AN ANALYSIS OF CORPORATE GOVERNANCE INFORMATION DISCLOSURE BY CANADIAN BANKS

Michael Maingot*, Daniel Zeghal*

Abstract

The study reports on the disclosure of governance information by Canadian banks. The information was found through their corporate Web sites. The online information was taken from the Corporate governance Web page and through the annual reports and the proxy circulars. We focused on the disclosure of the corporate governance practices implemented by our sample of 8 banks. A coding sheet was developed to evaluate the corporate governance disclosure of our sample. Our analysis indicates that the bigger the bank, the more disclosure there is. Overall, our results suggest that the choices to disclose and the extent of disclosure are influenced by the strategic considerations of management. We also found that, to be able to find full and complete information on governance, the investor should refer to the annual reports and the proxy circulars and not only focus on the corporate governance Web page.

Keywords: Disclosure, Voluntary disclosure, Banks, Corporate governance

** Management school, University of Ottawa, 136 Jean-Jacques Lussier, Ottawa, ON, K1N 6N5*
Tel : (613) 562-5800 ext. 4769, Fax : (613) 562-5164
Email : zeghal@management.uottawa.ca
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1. Introduction

Corporate governance is becoming an increasingly important component of investor relations. The importance of good corporate governance has been highlighted by the wave of corporate corruption scandals, especially in recent years. This has renewed academic interest in corporate governance. In the banking sector, good governance remains one of the most important characteristics of banking firms. For the majority of managers, shareholders, customers and other stakeholders, good governance is the foundation for their mutual trust. The disclosure of governance information is therefore a crucial strategic task for banks management. The objective of this research is to analyze the corporate governance information disclosed by banks. More specifically our analysis will focus on the nature of the information disclosed, the medium for disclosure, voluntary disclosure and some of the determinants of disclosure. We focused on Canadian banks because they play a central role in the Canadian economy and are heavily regulated. We compared the level of corporate governance disclosure provided to their shareholders and displayed through their corporate governance Web page, their proxy circulars, and annual reports which are available on their Web sites. In addition, we focused part of our study on the banks' voluntary corporate governance disclosure. Finally, we hypothesize that the banks with larger assets are more likely to disclose more corporate governance information than their smaller counterparts. We believe that banks that are leading the way towards better disclosure provide some good examples for improving relations with investors.

The Importance and the Determinant of Voluntary Disclosure

Studies have demonstrated that voluntary disclosure is the result of multiple factors interacting amongst each other. These factors include regulatory oversight, market forces, cost of disclosure and the organizational structure of the firm and its corporate governance.

1.1 Regulatory oversight

An organization's voluntary disclosure is influenced by legislation, accounting norms and market regulations. These regulations can be coercive in nature (Gibbins et al 1992). The State can exercise its coercive powers directly or indirectly. It exercises its powers directly by enacting laws and regulations that guide the disclosure of financial information. The State exercises its coercive powers indirectly through institutions or by establishing certain governmental policies. Coercive powers can also be exercised by the parent company onto its subsidiary, by a major supplier, by customers or by labor unions.

Voluntary disclosure can also be affected by the informal rules adopted by the organization. These informal rules are often produced by the culture and customs of the firm (Gibbins et al., 1992).

Professionals, such as accountants, also influence the level of voluntary disclosure since they are often called upon to interpret certain disclosure rules. Their advice has the effect of normalizing the application of disclosure rules. Certain industries are also subject to specific industry disclosure rules. For example, utility companies are obligated to publish certain information to the public.

Market forces

Market forces can be divided into two sub categories: capital market forces and labor market forces.

As it relates to capital market forces, there is a positive relationship between disclosing information to investors and stock prices (Myers et Majluf, 1984; Penman, 1980; Waymire 1984). This is due to the fact that the corporation is managing the expectation of its investors and avoiding surprises and therefore volatility. In addition, public information increases investor wealth by decreasing the level of asymmetric information (Diamond, 1985).

When relating to labor market forces, managers will tend to disclose information that increases their reputation as good managers and thus increase their remuneration. They will also tend to delay disclosing bad news but immediately disclose good news.

Cost of disclosure

From an economical perspective, managers will only disclose information if the advantages of such disclosure exceed the cost of disclosing the information. The corporations must bear the direct cost of disclosing the information to the public and those costs are not negligible (Gray, Radebaugh & Robert, 1990). There are two types of direct cost. The first is the preparation of the financial statements. The second is the analysis of the financial statements. The first direct cost is borne by the corporation while the second direct cost is borne by the user of the information. Another type of cost related to the disclosure of information is the effect of such disclosure on competition. Corporations argue that divulging sensitive information to the public decreases their competitive edge since their competitors can glean more information on the inner workings of the corporation (Verrecchia, 1983, Dye, 1986; Jung & Know, 1988; Darrough & Stoughton, 1990; Clinch & Verrecchia, 1997). Therefore, the higher the competitiveness in the market, the higher the cost of disclosure. Furthermore, news disclosed by one corporation is associated with the other companies in that industry (Baginski, 1986; Pownall & Waymire, 1989). The corporation also bears legal costs related to the non disclosure of information. In effect, the non disclosure of information will trigger legal penalties and the corporation will have to restate its publicly disclosed information to reflect this new information, which will increase the overall cost of disclosure. There is also the political cost. In effect, the political environment of the corporation affects its level of disclosure. A corporation with high visibility on the political spectrum will wish to diminish its level of disclosure in order to avoid sparking the interest of the government (Watts & Zimmerman, 1998).

