THE IMPACT OF LISTED COMPANIES FINANCIAL REPORTING ON THE CAPITAL MARKET - THE CASE OF ROMANIA

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Abstract
It is known in the specific literature that the performance on the capital market is closely related to the quality of investment decisions. However, for these decisions, investors need complete, accurate and timely information from companies that want to trade the securities (shares, bonds etc.) on the capital market. Therefore, it is mandatory for listed companies to provide all interested parties various information and reports that show how they manage their activity or business, information that must comply with the legal regulations. Based on this obligation, we can analyze the extent to which the financial reporting of listed companies has an impact on the capital market. The theoretical research of Romania's national legal context regarding the capital market, including the reporting requirements of listed companies is the starting point for the empirical study on the financial reporting impact analysis on the capital market. We will follow the correlation between the information contained in the mandatory financial statements of the listed companies and the indicators presented by the Bucharest Stock Exchange. The study also highlights how the information contained in the financial statements is useful to the capital market. Thus, we can consider the absolute value of indicators or we can use the rates (known as stock market indicators).

Keywords: *financial reporting, capital market, listed company, impact.*

JEL Classification: *M41, O16*

1. Introduction and context of the study

The aim of this study is to verify the theory that the financial reporting of listed companies has a significant impact on the capital markets, by using the theoretical research method, the method of observation and the empirical study.

In terms of aplicability, the current topic targets beside the capital market and listed companies, also the entities whose securities are admitted to trading on a regulated market or on an alternative trading system.

The analysis of the legal context can be considered the starting point of this content.

In Romania, the legal framework regarding the capital market and securities trading includes several regulations, with a significant incidence on the proposed topic, as:
• Law No. 297/2004 on Capital Market, as subsequently amended and supplemented;
• Law no. 24/2017 on issuers of financial instruments and market operations;
• Law no. 29/2017 amending and supplementing Government Emergency Ordinance no. 32/2012 regarding undertakings for collective investment in transferable securities and investment management companies, as well as amending and supplementing the Law no. 297/2004;
• Law no. 126/2018 regarding financial instruments;
• Law no. 243/2019 on alternative investment funds, amending and supplementing certain normative acts.

2. Theoretical background

In order to facilitate the understanding of the approached issues, we consider necessary to explain some specific terms of the capital market, such as: stock exchange, listed company, securities, regulated market (of financial instruments), alternative trading system (of financial instruments).

According to the Romanian dictionary, the stock exchange represents "the market specialized in securities sale-purchase operations" [3].

Listing a company on the stock exchange means the process by which the company's securities (most often shares) are admitted to trading on that stock exchange market. By listing process, the company offers to the potential investor, part of its capital.

Starting from the provisions of the Capital Market Law No. 297/2004 (with the modifications brought by the Government Emergency Ordinance no. 90/2014), the securities include:

- shares issued by companies and other equivalent securities traded on the capital market;
- bonds and other securities, including government bonds, tradeable on the capital market;
- any other tradeable securities, which give the right to purchase the securities by subscription or exchange, involving a cash settlement, with the exception of payment instruments.

From the investors point of view of [12], securities are non-bank assets with negotiable capital (in the sense that they can be traded at a price set according to supply and demand), issued in material form or evidenced by documents in the account, which provide holders equal rights.

The best known and most frequently traded securities are shares and bonds.

Shares are divisions of a company's share capital, that designates legal relationships between their holder and the issuing entity. In addition, the shares offer investors the right to own companies, in exchange for the amount paid [13]. This ownership means for the shareholders the right to receive, in proportion to their participation, dividends, as well as the right to participate and vote in the General Meeting of Shareholders (thus being able to influence, to the extent of their voting power, the decisions and direction of the company).

Bonds are debt-based financial instruments [13]. The bond is therefore a form of loan through which the issuer borrows capital for a specified period of time, with a fixed or variable interest rate. The issuance of bonds does not affect in any way the shareholding structure of the company. Although this instrument is similar to a bank loan, the money borrowed comes from investors, not from a bank. From here we can deduce the advantages of this financial instrument.

According to the Law no. 126/2018 regarding financial instruments, the regulated market represents: "the multilateral system, operated and / or managed by a market operator, which ensures or facilitates the reunification, within the system and in accordance with the non-discretionary rules of regulated market, multiple interests in the sale and purchase of financial instruments, in order to contract financial instruments admitted to trading on the basis of its rules and / or systems and that is authorized and operates regularly and in accordance with the legal provisions ".

