

Full Length Research Paper

Professionals' perceptions of Trinidad and Tobago financial reporting environment

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Abstract

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The purpose of this study was to describe professionals' perceptions about the quality of the financial reporting environment in Trinidad and Tobago (T&T). Also, the study examines whether there are differences in professionals' perception of the quality of the T&T financial reporting environment based on sex and occupation. The purposive, snowball sampling technique was used to select participants for the study. The final sample of persons contacted was 62, of which 32 completed the self-administered questionnaire. On average participants rated the overall quality of the financial reporting environment in T&T as below average (mean 5.42, median 5.57, SD 1.43). Also, the average rating on strength of auditing and reporting standards (mean 5.91, median 6.20, SD 1.56) and strength of investor protection laws (mean 4.21, median 4.00, SD 1.85) indicated that these aspects of the T&T financial reporting environment were perceived as relatively weak. The low level of disclosures and perceived quality of the overall financial reporting environment suggest that it might be beneficial for leaders in the T&T financial community to revise the laws and regulations governing public disclosures to provide greater public oversight similar to what prevail in advanced market-based economies.

Keywords: Trinidad and Tobago, Financial Reporting Environment.

INTRODUCTION AND MOTIVATION

The purpose of this study is to describe the perceptions of professionals engaged in the governance of Trinidad and Tobago (T&T) companies about the quality of the financial reporting environment in the country. Also, to provide context to the perceptions, the study describes the actual financial reporting regulations and practices in T&T. Further, the study examines whether there are differences in professionals' perception of the quality of the T&T financial reporting environment based on sex and occupation. Additionally, the study compares these perceptions with ratings published by international agencies to determine the extent of congruence between them.

It is important to examine these issues for at least two reasons. First, a country's governance environment,

defined by Li and Filer (2007: 82/3) as the macro social, political, legal and economic institutions that shape and constrain micro governance behavior in social, political, and economic exchanges, has been linked to its attractiveness as a destination for private portfolio equity capital, due in part to its influence on public trust and confidence in the effective regulation of the economic exchange behavior of individuals and organizations and the protection of private property rights (Li and Filer, 2007; North, 1990; La Porta et al., 1998). For example, North (1990) asserted that institutions in a society such as laws, policies, customs and norms, are the rules of the game that govern the interactions, behaviors and activities of organizations and individuals, influencing issues such as whether firms can be made to honor their

commitments to investors, creditors and other stakeholders and via what mechanisms. Similarly, Eleswarapu and Venkataraman (2006) reported that legal and political institutions affected equity trading costs of securities domiciled in several developed and emerging market, and Kumar, Rajan and Zingales (2001) reported that firms from countries with better legal institutions were larger in terms of sales and assets, and had better access to external finance. Further, the international finance literature suggests that capital markets in emerging countries (such as T&T) tend to (1) be less efficient than capital markets in more developed countries, and (2) offer less protection for shareholders and creditors (La Porta et al., 1998). The literature also suggests that effective rule-based governance environments (which according to Li et al (2004) has the following features: law-making processes that are transparent and just (Rawls, 1971), a law-adjudication function that is independent, a law application branch that is checked and balanced by the law-making and law-adjudication branches, the impartial and efficient enforcement of laws by the state, and people's reliance on public rules to protect their interests in social and economic exchange), are important for attracting private portfolio equity capital (Li and Filer, 2007), partly due to their ability to provide timely access to high quality financial and other corporate disclosures that are critical for market efficiency.

Second, these issues have recently assumed great significance in T&T as publicly listed firms have increasingly found themselves competing for private portfolio equity capital in globalized financial markets as technological advances and regulatory reforms have made it easier for Caribbean investors to invest internationally. The process of attracting portfolio equity capital to the T&T Stock Exchange (TTSE) has been complicated by revelations about the major role played by (1) shoddy financial reporting and external auditing, (2) weak regulations and (3) ineffective compliance monitoring and enforcement mechanisms, in the recent failure of the country's largest conglomerate, CL Financial Limited. For instance, as noted by Soverall (2012) the Central Bank of Trinidad and Tobago (CBTT) as the regulator of CLICO and British American Insurance, two key elements of the CL Financial Group, did not have the authority to mandate actions it deemed necessary to correct significant strategic, financing, operating and reporting shortcomings it unearthed. CLICO was not in compliance with the statutory funding and other requirements; however, despite the failure of several attempts at moral suasion over several years by the CBTT, no recourse was made to more formal and or punitive measures (Business News Americas, 2011; Soverall, 2012).