Organizational factors

The structure of the organization establishes routines and procedures for identifying and responding to certain disclosure problems. The organizational structure of a corporation has a considerable influence on the level of disclosure of information to the public. There are thee main factors within the corporation that determine the level of disclosure: the culture of the corporation, the strategy of the company and the internal politics of the firm (Gibbins et al., 1992). The personality of the person in charge of disclosure will also influence the level of disclosure of the corporation. A more conservative person will have a ritualistic approach to disclosure while a more dynamic person will have an opportunistic approach to disclosure (Gibbins et al., 1992).

Corporate governance

The concentration of shareholders does not seem to be a factor that affects the level of voluntary disclosure (Craswell & Taylor, 1992; Raffournier, 1995; Nasser, 1998). However, recent studies have suggested that the level of voluntary disclosure of the company will be higher if the dominant group of shareholders is composed of outsiders (Patton & Makhija, 2000). Conversely, if the dominant group of shareholders is composed of insiders, the level of disclosure will be lower. However, according to Matheson and Maestras (2006), in light of increased attention to corporate governance matters, many companies have created separate Web pages devoted exclusively to corporate governance matters, such as information about the board of directors and committees. The Internet has helped to promote transparency, liquidity and efficiency in capital markets.

2. Previous Research on Disclosure

Most of the studies on disclosure have dealt with the issue in business operations governance in the industrial sector, but very few have done so in the financial sector. According to Zeghal and Ghorbel (2004) the effect of the structure of ownership and the concentration of shareholders on the scope of the publication has been examined in certain studies on the determinants of voluntary disclosed accounting information. The objective of these studies was to identify certain business characteristics (size, debt, performance, growth) on the scope of voluntary publication of information. (Table 1)

Craswell and Taylor (1992) in Australia, Raffournier (1995) in Switzerland, and Depoers (2000) in France demonstrated that the ownership structure is a variable that does not have significant effect on information disclosure. They conclude that disclosure of accounting information doesn't constitute a means to resolve agency problems. Naser (1998) comes to the same results in the Jordanian context. We notice that results from those studies reject the idea of influence in traditional agency variables on voluntary disclosure of information.

Other studies tried to continue the work on the determinants of voluntary disclosure by introducing an additional variable to explain the publication based on the management aspect of the organization. These studies propose that the way the organizations are run will influence their disclosure of information policy. The studies analyzed the relations between the quality and quantity of information included in their annual reports and certain governance indications. The O'Sullivan (2000) and Chen & Jaggi (2000) studies demonstrate that the adoption of good directorial regulations is positively correlated to the quality of disclosed information in the annual reports.

Arcay & Bazquez (2002) examined the effect of governance regulations and other variable characteristics of organizations on the scope of disclosure for a sample of Spanish businesses. Among variables studied, the authors tested the effect of the ownership concentration on the scope of disclosure. They conclude that ownership concentration is not a variable that has an effect on the scope of publication, especially in Spain which is characterized by a high ownership concentration. However, they indicate that directorial rules contribute considerably to the variation in disclosure.

Makhija & Patton (2000) studied the effect on the ownership of managers and non-managers and the effect of concentration of voluntary disclosure of information in annual reports of Russian businesses. They conclude that the business structure brings an important effect on the scope of voluntary information disclosed. We notice that the results of past studies in different environments and different approaches have not been conclusive.

The subject of corporate governance disclosure in Canadian banks was briefly touched by Barth, Caprio Jr. and Nolle (2004). However, in this study comparing corporate governance of banks across countries, transparency was measured by the bank's disclosure of accounting practices. Interestingly, they found a positive relationship between good corporate governance and the country's income level. Lamoureux (2004) even says that thanks to higher regulatory standards and a growing acceptance that good governance matters, disclosure practices at some companies are improving in several important ways.

Bujaki and McConomy (2002) study bears more relevance to the subject at hand since they attempted to evaluate the voluntary disclosure of publicly traded Canadian firms and their sample group included financial institutions. They found a high degree of voluntary disclosure within their sample group. Furthermore, they observed that highly leveraged firms and those with low revenue growth disclosed more than other firms. Schultz and Welker (2006) report that for firms with high levels of disclosure, investors can be relatively confident that any stock transactions occur at a fair price and are more willing to trade in the firm's stock, increasing investor and analyst interest in the stock and increasing market liquidity. This is significant because banks are highly leveraged firms that operate within a low growth sector of the economy and thus they should have a high degree of disclosure. This hypothesis is supported by Gelb and Strawer (2001) who find that firms with higher corporate responsibility provide more extensive disclosure.

