
The explosive growth of capital markets worldwide includes what is called "emerging capital markets" or ECMs. ECMs refers to those markets characterized by low liquidity, high volatility of returns, small market capitalizations and lack of a well-developed domestic base of institutional investors.

An important issue in ECMs is informational problems associated with the difficulty of obtaining adequate and reliable data useful for evaluating investments. The quality of corporate financial reporting in ECMs varies considerably.

ECMs include such nations as India, Mexico, South Africa, Korea, Malaysia, Ecuador, Botswana, and Venezuela.

For most lesser-developed countries (LDCs), relying on their stock markets as a means of raising large-scale capital is a novel approach to financing. The benefits of an emerging capital market to an LDC are varied and help to explain the role of financial reporting in these markets:

1. Many LDCs suffer from an investment-savings gap. This gap means that funds available fall far short of the amount needed to stimulate economic development. ECMs expand the investment options available in the country, which attracts portfolio investments from overseas.

2. Credit allocation in many LDCs has often been made on bases other than economic efficiency. Thus, available funds could be misallocated into inefficient state monopolies. ECMs allow monies to be raised in a more cost-effective manner.

3. ECMs can also positively influence the "economic culture" existing in LDCs. Well-functioning markets allow individuals to have a stake in enterprises in their respective countries and help to change cultural attitudes with respect to participating in economic development. Domestic enterprises are encouraged to become more responsive and accountable to a greater number of stakeholders.

4. ECMs assist in developing further or enhanced information flows, a prerequisite for improving the allocative efficiency of an economy.

Before ECMs can fulfill their developmental roles, it is essential to have in place a set of corporate reporting policies and procedures geared toward supplying the information necessary for making investment decisions. Developing an effective accounting and auditing profession is essential for building efficient financial markets. One survey of investment institutions dealing regularly with ECMs showed that the accounting and legal infrastructure underlying an ECM was a major factor for evaluating the investment potential of the market. Financial reporting is central to regulations pertinent to establishing an active market for corporate securities.

The worldwide pre-eminence of US and UK capital markets has been associated, in
part, with the stringent nature of financial reporting in these countries, which in turn, resulted in the increased availability of information for decision-making purposes.

**Characteristics of Financial Reporting in ECMs**

There are three criteria for evaluating financial reporting in ECMs:

1. Availability-

2. Reliability-

3. Comparability-
Financial Reporting Policy Issues and Options in ECMs

We consider briefly three policy issues facing regulators in ECMs with regard to enhancing their financial reporting capability:

1. The choice between mandated and voluntary approaches to regulation

2. Strengthening enforcement capability
3. Pursuit of accounting harmonization