Unfortunately, there has been very little research regarding the influence of a country's governance environment on its economic wellbeing in developing

countries (Claessens and Yurtoglu, 2012). As such, there is very little information about the quality of the governance environment in English-speaking Caribbean countries, outside of ratings and rankings produced by international agencies which according to Syntegra (2011) fail to effectively tap into the perceptions of local professionals. This study will begin to fill this gap in the literature.

The paper is presented in two main parts. The first part provides a brief overview of the Trinidad and Tobago Stock Exchange (TTSE), the financial reporting requirements in the country, and the actual financial reporting practices of publicly listed T&T companies. The second part of the paper presents the perceptions of professionals regarding the quality of the financial reporting environment in T&T. It begins with a description of the methodology used to collect and analyze the data, then describes and discusses the findings. Finally, conclusions, implications and recommendations are presented.

Trinidad and Tobago Capital Market

Overview of Trinidad and Tobago Stock Exchange

The TTSE is fairly young when compared with stock exchanges in developed nations having been established in 1981. It is small and illiquid (Deloitte Touche Tohmatsu [DTT], 2004). This is exemplified by the fact that its turnover ratio (the value of total shares traded divided by market capitalization) averaged 1.1% for the period 2010 – 2011 (TTSE, 2012), compared to 108.1% for the high income non-OECD markets (TradingEconomics, 2013). In keeping with its small size and illiquidity, the importance of the TTSE to the national economy, as measured by the level of market capitalization to GDP at an average of 47.56% for the 2009 – 2011 period (CIA, 2013) was substantially lower than the average of 132.33% for the high income non-OECD markets during the same period (TradingEconomics, 2013). Conversely, in December 2011 the market value of all ordinary securities in issue stood at approximately US\$ 14.3 billion, which represented 53.1% of GDP (CIA, 2013). This value was almost 20 percent greater than the value of deposits held by commercial banks. (This statistic was computed based on information from page 1 of the 2011 Annual Report of the TTSEC (2011b.))The TTSE market is thus a relatively important financing source for the local economy (companies).

Financial Reporting Environment in Trinidad and Tobago

Five pieces of legislation – the Companies Act, the Securities Industry Act, the Financial Institutions Act, the

Insurance Act, and the Act incorporating the local professional accountancy body – are particularly influential in shaping the financial reporting environment in T&T. In turn, as a culturally dominated society (Nobes, 1998) and a satellite of the western metropolis (Wallace and Briston, 1993), both the T&T legislative framework and its professional accountancy pronouncements are influenced by the country's colonial legacy and its dominant economic and social ties. Corporate disclosure practices in T&T are also influenced by the share ownership and control structure of firms. Most economically significant companies are either closely-held by families, financial institutions or the state, and or controlled by insiders using a conglomerate or holding company structure (Soverall, 2012). These insiders can generally get access to corporate information from private sources. Hence they do not have much incentive to support initiatives to improve public corporate disclosures; especially since doing so might strengthen the negotiating position of minority owners and other outsiders whose interests might not align well with those of insiders. This dynamic is reinforced by the fact that two of the three major daily newspapers in T&T, the Express and the Guardian, and two of the three national television stations, TV6 and CNC3, are controlled by conglomerates, Neal and Massy Holding and ANSA McAL Holding, respectively, while the third television station, CNMG, is controlled by the state. This pattern of media ownership potentially minimizes the media's role as a positive agent for change in corporate governance.

Overview of Required Disclosures by Publicly-listed Companies

(These reporting requirements were determined based on a review of the relevant legislation and regulations along with studies reported by Bowrin (2008) and Syntegra (2011)). There is a two-tier external disclosure system in T&T; disclosures to investors (and the public), and disclosures to regulators. Based on the requirements of the Companies Act, Chapter 81:01 (Laws of T&T, 1995), public companies must disclose to shareholders comparative financial statements, approved by the BOD and signed by at least two directors, reports of the external auditor, if any, and other information relating to the financial position of the company or operating results required by the articles of the company, its bye-laws, or any unanimous shareholder agreement. Public companies are also required to disclose any material interests of directors, and notice of meetings to shareholders, directors and auditors. Additionally, by requiring firms to use International Financial Reporting Standards (IFRS) as generally accepted accounting principles (GAAP), the Act mandates companies to provide the financial disclosures stipulated in those standards (namely, major estimates and significant

accounting policies used in preparing the financial statements, and the impact of alternative accounting decisions in areas where management discretion is exercised). Further, the Securities Industry Act Chapter 83:03 (Laws of T&T, 1995) requires publicly listed companies to publicly disclose quarterly financial results signed by at least two directors and to state if they are audited or not; shareholdings of directors and senior officers, connected persons, and the ten largest blocks of shares; a management discussion and analysis prepared by the company after the end of its financial year. Also, trades done by directors, senior officers and connected persons must be publicized within five days of the activity.