Healy and Palepu (2001) report that there are potentially three types of capital market effects for firms that make extensive voluntary disclosures: improved liquidity for their stock in the capital market, reductions in their cost of capital, and increased following by financial analysts. Sengupta (1998) found that firms with higher disclosure enjoy interest cost that is lower than firms with lower disclosure. Healy and Palepu (2001) identified six forces that affect managers' disclosure decisions. One of these is the threat of litigation that Verrecchia (1983) found to be a more pressing concern within cross-listed firms. Therefore it stands to reason that the Big Five Canadian banks, which are all cross-listed between the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSE), will disclose more than the 3 smaller banks. However, DiMaggio and Powell (1983) found that firms within the same industry tend to copy one another's disclosure policy which gives rise to mimetic isomorphism. Therefore, it is quite possible that all Canadians banks publish almost exactly the same corporate governance information.

Most of the studies on information disclosure have dealt with the issue in businesses operating in the industrial sector. Since there are very few studies on information disclosure in the banking sector, and given the increasing importance of corporate governance information disclosure, it is important that attention be given to this very important sector of the economy. Therefore, the objective of this research is to analyze the voluntary disclosure by Canadian banks of governance information through their Web sites.

3. Characteristics of the Banking Sector in Canada

As of February 2003 the Canadian banking industry is comprised of 18 domestic banks, 29 foreign bank subsidiaries, and 22 foreign bank branches for a total of 69 banks. In total these institutions have over 1.79 trillion dollars in assets, which represent more than 70% of all assets in the Canadian financial service sector. According to the Ministry of Finance, Canada's banks operate through an extensive network that includes over 8,000 branches and close to 18,000 automated banking machines (ABMs) across the country.

Table 1. Results from empirical research on determinants of voluntary disclosure of information in annual reports

Authors	Country	Type of analysis	Variable with a significant effect either positive or negative		Variables without a significant effect
T.E. Cooke 1991	Japan	multivariate	Size	+	
			Type of industry	+	
			Stock quotation	+	
A.T. Craswell and S.L. Taylor 1992	Australia	Univariate	Size	+	Indebtedness
			Risk tied to cash flow	-	Structure of ownership
			Size of audit cabinet	+	
		multivariate	Risk tied to cash flow	-	
			Size of audit cabinet	+	Indebtedness
					Structure of ownership
					Size
B. Raffournier 1995	Switzerland	Univariate	Size	+	
			Internationalisation	+	
		multivariate	Size	+	Structure of ownership
			Internationalisation	+	
			Profitability	+	Type of industry
			Quality of audit	+	External financing
					Indebtedness
C. Botosan 1997	United States	Univariate	Value of assets market	+	
			Indebtedness		
			Stock quotation	+	
			Cost of capital	+	
		multivariate	Value of assets market	-	
			Indebtedness	+	Stock quotation
				+	
K. Naser 1998	Jordan	Multivariate	Size	+	Type of industry
			Indebtedness	+	Size of audit cabinet
					Performance
					Structure of ownership
F. Depoers 2000	France	Univariate	Size	+	Indebtedness
			Structure of ownership	+	
			Foreign activities	+	
			Force of Manpower	+	
		multivariate	Size	+	Structure of ownership
			Foreign activities	+	
					Force of Manpower
					Indebtedness

The 5 largest banks dominate the market with 88% of all banking assets under their control (see table 2). The other 13 domestic banks hold less than 6% of total assets. Therefore, it is not surprising that studies on the Canadian banking industry often concentrate on the 5 leading banks.

In 2003 the banking sector made 11.9 billion dollars in net income. The main source of revenue for the banking industry is net interest income, the differential between interest paid on liabilities (such as deposits) and interest received on assets (such as mortgages). However, the contribution of non-interest income to revenue has increased over the years. Non-interest income includes fees for services such as mutual fund and wealth management, securities underwriting, derivatives trading, asset securitization, brokerage transactions, ABM transactions, credit card transactions, foreign exchange and deposit services. Historically, 48% of all bank earnings are paid in taxes, 15% are reinvested into the business while the other 37% are distributed to shareholders (Canadian Banking Association). In recent years the 5 largest Canadian banks have demonstrated consistent performance as measured by their net income and have enjoyed a rising trend in the total asset size of their portfolio. It is also important to note that these banks have significant international operations, which account for almost one third of their gross revenue (Ministry of Finance 2002). Furthermore, the big five have implemented automation and strict management control systems to drive down costs.

