

## **Asymmetric Information of Listed Companies and Investors and Problems of Financial Information Disclosure and Countermeasures**

Xinmeng Shi

Inner Mongolia University of Technology, Management College, China

15147194713@qq.com

---

*Abstract: In China's capital market, there is a significant information asymmetry between listed companies and investors, which can lead to adverse selection and moral hazard, and finally lead to the disorder of capital market and the difficulty of operation. Financial information refers to the economic information which is based on currency data and combines other information to show the status and characteristics of enterprise capital movement. The disclosure of financial information of listed companies is related to the effective operation of the securities market, and also plays an important role in the macro-control of the country and the improvement of the corporate governance structure of listed companies. In this paper, through the analysis of China's Listed Companies in the financial information disclosure problems, and improve the corporate governance structure, put forward suggestions and Countermeasures to strengthen the construction of internal control, formulate standards, strengthen the disclosure of information disclosure of financial information, law enforcement agencies and regulatory authorities to improve the CPA auditing system.*

*Keywords: information asymmetry, financial information, listed companies, information disclosure, securities market*

---

### **1. INTRODUCTION**

The relationship between listed companies and investors is a typical principal-agent relationship: investors have relative information disadvantages, they are clients; the listed companies have relative information advantages, and they are agents. Listed companies tend to hide information or action for selfish purposes, resulting in adverse selection of investors, so that the quality of the listed companies to gain a foothold, and a large number of companies into the market, eventually lead to the development of the capital market is healthy and stable. The solution of this asymmetric information will help establish a sound market order and ensure the sustained and stable development of the capital market.

## **2. INFORMATION ASYMMETRY BETWEEN LISTED COMPANIES AND INVESTORS**

According to ex ante concealment and ex post concealment, the consequences of asymmetric information can be divided into adverse selection and moral hazard.

### **2.1 adverse selection**

Investors believe that the company issues new shares because the stock market overestimates the value of the stock, and when the stock price falls below its value, the company is reluctant to issue new shares. The issue of new shares is regarded as a "bad" signal of the company's value. Therefore, the listed companies with better operating performance are mainly accumulated through internal or debt financing, which forms the adverse selection of the securities market". In the stock market of developed countries, the financing of issuing shares only accounts for a small proportion of the outside financing of enterprises, and the importance of the issue is in line with bank loans and bond financing. The fundamental reason is asymmetric information. In addition, in the China stock market there is a special kind of "adverse selection", namely in the approval system of the original, because the allocation of existing restrictions, some local governments and departments for consideration of local protectionism or influence by local enterprises "Rent-seeking", the quality of listed companies is difficult to grasp, cause a large number of companies to enter the market.

### **2.2 moral hazard**

Generally speaking, the performance of listed companies' moral hazard mainly includes: first, the listed companies change the investment funds. Secondly, it is difficult to evaluate the efforts of managers of listed companies, but can obtain high returns. Thirdly, listed companies conceal important information, not disclose, control the time of information disclosure, and even fabricate false information. Of these three moral risks, the third are the most common and the most serious. Specifically, the information disclosure of listed companies mainly has the following problems: first, accounting information distortion is serious: (1) vague text, arbitrary distortion of the actual performance of the company. (2) the performance prediction and actual errors of listed companies are too large to disseminate false information. (3) the accounting statements of the company are untrue. Particularly reflected in the deferred expenses, deferred assets, financial costs, other business profits, profits and losses, adjustments and subsidies, income and other items. Second, accounting information disclosure is not timely. According to regulations, the report of Listed Companies in the year 6 months after 60 days, the annual report should be completed in 120 days after. But this is a long time, and many companies are always going to reveal at the end of the time that the agencies can make huge profits using insider information to boost their stock prices. When the listed company has adverse

information, postpone the information Chen reported. Third, accounting information disclosure is not enough. The principle of full disclosure includes full and complete form and content. However, concealing some facts and misleading the traders is a common phenomenon in the information disclosure of listed companies, and more importantly, the important matters are not disclosed at all.