Capital Market Law No. 297/2004 defines the alternative trading system as "a system that brings together several parties that buy and sell financial instruments, in a way that leads to the conclusion of contracts, also called multilateral trading system".

3. The access of the companies to the Romania's stock market

The access of the companies to the stock market is not easy, especially if we talk about the regulated market. In this sense, the Law no. 24/2017 on issuers of financial instruments and market operations stipulates the conditions a company should meet in order for its shares to be traded on a regulated market:

a) the company should be set up and carry out the activity according to the legal regulatios ;

b) the company has an anticipated capitalization, of at least the equivalent in lei of Eur 1,000,000, if the capitalization value cannot be anticipated, it will be taken into account the amount including the capital and the reserves, with the profit or loss from the last financial year, of at least the equivalent in LEI of EUR 1,000,000, calculated to the NBR reference exchange rate, available at the trading application date; this condition does not apply in the case of trading additional shares issued from the same class as those already admitted;

c) the company should have 3 years activity prior to the application for trading admission and submitted the financial statements for the same period, according to the legal regulations.

By exception, having the approval of the Financial Supervisory Authority (FSA), the companies that do not meet the conditions set out in points (b) and (c) may be admitted to trading on the regulated market, if it's appreciated that: there will be an adequate market for those shares; the issuer is able to meet the requirements for continuous and periodic information related to trading admission and facilitate the investors access to the necessary information in order to be able to evaluate the company and its shares, for which admission to trading is requested.

The tradeable shares must be freely negotiable and fully paid. In addition, a company's shares can be admitted to trading on a regulated market, if there will be a sufficient number of shares distributed to the public. The minimum number of shares distributed to the public is considered to be sufficient when:

a) the shares for which admission to trading has been requested are distributed to the public in a proportion of at least 25% of the subscribed capital, represented by this class of shares;

b) it is ensured the normal function of the market, with shares less than 25% of the subscribed capital, due to the large number of shares in circulation and the dispersion among the public.

For example, in order to issue shares on the regulated market (called the main market) of the Bucharest Stock Exchange (BVB), a company must meet the following requirements:

- being a joint stock company (SA), before starting the listing procedure;
- having financial statements available for at least 3 years prior;
- having an anticipated capitalization of at least EUR 1 million;
- 25% of the shares being free-float (meaning to be in investors' portfolios and available for trading).

By comparison, in order to trade shares on the Bucharest Stock Exchange's alternative trading system (called AeRO - Alternative exchange in Romania), a company must meet the following requirements:

- being a joint stock company (SA), before starting the listing procedure;
- having an anticipated capitalization or equity of at least EUR 250,000;
- having a 10 % free-float or at least 30 shareholders.

The anticipated capitalization refers to an estimated value of the company, calculated by multiplying the number of issued shares with the anticipated price of a share, resulting either from a share offer or using other estimation methods accepted by the Bucharest Stock Exchange (BVB).

As can be noticed, the conditions in the alternative trading system are less stringent than those in the regulated market, giving accessibility to stock market financing for smaller companies that do not meet the listing conditions required on the regulated market. However, the advantages of this trading system are not at the same level of those offered by the regulated market.

4. Financial reporting requirements for listed companies

At the EU level, since 2002, the European Parliament and the Council of the European Union (mentioning Regulation No 1606/2002 on the application of international accounting standards) have considered that "in order to help improving the internal market functioning, listed companies should apply a unique set of high quality international accounting standards in their consolidated financial statements". In Romania, given the need to align with the international practice in order to promote financial statements transparency and comparability, as well as the fact that some of listed shares traded on a regulated market belong to multinational groups that apply International Financial Reporting Standards, starting with 2012 financial year, companies whose securities are admitted to trading on a regulated market have the express obligation to apply the International Financial Reporting Standards (IFRS) in their annual financial statements.

Currently, at national level, the accounting regulation for the companies financial statements whose securities are admitted to trading on a regulated market is given by the Public Finance Minister's Order no. 2844/2016 on the approval of the accounting regulations compliant with the International Financial Reporting Standards (applied since December 19, 2016), with subsequent amendments, including the Public Finance Minister's Order no. 3781/2019 on the main aspects related to the preparation and submission of the companies annual financial statements and annual accounting reports to the Ministry of Public Finance territorial units and for the regulation of certain accounting aspects.