Table 2. Banks in Canada Ranked by Asset Sizes (in $100,000 of CDN)

Ranking by Assets		Name of Financial Institution	Total Assets (as of 2004-02-29)	Percentage of total assets	Cumulative % of total assets
World (2002)	Canada (2004)				
51	1	Royal Bank of Canada	427,628	23.88%	23.88%
64	2	Toronto-Dominion Bank (The)	313,306	17.50%	41.38%
60	3	Bank of Nova Scotia (The)	288,955	16.14%	57.52%
65	4	Canadian Imperial Bank of Commerce	286,745	16.01%	73.53%
66	5	Bank of Montreal	268,919	15.02%	88.55%
149	6	National Bank of Canada	80,514	4.50%	93.05%
7	7	HSBC Bank Canada	37,798	2.11%	95.16%
	8	Laurentian Bank of Canada	16,925	0.95%	96.10%
1	9	Citibank Canada	13,494	0.75%	96.86%
21	10	ING Bank of Canada	13,020	0.73%	97.58%
19	11	Société Générale (Canada)	9,779	0.55%	98.13%
	12	Amicus Bank	5,484	0.31%	98.44%
	13	Canadian Western Bank	4,315	0.24%	98.68%
		OTHERS	23,695	1.32%	100%
		Total of All Banks in Canada	1,790,576.66		
- A bank is defined as a financial institution that accepts deposits in Canada					
- Domestic banks are bolded. Foreign banks in voluntary liquidation where excluded.					
- Assets Size for 2004 - Source: http://www.osfi-bsif.gc.ca/eng/institutions/banks/financial/index.asp					
- Top 150 World Bank's Ranked by Asset Size - Source: *The Banker*, July 2003					

Banks are among Canada's leading employers. In 2003 the industry employed over 237,000 Canadians and had a Canadian payroll of approximately $17 billion. This means that the good and bad fortunes of the banking sector greatly influence the employment picture of the Canadian economy. In addition, in 2003 the six major domestic banks paid $9.5 billion in taxes to all levels of government. (Canadian Banking Association 2005).

Since this industry is one of the key factors in a healthy Canadian economy, it is heavily regulated and supervised by a government agency. The Office of the Superintendent of Financial Institutions (OSFI) is the federal agency principally responsible for supervising all federally regulated financial institutions and pension plans. OSFI's role is to safeguard policyholders, depositors and pension plan members from undue loss, and to advance and administer a regulatory framework that contributes to public confidence in a competitive financial system (Ministry of Finance 2002).

The banking sector of the Canadian economy is a very competitive mature industry with high barriers of entry. The main barriers of entry are the need for: sophisticated knowledge of risk management, advanced technology and a large capital investment. The existing banks derive stability from their large diversification into different financial products and their exposure to international markets such as the United States. The fortune of Canadian banks has been helped by Canadians' strong credit culture and the population's ability to adopt new technologies into their way of life. The Canadian banks are one of the most technologically advanced institutions in the world. For example: According to the Ministry of Finance (2002), Canada has the highest number of ABM per capita in the world and benefits from the highest penetration levels of electronic channels such as debit cards, Internet banking and telephone banking. In addition, Canada's banks play an important role in the national clearing and settlement system, which is among the most efficient payment system in the world. In 2001 the system cleared over 4.4 billion transactions worth over $33 trillion for all Canadian institutions. As of February 2003, 22 foreign bank branches were operating in Canada. The recent increase in the number of foreign bank branches stems directly from new legislation passed in 1999 allowing foreign banks to establish operations in Canada without having to set up Canadian-incorporated subsidiaries (Ministry of Finance, 2002). Most of the foreign branches are from some of the largest banks in the world but as of yet they have not been able to pierce the Canadian market. These banks represent only 5% of all banking assets in Canada (see table 2) but there has been a recent up trend in the growth of their assets in Canada.

4. Methodology
4.1 Sample Selection

Of the 43 chartered banks currently operating in Canada only 8 met the required criteria's of the study. These criteria were:

i. The subject bank must be a widely held bank. Hence, no single shareholder can own more then 10% of the total shares of the bank. This intentionally excludes all bank subsidiaries. This selection criterion was added because bank subsidiaries do not have the same disclosure requirements or the same corporate governance mechanisms as widely held banks and the aim of the study was to keep the type of banks constant. Simply put, this selection criterion allowed the study to compare apples to apples

ii. The bank must be traded on a stock exchange. This selection criterion was added to guarantee that the bank would publish an annual report and an annual proxy statement to the public and thus allow the study to keep the sources of information between banks constant.

iii. The bank must be chartered in Canada. This excludes all foreign subsidiaries and thus focuses the study on Canadian chartered banks.

Although the 3 selection criteria above reduce the sample size to 8 banks, the researchers believe that they are necessary to keep as many variables as possible constant and to better narrow the focus of the study. The 8 banks selected are: Royal Bank of Canada (RBC), Toronto-Dominion Bank (TD), Bank of Nova Scotia (BNS), Canadian Imperial Bank of Commerce (CIBC), Bank of Montreal (BMO), National Bank of Canada (NBC), Laurentian Bank of Canada (LBC) and Canadian Western Bank (CWB).