### **3. THE INFORMATION ASYMMETRY SOLVES THE COUNTERMEASURE ANALYSIS**

#### **3.1 Improving information disclosure**

According to the signal transmission theory, strengthen the disclosure of information can effectively weaken the adverse selection; at the same time, because of the information disclosure is mandatory, misconduct of listed companies can be timely and fully exposed, which can effectively curb the moral hazard. In March 15, 2001, China Commission officially released the "public offering of securities of the company information disclosure content and Format Standard No. first - prospectus" and "public offering of securities of the company information disclosure content and format of the seventh - stock listing announcement", two documents as approved under the institution of information disclosure is the most basic and most important, they the official release marks the basic framework of mandatory information disclosure has been determined. At the same time, with the securities issuance approval system implementation, the Commission in April 2001 issued a "listed company information disclosure content and format standards" from tenth to 13, respectively, of the listed company IPO application documents, the prospectus, and quarterly report format and content to make it clear. In accordance with the requirements of the listed companies and listed companies are required to fully, accurately, fully and timely disclosure of information to meet the needs of traders. In addition, the new regulations on the prospectus issued by the Commission, for the compilation of content, format and submit the prospectus procedures are made more comprehensive and specific provisions, played a positive role in strengthening enterprise information disclosure; at the same time, the actual implementation of quarterly system also helps increase the enterprise information transparency. Therefore, the essence of the securities issuance approval system is that the mandatory information disclosure is the core, and it tries to disclose all the information that may affect the traders. The information asymmetry between traders and listed companies will be improved. The result will be a reduction in speculative components and a return to investment philosophy. To achieve some clear regulatory and disclosure standards, and constantly improve the efficiency of market supervision, so that the healthy development of the market goals. In addition, the "adverse selection" existing in the original issuance approval system in China's securities market has been resolved because of institutional changes. Since mid March 2001, the stock issuance approval system has been officially implemented, and qualified enterprises have submitted the application documents

under the approval procedure. In fact, the approval system deprives the competent departments of the enterprises and local governments of the power to issue securities, and the original long management authority is unified into the csrc. Therefore, the listing of enterprises is no longer limited by the quota and the quota. As long as the qualified enterprises can enter the candidate scope, and whether they can issue the listing, it depends on the strength of the enterprise itself. As a result, the listing of powerful enterprises will inject fresh blood into the stock market, thus effectively solving the original adverse selection problem.

### **3.2 Optimize the principal-agent contract**

According to the principal-agent theory to solve the problem of asymmetric information, the main objective is to design an optimal incentive contract that satisfies both individual rational constraints and incentive compatible constraints. Not only does the manager accept the contract's utility more than its reserve utility, but also makes the client and the agent's interests bundle up by allowing the agent to share the risk and share the profits. Listed companies usually let the managers have a certain amount of company stock, while the wage and price linked to the manager, so in the poor business performance, small traders to sell stocks, causing the share price fell, because the stock price can be passed out of the manager's effort of the information, the manager will be punished for their actions, the supervision of trader's managers through the "vote by foot". At present, more and more China listed companies began to use equity incentive contract to encourage executives to work hard, but Chinese equity incentive of listed companies is still in the initial stage, compared with the mature American market there is a considerable distance. The underlying problem of principal-agent is the ownership structure of listed companies. Different with the world's three main equity structure model, and model, Germany model and East Asia, the Latin American pattern in China, the shares of listed companies are divided into state-owned shares, corporate shares and tradable shares and non tradable shares of state shares and legal person shares have absolute control right in listed companies, is a typical "a big shareholder" phenomenon. So many shares are centrally controlled, and the negative effects are obvious. On the one hand, from the point of view of listed companies, large shareholders can use their own holding position fully "mining" of listed companies, damage the interests of small shareholders; on the other hand, because of the state holding listed companies, managers appointed by the national administrative intervention, the pursuit of the goal of managers in addition to create value for shareholders, to a greater extent is the promotion of administrative level, which will produce the incentive deviation, change condition of principal-agent optimal contract function. In short, in order to effectively solve the principal-agent problem, the primary and fundamental thing is to change the ownership structure of a large shareholder, whether the current state-owned shares are dominant or the beginning of private enterprises are unique. Only when the rational ownership structure is constructed and the balance between the major shareholders of listed companies is

checked, the scientific and rational corporate governance structure can be established, and the optimal principal-agent contract can be effectively implemented.