In order to comply with the European regulations, the Order of the Public Finance Minister's Order no. 2844/2016 partially transposes the provisions of the following directives:

• Directive 2013/34 / EU of the European Parliament and of the European Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43 / EC of the European Parliament and of the Council and repealing Council Directives 78/660 / EEC and 83/349 / EEC, published in the Official Journal of the European Union, L series, no. 182 of June 29, 2013;

• Directive 2014/95 / EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34 / EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, published in the Official Journal of the European Union L series, no. 330 of November 15, 2014.

5. Analysis of the financial reporting impact on capital markets - empirical study

This case study analyzes the impact of financial reporting on the capital market, using the observation method, applied on the Bucharest Stock Exchange listed companies.

Bucharest Stock Exchange (BVB) calculates and distributes in real time 8 own indices (BET, BET-TR, BET-XT, BET-XT-TR, BET-BK, BET-FI, BET-NG, BET Plus) and one index developed together with Vienna Stock Exchange (ROTX index). These indices track the price evolution of the most traded companies on BVB or of the evolution of certain representative sectors (such as the financial sector or the energy sector).

Although the liquidity represents the main index calculated and presented by BVB in companies selections, starting with 2015, it also applies criteria related to the financial reporting quality, along with the companies transparency and their communication with the investors.

BVB warns investors that the information source (information underlying their investment decision) is exclusively provided by the issuing companies, as the primary source. Therefore, we understand the importance of representing reality, completeness and accuracy in the financial statements of listed companies.

BET (BUCHAREST EXCHANGE TRADING) is the first index developed by BVB and represents the reference index for the local capital market. BET reflects the performance of the most traded companies listed on BVB regulated market, excluding investment companies. It is an index weighted by free-float capitalization, the maximum weight of the symbol being 20%. The evolution of this index for the last 5 years (2016-2020) is represented graphically in figure no 1.

Starting from this representation and knowing the companies involved in the calculation of the BET indicator, investors will have a first information about the capital market. In addition, BVB provides a graphical presentation of the evolution of all indices.

Being known that the quality of companies financial reporting is taken into account for index inclusion, we can say that there is a qualitative causal link between the financial statements of listed companies and the capital market.

Figure no.1. Evolution of BET index, 2016-2020, Bucharest Stock Exchange

Source: https://www.bvb.ro/FinancialInstruments/Indices/IndicesProfiles

In addition to the graphical representations of the indices, the evolution of the capital market can be analyzed by using some indicators considered to be useful for investors operating in this market. In Tables no. 1 and no. 2 we can find two examples of indicators considered to be useful by Bucharest Stock Exchange.

Table no.1. Stock market indicators on the main segment - Bucharest Stock Exchange

Symbol	ISIN	Market Capitalization lei	Book Value lei	Book Value date	PBV	PER	PER Date	DIVY
SNP	ROSNPPACNOR9	19.258.996.834	32.350.950.623	31.12.2019	0,60	5,40	31.12.2019	9,12
FP	ROFPTAACNOR5	9.481.358.104	11.871.451.986	31.12.2019	0,80	15,85	30.06.2020	4,64
TLV	ROTLVAACNOR1	12.163.923.256	8.496.442.262	31.12.2019	1,43	7,51	31.12.2019	4,93
BRD	ROBRDBACNOR2	8.906.401.400	7.895.288.000	31.12.2019	1,13	5,83	31.12.2019	12,83
SNN	ROSNNEACNOR8	5.067.617.419	7.329.494.739	31.12.2019	0,69	9,46	31.12.2019	9,84
SNG	ROSNGNACNOR3	10.175.151.360	7.101.494.240	31.12.2019	1,43	9,72	31.12.2019	6,10
EL	ROELECACNOR5	4.105.356.624	3.988.135.916	31.12.2019	1,03	15,93	31.12.2019	5,99
TGN	ROTGNTACNOR8	3.402.640.916	3.781.940.387	31.12.2019	0,90	9,77	31.12.2019	5,35
TEL	ROTSELACNOR9	1.810.587.607	3.271.639.475	31.12.2019	0,55	18,85	31.12.2019	1,94
SIF1	ROSIFAACNOR2	978.000.768	2.748.203.454	31.12.2019	0,36	164,22	30.06.2020	5,61