Table 3. Sample Selected

Bank by size	Total Asset for 2003 (in $100,000)	Percentage of total assets	Number of Employees
RBC	427,628	23.88%	59,575
TD	313,306	17.50%	41,934
BNS	288,955	16.14%	44,294
CIBC	286,745	16.01%	42,000
BMO	268,919	15.02%	33,993
NBC	80,514	4.50%	13,910
LBC	16,925	0.95%	3,167
CWB	4,315	0.24%	873

4.1 Source of data

The Internet was the major data collection device used to research corporate governance of Canadian banks. There were 3 sources of data that disclosed corporate governance information: the corporate governance section of the Web site, the 2003 annual report available on the Web site and the 2003 proxy circular also available on the Web site. The 2003 annual report and the 2003 proxy circular were found to be the most useful data source.

4.2 Coding Sheet Development for the Disclosure of Governance Information

The coding sheet on disclosure of corporate governance in Canadian banks, seen in its entirety in Appendix 1, has 54 elements. The first step was to review the literature on corporate governance research. One research paper in particular (Bujaki and McConomy, 2002) was of great interest. Several of their suggested elements of disclosure were incorporated into the coding sheet. The second step was to review the Toronto Stock Exchange Corporate Governance Guidelines. This guideline helped complete the coding sheet by adding a few more elements of disclosure. Lastly, the coding sheet was finalized by noting additional points of interest discovered while examining the 2003 annual report and the 2003 proxy circular of the 5 largest banks in Canada (Royal Bank, Toronto-Dominion, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of Montreal) and three large foreign banks (Citibank, HSBC, Sumitomo Mitsui). The coding sheet was then used to evaluate the corporate governance disclosure of Canadian banks. The coding mechanism is as follows – a positive rating of 1 is given to the subject bank if it discloses the element in question. Otherwise, the subject bank receives a rating of 0. The data source used to evaluate the level of corporate governance disclosure was limited to the 2003 annual report and the 2003 proxy circular.

5. Results

5.1 Corporate Governance Information Disclosure Components

The summary of the coding sheet results is presented in Table 4. The coding sheet (see appendix 1) was divided into different sections.

i. The “on-line information” section relates to the disclosure of corporate governance information such as the annual reports and having a corporate governance Web page.
ii. The “board” section is about information specific to the boards of directors, for example, its size and the number of meetings.

iii. The "profile of directors" section relates to the disclosure of the specific board members and their respective background.
iv. The "remuneration of the board" section deals with the revelation of the annual compensation that board members receive.
v. The "board independence" section relates to, among other things, the disclosure of the number of related directors on the board, the duality of positions, and the independence of the committees.
vi. The "by-laws" section is specific to the disclosure of corporate governance mechanisms used to strengthen the power of the board.
vii. The "committee" section deals with the disclosure of the members and the proceedings of the committees

Each bank receives a number for each section based on the number of elements disclosed in their 2003 Corporate governance Web page, their 2003 annual report and their 2003 proxy circular. The number on the left hand side of the grid is the result of the bank while the number on the right is the maximum result for that section. The total score represents the sum of all the sections with a maximum score of 54. The total score is then converted into a percentage to facilitate the comparison between banks.

Table 4. Summary of Corporate Governance Information Disclosure

	RBC	TD	BNS	CIBC	BMO	NBC	LBC	CWB	AVG
On-line information	4/5	5/5	4/5	4/5	4/5	3/5	3/5	3/5	3.8/5
Board	5/6	6/6	5/6	5/6	5/6	5/6	4/6	5/6	5.0/6
Profile of directors	6/6	6/6	6/6	6/6	6/6	6/6	6/6	4/6	5.8/6
Remuneration of Board	8/8	8/8	8/8	8/8	8/8	6/8	8/8	8/8	7.8/8
Board independence	17/17	15/17	16/17	15/17	12/17	11/17	15/17	15/17	14.5/17
By-laws	6/6	6/6	6/6	6/6	5/6	6/6	6/6	5/6	5.8/6
Committees	6/6	5/6	6/6	5/6	6/6	6/6	5/6	5/6	5.5/6
Total Score	52/54	51/54	51/54	49/54	46/54	43/54	47/54	45/54	48.0/54
Percentage of Disclosure	96%	94%	94%	91%	85%	80%	87%	83%	88.9%