### **3.3 Establishing reputation mechanism**

In order to make the reputation mechanism play a role, there must be a perfect market manager or entrepreneur market, forming a market price mechanism to ensure the good reputation of "high quality" entrepreneurs can have a high value ". However, up to now, the professionalization of enterprise managers in our country is still very slow, and the market has not been established. Therefore, we need to cultivate the market manager, manager of a sound operating mechanism of the market, pay attention to the establishment of reputation mechanism, to enter the market manager of every one of the managers to establish a comprehensive, real, continuous, public performance records and credit records. Also note that most of the listed companies in China are state-owned enterprises, in the restructuring process has not formed the perfect governance structure, the manager is appointed by the government, rather than through the market to configure the. So, even if traders realized that violation of disclosure system, and ultimately led to the stock price falling or company purchased by other companies, still can not form substantive restrictions on managers of listed companies, for determining its value is not the market, but the government, specifically the government officials. In this way, managers of listed companies will not pay enough attention to the reputation of the market. Therefore, the change of state-owned shares is a unique situation, but also the reputation mechanism to play an effective role in the prerequisite. In addition, the establishment of reputation mechanism requires the client to supervise the agent effectively. However, the supervision of the manager agent of the "free rider" phenomenon: a shareholder paid a very high cost of enterprise managers behavior supervision, but the benefits are shared by all the shareholders, so the supervision of enterprise managers to become shareholders between public products, each of the shareholders are reluctant to spend huge cost information to the manager the management level and the level of effort to supervise. If the investment body is dominated by small and medium traders, the cost of organizing is too high, and it is unable to achieve effective supervision. Therefore, it is necessary to cultivate institutional investors consciously and establish a diversified investment body. Institutional investors are financial intermediaries that aim to invest corporate bonds and stocks, including insurance companies, mutual funds, pension funds, venture capital investment companies, etc.. Among the institutional investors in China, enterprises, securities institutions and securities investment funds are the three main forces. The large-scale and rapid development of institutional traders has a substantial impact on corporate governance. Compared with the dispersed individual traders, this helps to improve the efficiency of corporate governance and enables owners to supervise and control the day-to-day operations of the company.

## **4. PROBLEMS IN FINANCIAL INFORMATION DISCLOSURE OF LISTED COMPANIES IN CHINA**

### **4.1 Information disclosure is untrue**

"Accounting law", "Securities Law", "listed company's information disclosure management measures" and other relevant laws and regulations, listed companies to disclose financial information must be true and reliable, shall not deceive, mislead the majority of investors. At present, some listed companies have serious distortion of financial information disclosure, which has a serious impact on the normal operation of the securities market and the healthy development of the national economy. Its main manifestations are:

1. Improper use of accounting policies and methods.

First of all, some listed companies in order to expand profits, reduce costs and losses, making false or advance revenues and earnings; secondly, in order to achieve the total profits of the assault, as to the rate of return on net assets rights pass line, some companies make a false sales records in the report before the report again in the days after the return, the the inflated profit for the period, to confuse investors; finally, in order to reduce the cost of these companies will be hung in the cost of "deferred expenses" course, which delayed the time cost accounting.

2. Use related transactions to manipulate corporate profits.

At present, the related transaction is more common among listed companies. Between listed companies and related companies by buying cheap, sold, achieved high profits; or the local government deliberately listed companies to participate in a series of asset restructuring, asset replacement, will achieve the transfer of non-performing assets to affiliates, the good assets transferred to the listed company, has greatly improved the operating performance of listed companies within a short period of time; or by reducing the charge value of listed companies and take the proportion to increase profits.