Regarding disclosures to regulators, the Securities Industry Act, Chapter 83:03 (Laws of T&T, 1995) requires publicly listed companies promptly notify the TTSE of decisions taken to pay dividends; announce profits, rights or bonus issues; acquire or sell material assets, or significantly change share ownership or control. Also, under the Companies Act, Chapter 81:01 (Laws of T&T, 1995) public companies must disclose in their Annual Returns filed with the Companies Registry any changes in the types of shares issued, the shareholding, the execution of mortgages and bills of sale that bind the company's assets and any other encumbrances to the company's assets. Additionally, under the Financial Institutions Act, Chapter 79:09 (Laws of T&T, 2008) publicly-listed banks, non-bank financial institutions and insurance companies are required to disclose to the Inspector of Financial Institutions an Annual Report which includes financial statements, internal control structures and processes signed by management, and a statement signed on behalf of directors that they are satisfied with the company's risk management systems. Traditionally, corporate disclosures made to regulators have not been publicized.

It is apparent that T&T companies are required to publicly disclose relatively little financial and corporate governance information. However, they are required to provide more comprehensive disclosures to the Companies Registry, the Central Bank (for financial institutions and insurance companies), and the Trinidad and Tobago Securities Exchange Commission (TTSEC for public companies). This is seen in the fact that T&T companies are required to publicly disclose only seven of the 52 United Nations Conference on Trade and Development (UNCTAD) International Standards of Accounting and Reporting (ISAR) benchmark disclosures. This was among the lowest number of required public disclosures among the 45 nations reviewed by the UNCTAD in 2010.

This pattern of fairly limited public disclosures and more extensive disclosures to regulators reflects what the former governor of the CBTT, Ewart Williams (2010:3) termed a "soft touch approach to regulation, aligned with the philosophy of the market mechanism." Under this

approach, firms are expected to voluntarily provide investors with adequate amounts of high quality information in a timely manner to get access to needed capital. This approach to regulation is probably somewhat naïve given the experiences of advanced countries with this model (Claessens and Yurtoglu, 2012), and the preference for secrecy by T&T companies (Bowrin, 2008). To be successful this approach needs the commitment of significant resources to regulatory agencies. Also, market participants need to have confidence in the ability and willingness of regulators to prevent companies and insiders from taking advantage of investors and creditors. This confidence is being undermined by the prevailing view among policymakers and regulators that regulators cannot share the information that is periodically disclosed by public companies with other regulators, or the public (Soverall, 2012). This approach to regulation suggests a limited view of the role of investors and other stakeholders in vetting investment prospects and in helping to shape corporate agendas.

Actual Reporting Practices

(This section draws heavily from information presented by Syntegra (2011) and UNCTAD (2011)). In terms of the 17 financial transparency and auditing disclosures included in the UNCTAD ISAR benchmarks, publicly listed T&T companies provided fewer disclosures (48%) than did companies from other emerging markets (71%). However, they displayed the same disclosure pattern by category as firms in the average emerging market. For both T&T companies and those in other emerging market countries their performance was better on financial transparency disclosures (T&T 71% versus average emerging market 82%) than the auditing disclosures (T&T 26% versus average emerging market country 62%). Also, the variability of the total number of financial transparency and auditing disclosures for each T&T company which ranged from a low of 3 to a high of 17 (of 17), was similar to that for companies in other emerging markets which ranged from 4 -17 (UNCTAD, 2011).

One explanation for the low level of financial transparency and audit disclosure is the very few requirements based on laws and regulations, only 7 in T&T compared to 14 items for the average emerging market (range 4 to 17). See footnote of Table 1. (Two of these seven corporate governance disclosures in T&T related to ownership structure and the exercise of control rights, and board and management structures and processes and were excluded from the analysis of financial transparency and auditing disclosures. Also, Syntegra (2011) reported that T&T companies are presently required to provide only five of the 52 UNCTAD ISAR benchmark disclosures probably because it did not consider the disclosures required by adoption of the IFRS

and T&T GAAP). On a more positive note, 94% of companies listed on the TTSE provided more than the minimum required disclosures. Even with the small number of disclosures required of T&T companies, the level of compliance is imperfect. An average of 95% of publicly-listed T&T companies provided the five required financial transparency and auditing disclosures, which while better than the rate of compliance with required financial transparency and auditing disclosures (14 items) in the average emerging market (71%), was comparable to the 93% compliance rate for the same five required disclosures in the average emerging market. See Table 1. Further, on average about 3 of the 31 publicly listed T&T companies did not disclose at least one of the seven required corporate governance disclosures in 2011. While this might seem like a fairly high compliance rate at first glance, given the fact that only seven specific disclosures are required, it reflects poorly on overall reporting quality and regulatory enforcement. The average rate of disclosure for the five required financial transparency and auditing disclosures in T&T was 95% versus 27% for the other 12 UNCTAD good practice disclosures. When this is viewed alongside the very low level of actual disclosures in T&T, it suggests that the quantity of disclosures in T&T could be improved by increasing the number of required (financial transparency and auditing) disclosures. (Table 1)