Although the missing elements of disclosure differ from bank to bank the actual level of disclosure for the 3 larger banks is similar. One would have thought that all 5 large banks would have similar results but we find that there is an 11% margin between the Royal Bank of Canada (1st) and the Bank of Montreal (5th). Surprisingly, the level of disclosure of the three smaller banks is very similar to that of the 5 large banks. One would have thought that there would be a larger discrepancy in the level of disclosure between the smaller and larger banks. One of the possible reasons for such a belief is that the larger banks are subject to more scrutiny by investors, and as such, they demand more information on corporate governance. Another reason is that the larger banks have a bigger budget for investor relations and therefore they can afford to spend more time preparing their annual reports and their proxy circulars. However, as one can see from the table, this is not the case. A possible reason for these observations is that the limited number of banks in Canada makes comparisons between banks quite easy. Thus the banks might simply be imitating each other's disclosure. It is suspected that the banks peruse each other's proxy circulars to establish what kind of information should be added to their public information packages next year. It would be interesting to see if next year, utilizing the same coding sheet as this year, if the gap in the level of corporate governance information disclosed is narrowed.

5.2 Voluntary Disclosure of Corporate Governance Practices

A more telling sign of the bank's corporate governance disclosure is the level of voluntary disclosure. What is meant by voluntary disclosure is information provided by the banks that they are not obliged to reveal under some type of regulation. To determine which items of the coding sheet were voluntary and which items were mandatory a review of the disclosure requirements of the Ontario Securities Commission, the Sarbanes-Oxley Act, the Toronto Stock Exchange, the New York Stock Exchange, the Canadian Institute of Chartered Accountants and the Bank Act was performed. If one of the items on the coding sheet was required by one of these regulatory bodies it was considered to be a mandatory requirement. Out of 54 items on the coding sheet, 20 were found to be completely voluntary. The list of these items with the frequency of their disclosure is displayed in Table 5.

In order to compare the voluntary disclosure policy of the banks we tabulated the number of banks that disclosed the voluntary information and listed these items in descending order.

Table 5. Governance Information Disclosed Voluntarily

Voluntary Information	Disclosed
Residence	8 out of 8 times
Occupation	8 out of 8 times
Number of years on the board	8 out of 8 times
Capable of determining independence of Board remuneration review	8 out of 8 times
Capable of determining independence of Conduct Review or Risk committee	8 out of 8 times
Photos of members	7 out of 8 times
Biography of members	7 out of 8 times
Explanation of CEO's stock requirements	7 out of 8 times
Explanation of directors' stock requirement	7 out of 8 times
Number of affiliates	7 out of 8 times
Names of related directors	7 out of 8 times
Reason of relation	7 out of 8 times
On-line link to Corporate Governance Web page	6 out of 8 times
Names of affiliates	6 out of 8 times
Reason of affiliation	6 out of 8 times
Past committee experience	4 out of 8 times
Separate section outlining Board independence criteria	2 out of 8 times
On-line histogram of organization	1 out of 8 times
Minimum qualification of director	1 out of 8 times
Number of directors that can sit on outside board together	1 out of 8 times
Total number of items	20 items

Table 6. Voluntary Corporate Governance Disclosure

RBC	TD	BNS	CIBC	BMO	NBC	LBC	CWB
18/20	17/20	17/20	15/20	13/20	9/20	14/20	13/20

5.3 Completeness of Governance Information Disclosure on the Web

The objective of this analysis is to determine the amount of corporate governance information disclosed on the corporate governance Web page. Results in Table 7 reflect the information directly found on the corporate governance Web page. The information found is much less than when the annual reports and proxy circulars were consulted. The data source used to evaluate the level of corporate governance disclosure was limited to the subject bank's January 2003 Web page on corporate governance. Any links from the Web site that directed the researcher to either the proxy circular or the annual report were ignored. In essence, all information was collected from the subject bank's corporate governance Web page. The information on the Web page had to be distinct from the annual report or the proxy circular and could not simply refer or link the Web page to the corporate governance section of those reports. Each bank receives a number for each section based on the number of elements disclosed on their corporate governance Web page. The number on the left hand side of the grid is the result of the bank while the number on the right is the maximum result for that section. The total score represents the sum of all the sections with a maximum score of 54. The total score is then converted into a percentage to facilitate the comparison between banks. According to Table 7, the level of corporate governance disclosure on the bank's corporate governance Web page represents a lower level of disclosure of information than seen in their annual reports and proxy circulars since disclosure on the corporate governance Web page is completely voluntary. It seems that all 8 banks omitted to disclose the remuneration of the board. Although these salaries are published in the bank's proxy circular. This allow us to conclude that the information displayed on the corporate governance Web page appears to cater to a different type of users.

The Effect of the Bank Size on the Disclosure of Corporate Governance Information

According to Table 7 it is interesting to note that the five largest banks tend to have a significantly higher proportion of corporate governance information displayed on their corporate governance Web page when compared to the 3 smaller banks. This is consistent with the theory that large banks have a bigger budget for investor relations, and therefore can afford to develop a more complete corporate governance Web page. The effect of the bank size measured by total assets is more observable in Table 8 for the total disclosure and in Table 9 for the disclosure on the corporate governance web page. Both tables suggest clearly that large banks disclose on the average more information on corporate governance than smaller banks. This reality is more significantly present on the corporate governance web page.