### **4.2 Inadequate disclosure of information**

The notes to the financial statements shall specify the company's main accounting policies, the breakdown and detailed description of the items in the statements, the unusual items on the reports and the abnormal conditions, and the important matters that cannot be reflected in the statements. Only when the financial information is fully disclosed can investors make rational investment decisions on the premise of obtaining enough relevant information. But from the practical point of view, some companies do not make detailed notes on the financial statements as required, and the qualitative information in the financial statements is not adequately disclosed. But some of the listed companies in the process of bad news to disclose financial information, hide important information. Incomplete information disclosure leads to the fact that the company can not fully understand the company's information, resulting in serious information asymmetry.

#### **4.3 Information disclosure is not timely**

According to the assumption of continuous operation and accounting division, the current financial reporting model is generally based on the annual and monthly basis. Timely disclosure of information is an important requirement to ensure transparency of information. If the company's information disclosure is not timely, it will reduce the efficiency of the market information absorption. The modern securities market is becoming more and more intense and the opportunities are fleeting. Investors want timely, accurate and effective information, and make investment decisions accordingly. The current periodic reporting model can not meet the demand of investors for the immediacy of information disclosure. Taking annual reports as an example, compared with the Anglo American countries, the annual disclosure of Listed Companies in China has a long time lag. But even with looser deadlines, some companies still fail to publish annual or quarterly reports on time.

#### **4.4 Information disclosure is unfair**

Prior to the disclosure of information of listed companies specified in the securities regulatory authorities and the media, in a small range of major companies such as information disclosure of performance data, the profit distribution plan, a major asset restructuring program and other phenomena occur. Such events are most likely to be a few people use, so as to seek improper interests, insider trading, disclosure of financial information of unfair market economy against the principle of fairness, destroy the normal order of the securities market, damage the legitimate interests of investors.

### **5. THE REASONS FOR THE FINANCIAL INFORMATION DISCLOSURE OF LISTED COMPANIES**

#### **5.1 Institutional factors such as government regulation and internal governance structure of listed companies**

Our company law, securities law and some regulations of China Securities Regulatory Commission have stipulated the listed qualification, allotment and listing of the company. Since the listing qualification itself is a kind of scarce resources, local enterprises also tend to be listed as a manifestation of local image and performance, which makes the enterprise as far as possible to avoid the appearance of "continuous" 3 years of losses, such as false business transactions and asset restructuring to achieve policy.

## **5.2 The system and regulations are not perfect**

At present, China's legal responsibility for the violation of information disclosure focuses on the administrative and criminal liability, but China's civil liability for the disclosure of information in violation of the provisions of the lack of accountability system, for the specific how to bear their respective responsibilities without detailed provisions. In addition, some of the published accounting information disclosure requirements are ambiguous and lack of maneuverability.

## **5.3 Drive of interest**

Because of the drive of interest, the listed companies always have to implement their own favorable behavior, so that the accounting information in the quantity and quality of losing fair. In order to meet the requirements of the securities law for the listing of the company, the financial packing of the company leads to the distortion of accounting information before the listing. After the listing of the company, in order to obtain additional rights or qualifications to raise more funds or to raise the stock price to gain more benefits from the interests of the company, the operator will use some illegal means inflated assets and profits, which leads to the distortion of accounting information. Some companies in order to cope with all kinds of information disclosure system of securities law, the company's financial situation, operating conditions to resort to deceit make the disclosure of information, performance and other requirements in accordance with the law, in order to avoid by the CSRC and the stock exchange "cards".

## **5.4 The supervision and management are not in place, and the independence of the intermediary organizations is poor**

The supervision and management of the listed company information related to securities, finance, taxation, industry and commerce, government audit and other administrative law enforcement agencies and accounting firms, law firms and other social institutions and the media, public opinion supervision and other aspects. But in fact, in addition to the current China Securities Regulatory Commission to supervise the information disclosure of listed companies, lack of coordination between other departments, there is no clear responsibility for violations of information disclosure of Listed Companies in the various government departments in the supervision did not form a joint force. The listed company audit client is actually the management of listed companies, which management hired accounting firm to audit supervision and management on behalf of their own behavior, this abnormal relationship makes the CPA unable to listed companies unfair and untrue accounting information serious monitoring, lead to independence of CPA firms by the great distress.