The next section describes the methodology used to examine professionals' perceptions about the quality of the financial reporting environment in T&T.

RESEARCH METHODS

First, the accounting, law, and finance literature was reviewed to identify key aspects of the governance environment that affect a country's financial reporting requirements and practices. This review also clarified the status of the local stock exchange and facilitated the development of a questionnaire to gauge professionals' perceptions of the quality of financial reporting regulation and enforcement in the country. The questionnaire was reviewed for face validity by two colleagues, both of whom have extensive experience in the Caribbean financial reporting industry. It was pilot-tested on 2 legal/financial professionals based in T&T to confirm its readability by the target audience. Also, the literature review identified international ratings for T&T on key aspects of the country's governance environment.

Sample Selection

The purposive sampling technique was used to select participants for the study. This allowed the researcher to target leaders in the accounting, finance and legal professions of T&T based on (a) professional qualification/

Table 1. Actual Financial Transparency and Audit Disclosures Trinidad and Tobago versus Emerging Market Sample.

Disclosure Items by Category	% of TT Firms disclosing this item (n=31 firms)	% of International Firms disclosing this item (n=188 firms)
Financial Transparency		
1.* Financial and operating results	100	100
2.* Critical accounting estimates	97	91
3.* Impact of alternative accounting decisions	97	78
4.* Nature, type and elements of related-party transactions	94	94
5.* Company objectives	87	99
6. Board's responsibilities regarding financial communications	52	79
7. Decision making process for approving related-party transactions	23	52
8. Rules and procedures governing extraordinary transactions	13	59
Financial Transparency Average	70.375	81.5
Auditing		
9. Internal control systems	48	86
10. Process for appointment of external auditors	45	81
11. Process for interaction with internal auditors	35	79
12. Scope of work and responsibilities for internal auditors	35	56
13. Process for interaction with external auditors	23	74
14. Duration of current external auditors	19	58
15. Board confidence in the independence and integrity of external auditors	19	44
16. Rotation of external auditors	03	19
17. External auditors' involvement in non-audit work and fees paid to auditors	03	55
Auditing Average	25.556	61.333
Overall Average	47.965	70.824

Footnote:

*Indicates the UNCTAD Good Practice Financial Transparency and Auditing disclosures that are required of publicly traded Trinidad and Tobago companies. The average number of UNCTAD Good Practice Financial Transparency and Auditing disclosures required by the emerging marketing countries included in the 2011 report was 6.76 or 8 and 6.68 of 9, respectively; and ranged from 2 to 8 and 2 to 9 for Financial Transparency and Auditing, respectively.

Source: Adapted from (1) Syntegra (2011) Corporate Governance Disclosures in Trinidad and Tobago and (2) UNCTAD (2011) Corporate Governance Disclosure in Emerging Markets.

certification in accounting or finance or commercial /company law AND (b) at least 10 years senior level practical experience in corporate financial reporting or teaching / researching issues related to corporate financial reporting in Trinidad and Tobago OR, (c) recognition by peers in the local accounting, finance or legal fraternity as an expert in corporate financial reporting. A list of individuals that may have access to the information or expertise needed to complete the questionnaire was developed based on the researcher's knowledge of the T&T financial reporting environment. Since it is extremely difficult to generate an exhaustive list of such individuals a priori, the researcher employed the snowball sampling technique to identify additional subjects. The final sample of persons contacted was 62, of which 32 responded; a response rate of 51.6%.

Data Collection

The self-administered questionnaire was distributed to participants via an e-mail which contained a link to the instrument at SurveyMonkey.com. The email introduced the study, and the researcher, and solicited the participation of potential subjects. It included the information needed for subjects to provide informed consent, and assured participants of the anonymity of their responses. The initial e-mail was followed by e-mail reminders after two and four weeks, respectively.

DATA ANALYSIS AND FINDINGS

Table 2 presents the descriptive statistics for respondents' perceptions regarding the factors that shape

Table 2. Descriptive Statistics for Perception Variables.