Source: Extract from the document available at https://www.bvb.ro/FinancialInstruments/SelectedData/Indicators (accessed at 23.11.2020)

Table no.2. Information regarding the securities (shares) issued by Romanian entities and traded on the Bucharest Stock Exchange. Date of trading : 23.11.2020

Symbol	Company	Market type	Face value	Avg.	Turnover
ALR	ALRO S.A.	Regular	0,5000	2,1700	6.679,35
ATB	ANTIBIOTICE S.A.	Regular	0,1000	0,4920	3.127,64
TLV	BANCA TRANSILVANIA S.A.	Regular	1,0000	2,1400	8.939.416,77
BIO	BIOFARM S.A.	Regular	0,1000	0,4060	4.904,35
BRD	BRD - GROUPE SOCIETE GENERALE S.A.	Regular	1,0000	12,9400	1.325.326,56
BVB	BURSA DE VALORI BUCURESTI SA	Regular	10,0000	22,9000	3.388,10
TEL	C.N.T.E.E. TRANSELECTRICA	Regular	10,0000	24,9000	240.650,20
COTE	CONPET SA	Regular	3,3000	76,0000	5.847,20
ELMA	ELECTROMAGNETICA SA	Regular	0,1000	0,1090	694,20
IMP	IMPACT DEVELOPER & CONTRACTOR S.A.	Regular	1,0000	1,4800	30.310,28
M	MedLife S.A.	Regular	0,2500	49,9000	285.972,00
SNP	OMV PETROM S.A.	Regular	0,1000	0,3440	4.609.519,97
PBK	PATRIA BANK S.A.	Regular	0,1000	0,0820	14.415,30
SNN	S.N. NUCLEARELECTRICA S.A.	Regular	10,0000	16,8400	1.478.698,60
SNG	S.N.G.N. ROMGAZ S.A.	Regular	1,0000	26,8000	3.589.251,30
TGN	S.N.T.G.N. TRANSGAZ S.A.	Regular	10,0000	292,0000	434.773,00
EL	SOCIETATEA ENERGETICA ELECTRICA S.A.	Regular	10,0000	12,0000	695.424,50
SFG	Sphera Franchise Group	Regular	15,0000	12,6500	4.322.209,60
BRK	SSIF BRK FINANCIAL GROUP SA	Regular	0,1600	0,0704	1.683,75

Source: Extract from the document available at https://www.bvb.ro/TradingAndStatistics/Publications/DailyReport (accessed at 23.11.2020)

The impact of financial reporting on the capital market can be analyzed in terms of the causal link between the information contained in the entities financial reports and the information / indices / indicators of the capital market (Table no. 3).

Table no.3. The impact of financial reporting on the capital market

Information extracted from the companies' financial statements	Capital Market Information / Indices / Indicators	
	Name	**Calculation method / Remarks**
Equity	Equity	Taking over without processing
Total Assets, Total Liabilities	Book Value (BV)	BV = Total Assets - Total Liabilities
Share Capital	Nominal value (Face value) - shares, bonds	Nominal value (Face value) = Share Capital / Number of issued shares, bonds
Total Assets, Total Liabilities	Price to Book Value (PBV)	PBV = Market value / Book value
Net Income	Price Earnings Ratio (PER)	PER = Market value / Net income
Net Income	Price to Earnings Growth (PEG)	PEG = PER / Net income growth rate
Turnover	Price to Sales (PS)	PS = Market value / Turnover
Cash flow	Price to Cash flow (PCF)	PCF = Market Value / Cash flow
Dividends	Dividend Yield (DIVY)	DIVY = Total dividends / Market value

Source: author's synthesis

We note that for the evaluation of the capital market, the information from the financial statements is useful, both in their absolute value and in the processed form.

6. Conclusions

Starting from the aspects presented in this case study, we consider confirmed the hypothesis according to which the financial reports of the listed companies, reports prepared in accordance with the speicific regulations, have an impact on the capital markets. Thus, the investment decisions of the capital market participants are influenced by the quality of the companies financial information published in their financial statements. We specify that this research based on empirical study, general observation and qualitative analysis of the phenomenon is the starting point for a future in-depth case study based on quantifying the impact of financial reporting on the capital market, using the method of correlation analysis and multiple linear regression analysis.

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