## **5.5 The provision of accounting information mainly depends on the people**

For a long time, the accounting personnel have been accustomed to work here, but rarely apply professional judgment of individuals, resulting in their deviation from the understanding of economic matters or accounting standards and make the wrong classification of economic matters. In the culture, Chinese "respect" concept has a subtle influence on people, accounting personnel in addition to the regulations is to obey the leader's will, as the lack of occupation personnel should have the occupation morals and independent ability, blindly to manipulate the profits of listed companies, providing false accounting information, the accounting information users the wrong decision.

## **6. STANDARDIZE THE ACCOUNTING INFORMATION DISCLOSURE OF LISTED COMPANIES**

### **6.1 Improving the corporate governance structure and strengthening internal control construction**

Poor governance of listed companies seriously affects the quality of their financial disclosure. Bring about serious economic consequences. Therefore, improving the corporate governance structure and improving the efficiency of corporate governance is very important to improve the quality of financial information disclosure and enhance the market competitiveness of listed companies. Therefore, the author thinks that we can start from the following aspects:

1. Improve the capital structure and strengthen the market circulation of non tradable shares. Actively explore the effective measures for the circulation of state-owned shares and legal person shares. Establish an independent state-owned equity exercise institution. Exercise state power on behalf of the state.

2. Strengthen supervision.

Strengthening the internal supervision function of the independent directors and the board of supervisors, and establishing the audit committee system, so as to effectively get rid of the managers' control over the financial information and realize the re supervision of the quality of Certified Public Accountants' practice. So as to provide high-quality financial information for the capital market.

3. Improve the selection and evaluation system of business operators.

Improve the selection and evaluation system of operators, and form an effective incentive mechanism and restraint mechanism. To facilitate the provision of effective, truthful financial information. Set up a perfect professional manager market and its professional ethics standard and punishment regulations. Set up regulatory bodies in the professional managers' market, supervise professional managers and actively explore effective options schemes to integrate personal interests with the long-term development of the company. Setting up the risk reserve

system, restricting the behavior of the managers economically, avoiding the short-term behavior tendency of the managers under the traditional salary system.

#### 4. Reconstruction of financial information delivery system.

Relying on information technology and network technology, the construction of a smooth internal financial information transmission system, the internal departments of listed companies to establish an independent and timely information system, and connected with the financial information disclosure system. Through appropriate authorization, financial information disclosure personnel can query the latest data of each system in real time, shorten the time interval between the production of financial information and the disclosure of financial information, and improve the timeliness of financial information.

### **6.2 Making financial information disclosure standards**

1. We suggest that enterprises be divided into two types: general enterprises and publicly issued securities companies. The disclosure of information is divided into financial information disclosure and non-financial information disclosure.

2. Information disclosure standards for companies that make public issuance of securities by the croc. The standard of information disclosure of the general enterprise is mainly formulated by the Ministry of finance.

3. By the Ministry of Finance and the China Securities Regulatory Commission on the current China has issued the relevant information disclosure rules and methods, the necessary integration and unified regulations, establish a clear division of responsibilities, content complete specification of the company's financial information disclosure standards.

### **6.3 Strengthen the law enforcement efforts of the information disclosure supervision department**

#### 1. Increase non-financial information disclosure content.

Non financial information is not necessarily related to the company's financial situation, but with the company's production and operation activities are closely related to all kinds of information, it does not use monetary as the main measurement unit. For investors, the disclosure of non-financial information, makes up the deficiency of the current financial report, helps to make correct decision; for the listed companies, the disclosure of non-financial information is helpful to the improvement of enterprise management, improve the production efficiency.