Perception Variables (Trinidad)		N	Mean	Median	Std. Deviation	Min.	Max.	Z Skewness	Z Kurtosis
1	Efficiency of country's judicial system	32	4.56	4.50	2.24	1.00	10.00	0.408	0.340
2	Citizens respect for country's laws	32	4.28	4.00	2.17	1.00	9.00	0.814	0.372
3	Strength of insider trading laws	32	3.94	4.00	2.12	1.00	8.00	0.783	0.894
4	Enforcement of insider trading laws	32	3.56	3.00	2.27	1.00	10.00	2.473*	1.194
5	Shareholders protection in laws	32	5.13	5.50	2.01	1.00	10.00	0.623	1.257
6	Strength of accounting profession	31	7.10	7.00	1.66	1.00	10.00	3.273*	3.273*
7	Resource endowment of accounting standard setters	31	6.26	7.00	1.75	2.00	10.00	0.910	1.319
8	Resource endowment of auditing standard setters	31	6.13	7.00	1.69	2.00	10.00	1.252	0.826
9	Resource endowment of agency responsible for enforcing accounting standards	30	5.80	6.00	1.67	2.00	10.00	0.881	0.958
10	Resource endowment of agency responsible for enforcing auditing standards	30	5.67	6.00	1.54	2.00	9.00	1.431	0.513
11	Resource endowment of agency responsible for enforcing SEC requirements	30	5.90	6.00	1.79	2.00	10.00	0.557	1.048
12	Resource endowment of agency responsible for enforcement of corporate tax requirements	31	6.26	6.00	1.59	3.00	10.00	1.064	0.837
13	Resource endowment of agency responsible for enforcing financial reporting requirements of company law	30	5.93	6.00	1.66	3.00	10.00	1.515	1.252
14	Commitment of relevant bodies to enforcement of financial reporting requirement	22	6.14	6.00	2.10	1.00	10.00	1.163	0.638
Summary Variables									
15	Average perception of quality of financial reporting environment in T&T	32	5.42	5.57	1.43	2.43	8.86	0.030	1.243
16	Strength of investor protection (average of items 3, 4 and 5 above)	32	4.21	4.00	1.85	1.00	8.67	0.679	0.127
17	Strength of auditing and reporting standards (average of items 7 - 10 and 14 above)	22	5.91	6.20	1.56	2.00	8.40	2.172*	0.909
Note: Z ≥ 1.96 means that variable departs significantly from the normal distribution									

the quality of the T&T financial reporting environment. The 14 items measuring different aspects of the T&T financial reporting environment were used to create three summated variables based on insights gleaned from the literature. The overall summated variable comprised all 14 items and yielded an acceptable

internal consistency estimate of reliability (coefficient alpha = .89). The second summated variable, Perception of the Strength of Auditing and Financial Reporting Standards, comprising items 7 – 10 and 14 in Table 2, generated an alpha coefficient of .88. The third summated variable, Perception of Investor Protection,

comprised item 3, 4 and 5 in Table 2 and yielded an alpha coefficient of 0.82. These summated variables were used in the primary analyses and were supplemented by analysis of individual items (questions) to provide additional insights into selected findings. (Table 2)

On average participants rated the quality of the

Table 3. Comparison of Professionals' Perception with Designated Mean Level (6).

Variables	Mean	SD	t	df	One-Sample T-Test	
					Sig. (2-tailed)	Mean Difference
Efficiency of country's judicial system	4.56	2.24	-3.63	31	.00	-1.44
Citizen's respect for country's laws	4.28	2.17	-4.47	31	.00	-1.72
Strength of insider trading laws	3.94	2.12	-5.49	31	.00	-2.06
Effectiveness of enforcement of insider trading laws	3.56	2.27	-6.07	31	.00	-2.44
Strength of shareholders' protections in laws	5.13	2.01	-2.46	31	.02	-.88
Strength of accounting profession	7.10	1.63	3.80	30	.00	1.10
Resource endowment of accounting standard setters	6.26	1.72	.85	30	.40	.26
Resource endowment of auditing standard setters	6.13	1.66	.44	30	.66	.13
Resource endowment of agency enforcing accounting standards	5.80	1.61	-.70	29	.49	-.20
Resource endowment of agency enforcing auditing standards	5.67	1.48	-1.27	29	.22	-.33
Resource endowment of agency enforcing SEC requirements	5.90	1.73	-.33	29	.75	-.10
Resource endowment of agency enforcing corporate tax requirements	6.26	1.57	-.93	30	.36	.26
Resource endowment of agency enforcing financial reporting requirements of company law	5.93	1.61	-.24	29	.82	-.07
Commitment of relevant bodies to enforcement of financial reporting requirements	6.18	1.75	.60	21	.56	.18
Overall quality of financial reporting environment	5.48	1.19	-2.48	31	.02	-.52
Strength of auditing and financial reporting standards	6.01	1.36	-.03	21	.98	.01
Strength of investor protection laws	4.21	1.85	-5.49	31	.00	-1.79