Table 7. Summary of Corporate Governance Information Disclosure on the Corporate Governance Web page

	RBC	TD	BNS	CIBC	BMO	NBC	LBC	CWB	AVG
On-line information	3/5	4/5	3/5	4/5	3/5	2/5	2/5	3/5	3.0/5
Board	3/6	5/6	5/6	4/6	5/6	0/6	0/6	0/6	2.8/6
Profile of directors	4/6	6/6	6/6	4/6	6/6	0/6	0/6	0/6	3.3/6
Remuneration of Board	0/8	1/8	1/8	0/8	3/8	0/8	0/8	0/8	0.6/8
Board independence	6/17	15/17	2/17	15/17	14/17	0/17	0/17	0/17	6.5/17
By-laws	1/6	5/6	4/6	6/6	5/6	0/6	0/6	1/6	2.8/6
Committees	4/6	4/6	3/6	4/6	5/6	0/6	0/6	0/6	2.5/6
Total Score	21/54	40/54	24/54	37/54	41/54	2/54	2/54	4/54	21.4/54
Percentage of Disclosure	39%	74%	44%	69%	76%	4%	4%	7%	39.6%

Table 8. Summary of Corporate Governance Information Disclosure (Size comparison)

	5 larger banks	3 smaller banks	AVG
On-line information	4.2/5	3/5	3.8/5
Board	4.3/6	4.7/6	5.0/6
Profile of directors	6/6	5.3/6	5.8/6
Remuneration of Board	8/8	7.3/8	
Board independence	15/17	13.7/17	14.5/17
By-laws	5.8/6	5.7/6	5.8/6
Committees	5.6/6	5.3/6	5.5/6
Percentage of Disclosure	90.5%	83.3%	

Table 9. Summary of Corporate Governance information Disclosure on the Corporate governance Web page (Size comparison)

	5 larger banks	3 smaller banks	AVG
On-line information	3.4/5	2.3	3.0/5
Board	4.4/6	0	2.8/6
Profile of directors	5.2/6	0	3.3/6
Remuneration of Board	1.0/8	0	0.6/8
Board independence	10.4/17	0	6.5/17
By-laws	4.2/6	0.3	2.8/6
Committees	4.0/6	0	2.5/6
Percentage of Disclosure	60.3%	4.8%	

According to Table 9, smaller banks tend to omit the board characteristics and the profiles of directors, which are items that need to be updated often. This lends weight to the theory that the smaller banks do not wish to spend as much as large banks on maintaining their Web sites. These results are consistent with the effect of size on disclosure previously documented in other research on disclosure in the industrial sector.

6. Conclusion

Good governance remains one of the most important characteristics of banking firms. For the majority of managers, shareholders, customers and other stakeholders, good governance is the foundation for their mutual trust. The disclosure of governance information is therefore a crucial strategic task for bank management.

According to our results Canadian Banks disclose a large volume of information related to corporate governance covering a total of 54 items. These information could be found in three important medium, the bank's annual reports, the bank corporate governance web site and the bank proxy circulars. When analyzing the corporate governance Web page, the investors will find a significant volume of information. However, more information can be found by analyzing both the annual report and the proxy circulars. Any serious analyst of bank governance should not limit his search to the main Web page. Our findings also indicate that larger banks disclose more information on the governance section of their Web pages while the smaller banks seem to disclose a larger amount of their information in the annual reports and in the proxy circulars.

Because banking is a heavily regulated activity, most of the disclosed information on corporate governance is mandatory, however 20 items out of a total of 54 represent voluntary disclosure. With few exceptions most of the banks seem to disclose the same voluntary information.This result could be explained by the small size of the Canadian banking industry and by the fact that banks tend to copy one another's corporate governance disclosure and thus they publish almost exactly the same corporate governance information. This behaviour is consistent with DiMaggio and Powell (1983) theory that firms within the same industry tend to copy one another's disclosure policy which gives rise to mimetic isomorphism. Finally, according to our results the size of the bank measured by total assets seems to be a determinant factor affecting the volume of disclosure of information related to corporate governance. Our results are consistent with other research on disclosure dealing with other informations and other sectors in the economy.

