

The impact of increased standard flexibility on disclosure practices

A comparison of the introduction of IFRS 8 in the UK, Germany, France and Italy and its impact on companies' segment disclosures

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Abstract

Following a series of reporting scandals in the early 2000s, several researchers studied the gradual shift toward more principles-based accounting systems. There seems to be a general belief that the adoption of international principles-based accounting standards will improve financial reporting quality worldwide, although little evidence is provided for this claim. At the same time several studies claim that heterogeneity in countries' environmental factors will not lead to harmonized accounting practices and that important differences will remain even though there is common international accounting system.

This study contributes to the literature regarding a shift toward more principles-based standards by investigating the effect of increased requirements' flexibility on disclosure practices in an international environment characterized by harmonized accounting regulations but heterogeneous disclosure practices. The standards that are used are IFRS 8 Operating segment and its predecessor IAS 14R Segment Reporting. IFRS 8 took effect from January 1 2009. The countries included in the study represent the four largest economies in Europe, namely the UK, Germany, France and Italy.

The methodology used is quantitative and follows a positivistic research approach. This study investigates the impact that a regulatory change has on disclosure practices by observing data reported in the annual reports and asserts the eventual differences between the two standards and across the four countries.

The study provides evidence of only a marginal change in segment disclosure practices after the introduction of IFRS 8. The change is mostly characterized by a loss of key information indicating that more flexible requirements negatively impact accounting practices. This implies that if the purpose of a regulatory change is to assure a certain level of information, more rigid requirements are to be preferred. Further, this study shows that, opposed to expectations; disclosure practices are more heterogeneous under more rules-based standards. However, there is an indication that the reason for increased homogeneity is that companies listed in the UK and Germany, presenting a higher amount of segment information under IAS 14R, have decreased the information under IFRS 8. It seems thus that standard enforceability decreases under more flexible disclosure requirements.

Keywords

IFRS, IFRS 8, segment reporting, principles-based standards, standard flexibility, disclosure practices, harmonization, cross-country comparison

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