financial reporting environment in T&T as below the designated average (Mean 5.42; median 5.57, on a ten-point scale where 6 were defined as average; SD 1.43). The average rating on the second and third summary variables, strength of auditing and reporting standards (mean 5.91, median 6.20, SD 1.56) and strength of investor protection laws (mean 4.21, median 4.00, SD 1.85) also indicated that these aspects of the T&T financial reporting environment are perceived as being relatively weak. A series of one-sample t-tests were conducted to evaluate whether the mean perception of professionals on each of the three summary variables and the individual items was significantly different from the designated mean. The results are presented in Table 3. Participants perceived two of the three summary variables, (1) the overall quality of the T&T financial reporting environment, and (2) the strength of investor protection, and five of the individual items – efficiency of

the country's judicial system, citizen's respect for the country's laws, strength of insider trading laws, effectiveness of enforcement of insider trading laws, and shareholder protection in laws – as being statistically significantly below the designated mean of 6 ($p < .05$). Participants perceived the strength of the auditing and financial reporting standards (the third summary variable) and the remaining individual variables as being not statistically different from the designated mean ($p > .20$). (Table 3)

Given the relatively small sample size, the fact that some of the subjects knew each other due to the snowball sampling technique used, and the fact that one of the three summary variables and two of the individual items were not normally distributed (see Table 2), a series of non-parametric Wilcoxon signed-rank tests were conducted to evaluate whether the median perception of professionals on each of the three summary variables

Table 4. Perception by Demographic Factors.

Panel A. Professional Perception by Sex.

Variables	Female					Male					Mann-Whitney U Test							
	Mean	Med	SD	N	Z		Mean	Med	SD	N	Z		Mann-Whitney U Test		Z	Prob.		
					Skewness	Kurtosis					Female	Male	Mean Rank	Sum of Ranks			Mean Rank	Sum of Ranks
1*	5.08	5.32	1.20	20	-2.67	1.67	6.08	5.86	1.71	12	1.03	2.10	15.10	302.0	18.83	226.0	-1.09	.273
2	5.61	5.90	1.61	14	.66	-.38	6.48	6.80	1.38	8	-.10	-.16	13.43	268.5	21.63	259.5	-2.41	.016
3*	3.97	3.83	1.54	20	-2.38	-1.24	4.61	4.50	2.29	12	-1.64	2.33	15.40	308.0	18.33	220.0	-859	.391

Panel B. Professional Perception by Occupation.

Variables	Corporate Accounting						Public Accounting						Other						Kruskal – Wallis Test						
	Z						Z						Z						Corporate Accounting		Public Accounting		Other	χ^2	Prob
	Mean	Med	SD	N	Skew	Kurt.	Mean	Med	SD	N	Skew	Kurt.	Mean	Med	SD	N	Skew	Kurt.	Mean Rank	Mean Rank	Mean Rank				
1*	5.21	5.57	1.10	16	-2.77	1.93	4.71	4.47	2.53	7	-1.51	.88	6.55	6.21	1.90	9	2.02	1.39	18.75	11.07	16.72	3.31	.19		
2*	5.84	6.20	1.46	16	.81	-.28	5.20	5.20	3.10	2	.66	1.12	6.50	6.40	1.51	4	-.86	1.98	16.56	14.64	17.83	.46	.79		
3*	3.89	3.67	1.81	16	-2.86	2.56	3.62	3.67	1.33	7	-1.26	-.28	5.22	5.33	2.03	9	.39	.61	14.81	13.36	21.94	4.36	.11		

Key for Variables

1	Overall quality of financial reporting environment
2	Strength of auditing and financial reporting standards
3	Strength of investor protection laws

*Non-normally distributed variables

and the two non-normally distributed individual questions was different from the designated median of 6. The results were substantively identical to those for the one-sample t-tests. They indicated that professionals' perceptions of two of the summary variables, overall quality of financial reporting environment, and strength of investor

protection, and one of the two non-normally distributed individual variables, strength of insider trading laws, were significantly lower than the designated median ($Z \geq 3.40, p < .01$). Conversely, professionals' perception of the third summary variable, quality of auditing and financial reporting standards, was not significantly different

from the designated median ($Z = 0.42, p = .16$). Further, one individual question, strength of the accounting profession, was perceived as being statistically significantly higher than the designated median ($Z = 3.90, P < .01$).