#### 2. To strengthen the Commission, regulatory power exchange, cicpa.

The relevant administrative departments should strengthen law enforcement, especially to strictly investigate illegal corporate leaders responsibility, forced those desires expansion, those who defy the law of reflection and the convergence of their own profit behavior, accounting information to restore its true colors in the legal maintenance; in addition, the

legislative departments should further improve the system of laws and regulations, formulate specific rules for the implementation of the accounting regulations. Clear the judgment standard of accounting information disclosure violations and punishment method, avoid the law enforcement of relevant laws and regulations, make more practical and operability, the disclosure of accounting information to block the loopholes in the law does not regulate.

#### **6.4 Improve the auditing system of intermediary organizations and certified public accountants**

1. Encourage the office to implement unlimited responsibility system, establish regular inter industry peer review system, and give preferential policies to firms that take the lead in implementing unlimited responsibility system.

2. To establish a CPA firm evaluation system, by Chinese CPA Association for each firm to implement the occasional spot checks, and evaluation of firms and CPA professional rank, survival of the fittest, to improve the quality of the work of agencies and registered accounting division.

3. Accelerate the reform of the accounting firm system, improve the professional environment, formulate the corresponding self-discipline standards, improve the risk consciousness, professional level and professional ethics level of certified public accountants.

4. We should use the experience of overseas CPA industry for reference to establish the disciplinary system of CPA. Expressly giving disciplinary power.

#### **6.5 Set up incentive system to encourage listed companies to disclose financial information**

Financial information for different listed companies are different, so in addition to the formulation of regulations of listed companies must disclose the content, should also encourage voluntary disclosure of financial information of listed companies, this is also conducive to the establishment of good investor relations. To faithfully and fully, the voluntary disclosure of financial information of listed companies, securities will be: proper publicity through various media, establish a good image of the listed companies, which listed companies investing in the securities market; give appropriate consideration and give corresponding preferential policies in the assessment of credit rating, such as giving tilt priority and policy in the credit, tax, investment and other areas; to guide the relevant agencies for best annual financial information disclosure, corporate governance and other aspects of the selection, and give a substantial reward on voluntary disclosure of financial information and to establish a more perfect system of the company, can reduce the frequency of checks, narrowing the scope of inspection let the listed companies have more time to deal with the healthy development of securities; voluntary disclosure of financial information protection act.

## REFERENCES

- [1] Yu-Ke H U, Tian Z W, Wei L I, et al. Accounting Information Disclosure of Biological Assets in Forestry Listed Companies: Problems and Countermeasures [J]. Journal of Jiangxi University of Finance & Economics, 2014.
- [2] Yu-Ke, H. U., et al. "Accounting Information Disclosure of Biological Assets in Forestry Listed Companies: Problems and Countermeasures." Journal of Jiangxi University of Finance & Economics (2014).
- [3] Yu-Ke, H. U., Tian, Z. W., Wei, L. I., & University, B. F. (2014). Accounting information disclosure of biological assets in forestry listed companies: problems and countermeasures. Journal of Jiangxi University of Finance & Economics.
- [4] Liu C. Problems and countermeasures of the financial governance of listed companies in China [C]// International Conference on Information Management, Innovation Management and Industrial Engineering. IEEE, 2012:109-112.
- [5] Huanzhang X U, Liu L, Wang X, et al. Problems and countermeasures of environmental accounting information disclosure of listing corporations in southwest China [J]. Journal of Xian Polytechnic University, 2016.
- [6] Shi B L. An Analysis on the Problems and Countermeasures in Accounting Information Disclosure of Listed Companies [J]. Journal of Shanxi Institute of Economic Management, 2012.
- [7] Wei, L., Min, M., Marxism, S. O., & University, J. (2016). Problems of financial information disclosure of university education foundation and countermeasures. Education & Teaching Research.
- [8] Wei, Lan, et al. "Problems of Financial Information Disclosure of University Education Foundation and Countermeasures." Education & Teaching Research (2016).