	The disclosure of important index and details is in error. The corresponding correction is not affected the company's performance in 2014.
430231	The nature description of the audit report is incorrect, changed "non-standard negative" audit opinion to "negative" comments.
832578	The actual content of announcement is not matched with the announcement's title.
832425	Operational errors, leading to missing pages 3-9.
831428	In the section of Management Discussion and Analysis, the relevant data's units should be "yuan". In the section of Important Notes, occasional connected transactions have changed since the end of accounting period.

Data sources: <http://www.neeq.cc/index>.

**Table 2.** The statistics of manifestations about inadequate disclosure.

Major issues	Problems in the interim reports
Credit, loans	There is not the specific amount, duration, purpose, guarantees in the interim report about applying to comprehensive credit for bank loan.
Investment	When established a wholly owned subsidiary, there is not specific reason, the amount of investment, business scope and influences on the WFOE' operating activities.
Executives resignation	It is not timely to disclose executive resignation and missing reasons for resignation.
Buy or sell major assets	There is not specified amount of funds about purchased real estate in the interim report. Also, the disposal of real estate, corresponding reasons and ways.

Data Sources: <http://www.neeq.cc/index>.

### 2.3. Delayed Accounting Information Disclosure

Statistics also found that, until April 27<sup>th</sup> 2015, 2327 companies have booked the disclosing time of the annual report. However, 106 of them delayed their disclosure. Even 10 of these 106 companies delayed their disclosure without of any explanations. **Table 3** is an analysis of the reasons for delayed disclosure.

As a conclusion, the accounting information disclosure on the NEEQ is irregular, inadequate and not in time. But why these problems appear continuously?

## 3. Reasons for Accounting Information Disclosure Problems of Companies Listed on the NEEQ Market

### 3.1. Defective Accounting Information Rules

Firstly, the accounting information disclosure rule of the NEEQ market made by the State Council and China Securities Regulatory Commission is vague [1]. In December 2013, the State Council issued a document. In this document, the State Council requires companies listed on the NEEQ market to have clear business, clear property rights and a sound corporate governance structure. Furthermore, these companies must perform information disclosure obligation and the disclosed information must be real, accurate and adequate. But the State Council and China Securities Regulatory Commission haven't made any rules about specific contents which the companies listed on the NEEQ market should disclose. As a result, improving the information disclosure system still has a long way to go.

Secondly, all of the companies listed on the NEEQ market follow same accounting information rules [2]. The quality of these companies is different. The relevant laws and regulations don't take individual differences of the listed companies into account [3]. If regulators don't realize the individual differences, the NEEQ market will not play a successful role in help the middle and small sized companies finance.

### 3.2. Imperfect Corporate Governance of Listed Companies

Firstly, the accounting information disclosure rule of the NEEQ market made by the State Council and China Securities Regulatory Commission is vague [1]. In December 2013, the State Council issued a document. In this document, the State Council requires companies listed on the NEEQ market to have clear business, clear property rights and a sound corporate governance structure. Furthermore, these companies must perform information disclosure obligation and the disclosed information must be real, accurate and adequate. But the State Council and China Securities Regulatory Commission haven't made any rules about specific contents which the companies listed on the NEEQ market should disclose. As a result, improving the information disclosure system still has a long way to go.

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**Table 3.** An analysis of the reasons for delayed disclosure.

Reasons for delayed disclosure	Numbers of companies which delayed their disclosure
Without of any explanations	10
Revise the annual report	53
The auditing work has not been finished	21
Work arrangement	12
Technical problems	8
The financial date is wrong	1
A delay of meeting of directors	1

### 3.3. Scarce External Supervision

The NEEQ market is still in their preliminary stage of development. Accounting information disclosure regulation of the government is scarce. The punishing measures of illegal accounting information disclosure are warning, confiscating illegal gains and penalty. Compared with the gains of illegal accounting information disclosure, the cost of illegality is so low that companies listed on the NEEQ market have the motivation to disclose accounting information illegally.

In addition, hosting securities traders also play an important role in supervising companies listed on the NEEQ market's accounting information disclosure behavior. According to the document issued by China Securities Regulatory Commission, hosting securities traders should supervise companies on the NEEQ market constantly. However, many hosting securities traders don't perform this obligation.

## 4. Relevant Policy Suggestions

### 4.1. Conduct Internal Market Stratification of the NEEQ Market

The accounting information disclosure system of the NEEQ market should be stratified. Accounting information disclosure system stratification of the NEEQ market has already been used in America's OTC market, Pink-Sheet Market [4]. In order to improve the information disclosure standards, Pink-Sheet market was divided into OTCQX, OTCQB and OTC Pink. Different sub market follows different rules. Establishing a stratified information disclosure system should take both the demand of the information provider and the reasonable right of the information demander. High level market serves high quality companies. These companies must conform to the strictest financial requirements and external qualitative assessment. Relevant qualitative indicators and established financial requirements are included in the market access requirements. Intermediate level market companies should meet financial requirements but not the special index requirements in terms of market access, and they should accept investigation of China Securities Regulatory Commission. The main intention of companies on the underlying market is speculation, they don't need to accept the investigation of China Securities Regulatory Commission.

### 4.2. Perfect Corporate Governance of the Companies Listed on the NEEQ Market

According to the study of Hanwen Chen and Zhiyi Li [5], weak corporate governance brings the accounting information of poor quality. At the same time, Shizhong Huang [6] suggested that the quality of accounting information is confined to defective corporate governance. The accounting information must be disclosed through legal procedure, which is carried by experts. With the help of hosting securities traders, law office, accounting firm, the listed companies establish better corporate governance and management system, but there has been prominent problem in internal governance. The phenomenon of one share being overwhelming big and decision-making process being formalistic exist in enterprise operation. The listed companies must be supervised continuously by hosting securities traders, establish normative information disclosure required by the system of share conversations and improve internal governance, after they are listed.

### 4.3. Improve External Supervision

Government departments should supervise accounting information disclosure moderately. Strict supervision will inhibit innovation, but insufficient supervision will enlarge the securities market operation risk. Companies who disclose their accounting information illegally should be punished strictly. In addition, regulators must formulate strict market access of hosting securities trader, to supervise them properly performing their duties and increase the cost of breaking the rule.

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