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**PENSION ACCOUNTING DISCLOSURES: ACTUARIAL GAINS AND  
LOSSES AND MARKET PRICE REACTIONS**

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**Master of Sciences (International Accounting)**

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## ABSTRACT

This paper seeks to investigate the market price reactions towards actuarial gains and losses (AGL) disclosure and the determinants of Cumulative Average Abnormal Return (CAAR) by using Cumulative Market Adjusted Return Model (CMAR) and efficient market theory among 86 company-years in Malaysia that has disclosed AGL in annual report for the year 2012 until 2014. The finding shows that there is a negative reaction of CAAR before the financial year ended of AGL disclosure as the information has been spread before the financial year ended. However, the positive market price reaction on and after the financial year ended indicates that the announcement is most welcomed by the investors. Besides, the actuarial losses (AL) are more likely to have significant market price reaction as compared to actuarial gains (AG). It indicates that the investor and shareholder of the company may react immediately towards AL disclosure rather than AG and maybe the investors seem to be conservatism in making their investment decisions. In addition, the study found significant negative relationship between CAAR and AGL disclosures. This finding indicates that investors are more looking for AL disclosures rather than AG disclosures where the actuarial losses disclosures give significant negative market price reactions.

**Keywords: Efficient Market Theory, Actuarial Gains and Losses, Malaysia, Market Price Reactions, Cumulative Market Adjusted Return Model**

## ABSTRAK

Kertas kerja ini bertujuan untuk menyiasat tindak balas harga pasaran terhadap pendedahan keuntungan dan kerugian aktuari (AGL) dan faktor penentu kumulatif purata pulangan tidak normal (CAAR) dengan menggunakan model kumulatif pasaran pulangan diselaraskan (CMAR) dan teori pasaran yang cekap (*Efficient Market Theory*) di kalangan 86 syarikat-tahun di Malaysia yang telah mendedahkan AGL di dalam Laporan Tahunan bagi tahun 2012 hingga 2014. Hasil kajian menunjukkan bahawa terdapat satu reaksi negatif CAAR terhadap pendedahan AGL sebelum akhir tahun kewangan kerana maklumat telah didedahkan sebelum tahun kewangan berakhir. Walau bagaimanapun, tindak balas harga pasaran yang positif pada dan selepas tahun kewangan berakhir menunjukkan bahawa pengumuman itu amat dialu-alukan oleh pelabur. Selain itu, pendedahan kerugian aktuari (AL) adalah lebih cenderung untuk mempunyai reaksi harga pasaran yang ketara berbanding dengan pendedahan keuntungan aktuari (AG). Ia menunjukkan bahawa pelabur dan pemegang saham syarikat bertindak balas dengan segera terhadap pendedahan AL berbanding pendedahan AG dan ini mungkin pelabur seolah-olah menjadi konservatif dalam membuat keputusan pelaburan mereka. Di samping itu, kajian ini mendapati hubungan negatif yang signifikan antara CAAR dan pendedahan AGL. Kajian ini menunjukkan bahawa pelabur lebih mengutamakan pendedahan AL berbanding pendedahan AG di mana pendedahan kerugian aktuari memberi reaksi harga pasaran negatif yang ketara.

**Kata Kunci: Teori Pasaran Yang Cekap, Keuntungan Dan Kerugian Aktuari, Malaysia, Tindak Balas Harga Pasaran, Model Kumulatif Pasaran Pulangan Diselaraskan**

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## LIST OF ABBREVIATIONS

Abbreviations	Descriptions of Abbreviations
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$\alpha$	Alpha
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AAR	Average Abnormal Return
-----	-------------------------

AGL	Actuarial Gains and Losses
-----	----------------------------

$\beta$	Beta
---------	------

CAAR	Cumulative Average Abnormal Return
------	------------------------------------

CEO	Chief Executive Officer
-----	-------------------------

CMAR	Cumulative Market Adjusted Return
------	-----------------------------------

DB	Defined Benefit
----	-----------------

DC	Defined Contribution
----	----------------------

DV	Dependent Variables
----	---------------------

EPF	Employee Provident Funds
-----	--------------------------

EPS	Earnings Per Share
-----	--------------------

$\epsilon$	Error Term
------------	------------

FRS	Financial Reporting Standards
-----	-------------------------------

H	Hypothesis
---	------------

<b>Abbreviations</b>	<b>Descriptions of Abbreviations</b>
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRS	International Financial Reporting Standards
IV	Independent Variables
KLCI	Kuala Lumpur Composite Index
LNTA	Log Natural Total Assets
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standard
N	Number of Observations
OECD	Organisations Economic Cooperation Developments
OLS	Ordinary Least Square
Sig	Significant
SPSS	Statistical Package for the Social Sciences
Std.	Standard
STDV	Standard Deviation

<b>Abbreviations</b>	<b>Descriptions of Abbreviations</b>
US	United States
US GAAP	United States Generally Accepted Accounting Principles
UUM	Universiti Utara Malaysia
VIF	Variance Inflation Factor



## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

The disclosures of accounting information are important to user of financial statement especially when it could influence the company's share price (Titas Rudra 2010). The reliable and timely information will increase the confidence level among decision-makers and enables the user to make good decisions especially when it affects the profit and risk of investments (OECD, 1999). The disclosure of accounting information also helps user to understand the business activities, procedures and performance in regards to legal requirements, ethical and environmental standards and also to improve rapport between stakeholders, communities and the companies itself (OECD, 1999). Thus, it requires the company to disclose this accounting information either in the notes to the financial statements or in supplemental reporting.

The disclosure or supplementary information could provide a convenient means of experimenting with new requirements on what may be included in the main accounts and how the items must be measured (Macve, 1997). Basically, the disclosure of accounting information can be powerful regulatory tools to encourage and comply with best practice and enable stakeholders or third parties to proceed with further actions (Winter Report, 2003). Therefore, this disclosure requirement could be more flexible, efficient and easier to impose. Furthermore, the complexity of business operation also requires the companies to disclose more information such as pension accounting disclosures (Lode and Yusof, 2014).

Pension accounting disclosures such as actuarial gains and losses (AGL) are more complex and volatile components in pension cost accounting (Collie and Gannon,



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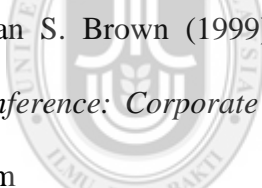
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