Spearman's rho correlation coefficients were computed for the three summated variables, and

Table 5. Professional Perceptions of Financial Reporting Environment versus Global Competitiveness Index (GCI).

	TT Professional		GCI	
	Perception	Comment	Rank (N=144)	Comment
Efficiency of country's judicial system	4.56 of 10	Below average	88.5 ^[1]	Lower half
Strength of auditing and reporting standards	5.91 of 10 ^[2]	Average	91	Lower half
Strength of investor protection	4.21 of 10 ^[3]	Below average	24	Upper half

Source: Adapted from World Economic Forum (2013)

⁽¹⁾ This item is measured as the average rank on the variables / items (a) efficiency of legal framework for settling disputes and (b) efficiency of legal framework for challenging regulations items from the GCI measures.

⁽²⁾ This item is measured as the average score on (a) resources endowment of accounting standard setters, (b) resource endowment of auditing standard setters, (c) resource endowment of agency responsible for enforcing accounting standards, (d) resource endowment of agency responsible for enforcing auditing standards, (e) resource endowment of agency responsible for enforcing SEC requirements, and (f) commitment of relevant bodies to enforcement of financial reporting requirements.

⁽³⁾ This item is measured as the average score on (a) strength of insider trading laws, (b) effectiveness with which insider trading laws are enforced, and (c) strength of shareholders protection in relevant laws.

the sex and occupation variables. The overall quality of the T&T financial reporting environment was positively and significantly related to the "quality of investor protection" ($\rho = .74$, $p < .01$) and the "strength of auditing and financial reporting standards" ($\rho = .71$, $p < .01$). Also, the quality of investor protection was positively and significantly correlated with the strength of auditing and financial reporting standards ($\rho = .36$, $p < .05$). None of the summated variables were significantly related to sex or occupation.

Professional Perception by Sex

As shown in Table 4, the mean (median) ratings of male respondents were slightly higher than those of their female counterparts for all three summary measures. Given the relatively small sample size and the fact that two of the three summary variables were not normally distributed within sex categories (various transformations of the variables did not substantially improve their normality or homoscedasticity) (see panel A of Table 4), a series of non-parametric, Mann-Whitney U tests were conducted to examine whether the median perceptions of female respondents on overall quality of financial reporting environment, strength of investor protection laws, and strength of auditing and financial reporting standards differed from those of their male counterparts. See panel A of Table 4. Male respondents perceived the quality of auditing and financial reporting standards, as better than their female counterparts, $Z \geq 2.41$, $p < .02$. Substantively identical results were obtained using a series of independent-samples t-tests. (Table 4)

Professional Perception by Occupation

The mean (median) rating of professionals for the strength of the overall financial reporting environment, the

strength of investor protection laws, and the strength of auditing and financial reporting standards varied slightly by occupation. See panel B of Table 4. Other occupations (corporate lawyers, academic accountants, and finance professionals) rated all three areas more favorably than corporate accountants and public accountants. Also, corporate accountants rated the overall financial reporting environment and the strength of auditing and financial reporting standards more favorably than did public accountants. Given the relatively small sample size and the fact that the three summary variables were not normally distributed within occupational categories (see panel B of Table 4), a series of non-parametric, Kruskal-Wallis tests were conducted to examine whether the median perceptions of respondents differed across the three occupational categories, corporate accountants, public accountants, and other occupations. None of the tests generated statistically significant results, $\chi^2 (2, N = 32) < 4.40$, $p > .10$.

Professional Perception versus International Ratings

The country's ranking on three aspects of the "Institutions" pillar of the Global Competitiveness Index (GCI) namely "efficacy of the country's judicial system", "strength of auditing and reporting standards" and "strengths of investor protection" (World Economic Forum, 2012), were compared with the perceptions of T&T professionals. See Table 5. For the first area examined, efficiency of the judicial system, professionals' perceptions (mean 4.56 of 10) seemed to coincide with the GCI ranking of the country as being below average (89 of 144 countries rated). In the other two areas professionals' perceptions diverged from the country's GCI ranking. Professionals rated the strength of the country's auditing and financial reporting standards as average (mean 5.91 of 10), but the country ranked in the

bottom half of countries on the GCI rankings at 91 of 144. Conversely, while the country was ranked in the top half of the GCI at 24 of 144 on strength of investor protection laws, professionals perceived this area as being of below average strength (4.21 of 10). This suggests that there might be some measure of disconnect between how key players in the local financial reporting environment see the T&T financial reporting environment and how that reality is assessed internationally. This could affect the conclusions both “sides” form about the relative attractiveness of the TTSE as a destination for private portfolio capital. (Table 5)