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41. Laurentian Bank of Canada: www.laurentianbank.com
42. Ministry of Finance: www.fin.gc.ca
43. National Bank of Canada: www.nbc.ca
44. New York Stock Exchange: www.nyse.com
45. Office of the Superintendent of Financial Institutions: www.osfi-bsif.gc.ca
46. Ontario Securities Commission: www.osc.gov.on.ca
47. Royal Bank of Canada: www.rbc.com
48. Toronto-Dominion Bank: www.td.com
49. Toronto Stock Exchange: www.tse.ca

Appendix 1 : Coding Sheet and results	by Bank							
Bank Name	RBC	TD	BNS	CIBC	BMO	NBC	LBC	CWB
On-line information								
On-line Proxy Circular & Notice of annual meeting	1	1	1	1	1	1	1	1
On-line Annual Report	1	1	1	1	1	1	1	1
On-line Histogram of Organisation	0	1*	0	0	0	0	0	0
On-line link to Corporate Governance web page	1	1	1	1	1	0	0	1
On-line Checklist of TSE Requirements	1	1	1*	1	1	1	1	0
Sub total	4	5	4	4	4	3	3	3
Board								
Number of directors	1*	1*	1*	1	1	1*	1*	1*
Duties of board of director	1*	1*	1	1	1	1*	0	1*
Number of meetings	1	1	1	1	1	1	1	1*
Chairman identified	1*	1*	1*	1*	1*	1*	1*	1*
CEO identified	1*	1*	1*	1*	1*	1*	1*	1*
Mininum qualification of director	0	1*	0	0	0	0	0	0
Sub Total	5	6	5	5	5	5	4	5
Profile of directors								
Name	1	1*	1*	1*	1*	1*	1*	1*
Residence	1	1*	1	1*	1*	1*	1	1*
Occupation	1	1*	1*	1*	1*	1*	1*	1*
Number of years on the board	1	1	1*	1*	1	1	1*	1
Photos of members	1	1	1*	1	1	1	1*	0
Biography of members	1	1	1	1	1	1	1*	0
Sub Total	6	6	6	6	6	6	6	4
Renumeration of Board								
CEO Salary	1	1	1	1	1	1	1	1
Number of Shares owned by CEO	1	1	1	1	1	1	1	1
Explanation of CEO's stock requirements	1	1	1	1	1	0	1	1
Loans to CEO	1	1	1	1	1	1	1	1
Directors salary	1	1	1	1	1	1	1	1
Number of shares owned by director	1	1	1	1	1	1	1	1
Explanation of directors' stock requirement	1	1	1	1	1	0	1	1*
Loans to directors	1	1	1	1	1	1	1	1
Sub-Total	8	8	8	8	8	6	8	8
Board independance								
Seperate Section outlining Board independance	1	0	1*	0	0	0	0	0
Number of affiliates	1*	1	1*	1*	0	1*	1	1*
Names of affiliates	1	1	1*	1	0	0	1	1*
Reason of affiliation	1	1	1*	1	0	0	1	1*
Number of related directors	1*	1	1*	1*	1	1*	1	1*
Names of related directors	1	1	1*	1	1	0	1	1*
Reason of relation	1	1	1*	1	1	0	1	1*
Number of directors from mng	1*	1	1*	1	1	1	1	1*
Seperate role of Chairman and CEO	1*	1*	1*	1*	1	1	1*	1*

Appendix 1 continued

Number of directors that can sit on outside board together	1	0	0	0	0	0	0	0
Capable of determining independance CEO renumeration review	1	1	1	1	1	1	1	1*
Capable of determining independance of Board renumeration review	1	1	1	1	1	1	1	1*
Capable of determining independance of Audit committee	1	1	1	1	1	1	1*	1*
Audit committee has direct access to internal and external auditors	1*	1	1*	1*	1	1	1	1*
Capable of determining independance of Human Ressource committee	1	1	1	1	1	1	1*	1*
Capable of determining independance of Conduct Review or Risk committee	1	1	1	1	1	1	1*	1*
Capable of determining independance of Corporate Governance committee	1	1	1	1	1	1	1*	1*
Sub Total	17	15	16	15	12	11	15	15
By-laws								
Code of conduct	1*	1	1*	1*	0	1*	1	1*
Director Orientation Course	1	1	1*	1	1	1	1	1*
Process assessing the effectiveness of the Board	1*	1*	1*	1*	1	1	1	1
Review of Board size	1*	1	1*	1*	1	1	1	
Corporate objective approved by the Board	1*	1*	1*	1	1	1	1	1*
System to permit directors to engage outside advisers	1	1	1*	1	1	1	1	0
Sub Total	6	6	6	6	5	6	6	5
Committees								
Number of committees	1*	1*	1*	1*	1	1*	1*	1*
Duties of committees	1*	1*	1*	1*	1	1	1*	1*
Number of meetings	1	1	1*	1*	1	1	1	1
Names of members	1*	1*	1*	1*	1	1	1*	1*
Identify chairman	1*	1*	1*	1*	1	1	1*	1*
Past committee experience	1	0	1*	0	1	1	0	0
Sub Total	6	5	6	5	6	6	5	5
Total Score	52	51	51	49	46	43	47	45
Percentage of Disclosure	96,30%	94,44%	94,44%	90,74%	85,19%	79,63%	87,04%	83,33%
* Annual report 2003								
Source: (1) 2003 Annual Report and (2) 2003 Proxy Circular for the 2004 shareholders meeting								
All quantitive information is collected from the 2003 Proxy Circular								