SUMMARY OF FINDINGS, DISCUSSION AND CONCLUSIONS

Summary

The following are the primary findings of this study. In terms of financial reporting disclosure requirements, publically listed T&T companies are required to publicly disclose only seven of the 52 UNCTAD ISAR benchmark disclosures. However, they are required to provide more comprehensive disclosures to regulators including the Companies Registry, the Central Bank (for financial institutions and insurance companies), and the Trinidad and Tobago Securities Exchange Commission (TTSEC for public companies). Unfortunately, regulators do not systematically or routinely share information across agencies or with the investing public. Also, T&T companies do not fully comply with the country’s minimal reporting requirements. On average about 3 of the 31 publically listed T & T companies did not disclose at least one of the seven required corporate governance disclosures in 2010.

With respect to actual reporting practices, the average levels of financial transparency and auditing disclosures in T&T (71% and 26%, respectively), were well below that in the average emerging market (82% and 62%, respectively). Also, the average rate of disclosure for the five required disclosures in T&T was 95% versus 27% for the other 12 UNCTAD good practice disclosures. On a more positive note, 94% of companies listed on the TTSE provided more than the minimum required disclosures.

Regarding professionals’ perceptions, on average participants rated the overall quality of the financial reporting environment in T&T as below average (mean 5.42, median 5.57, SD 1.43). Also, the average rating on the second and third summary variables, strength of auditing and reporting standards (mean 5.91, median 6.20, SD 1.56) and strength of investor protection laws (mean 4.21, median 4.00, SD 1.85) indicated that these aspects of the T&T financial reporting environment were perceived as being relatively weak.

Conclusions and Recommendations

The above findings suggest that there is a need for the T&T government, regulators and other stakeholders interested in raising the profile of the TTSE to look critically at key elements of the country’s financial reporting environment. The current low level of required disclosures, actual disclosures and perceived quality of the overall financial reporting environment might be retarding the attractiveness of the market. It might help explain what the Chairman of the TTSEC, Deborah Thomas-Felix, described as “... and inadequate investor base, particularly for the equity market” (2011a:3). Instead of this situation reflecting investors being insufficiently knowledgeable about the stock market and its benefits as asserted by the TTSEC Chairman, (2011a:3), it seems at least as plausible that it might reflect investors assessment of the risks and returns associated with investing in securities that are traded on the TTSE. This alternative explanation reinforces the need for policy makers and regulators to take a fresh look at the nature of the challenges facing the TTSE.

As such, it may be beneficial for leaders in the T&T financial community to explore initiatives such as the following to strengthen the country’s financial reporting environment. Firstly, it might be necessary to revise the laws and regulations governing public disclosures to provide greater public oversight along the lines of what prevail in advanced market-based economies following the recent financial crisis. This could entail mandating corporate financial disclosure in line with international good practice (whichever specification of that is preferred by policy makers); instituting high quality compliance monitoring of corporate disclosures with strict penalties for non-compliance; empowering regulators to take meaningful actions to redress regulatory breaches, possibly through special tribunals; and giving regulators authority to share corporate information with other regulators (and the public), and to supervise holding companies of regulated entities. Secondly, policymakers and regulators need to demonstrate a greater commitment to the enhancement of the financial reporting environment in T&T by allocating sufficient quantities of high quality resources to the regulation, monitoring and enforcement of appropriate corporate behavior. This should include initiatives to ensure that regulators have sufficient quantities of competent people, technology, systems and other resources to effectively discharge their mandates. It should also include provisions for continuing professional development of regulatory personnel to keep pace with the rapidly evolving business environment. While such initiatives are likely to be costly, it is unlikely that they will cost more than the US\$ 3.15 billion expended by the government of T&T to date to bail out the CL Financial Group (Bridglal, 2012). The other requirement for addressing the above issues is political will of the government, other policy makers and

regulators. This is likely to be more challenging to achieve given the close connections between political and business elites in T&T. Strategies such as these could help to mobilize home-grown institutional investors to take a larger and more active role in the TTSE.

Limitations

The results of this study need to be interpreted in the light of the following limitations. First, the external validity of the data is reduced by the small sample size. Second, the comparisons made with studies conducted in other emerging markets should be treated with some caution since those studies were completed at different points in time. Additionally, the studies compared did not all use identical metrics or scales to measure financial disclosures. Notwithstanding these limitations, the findings of this study offer some useful insights into the quality of the T&T financial reporting environment.

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