Australian Government

Australian Accounting Standards Board

AASB Research Report No. 3

The impact of IFRS adoption in Australia: Evidence from academic research

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AASB Research Report Series

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About the AASB Research Centre

The primary objective of the AASB Research Centre is to provide thought leadership on financial reporting issues.

The Centre's activities are intended to make a substantial contribution to the domestic and international debate on particular topics and to influence the work programs of the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) and, ultimately, the content and quality of International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS).

The research involves liaison with constituents (including academics) and other standard-setters. Some of the research is conducted in conjunction with other standard-setters.

Research Centre staff closely monitor the IASB's research agenda and post-implementation review agenda, and contribute to the IASB's work on particular projects by arrangement with the IASB.

More About the Research Centre is available on the AASB website www.aasb.gov.au at: http://www.aasb.gov.au/admin/file/content102/c3/Introduction_to_the_Research_Centre.pdf.

The research gives rise to publications such as AASB Essays, Research Reports and Occasional Papers. Research Centre staff/contractors also periodically prepare Staff Papers on topics of current interest.

Any comments on the technical content of any of the Research Centre's publications (including this publication) or current projects can be emailed to standard@aasb.gov.au.

Foreword

The Financial Reporting Council (FRC) is responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include overseeing the accounting and auditing standard setting processes for the public and private sectors and advising the Minister on matters affecting the financial reporting framework in Australia.

The FRC's 2002 strategic direction on adopting International Financial Reporting Standards (IFRS) in 2005 represents a milestone in Australia's long history of developing high-quality financial reporting standards. The adoption of IFRS ensured that Australia's standard-setting focus is now firmly on helping to promote high-quality financial reporting globally.

The objectives in the FRC's enabling legislation involve assisting in maintaining confidence in the Australian economy, including by reducing the cost of capital, enabling Australian entities to compete effectively overseas, having clearly stated accounting standards and maintaining investor confidence in Australia's capital markets. Accordingly, gaining an understanding of the impact of having adopted IFRS in Australia is vitally important to the FRC and I welcome this analysis of the relevant published literature.

Bill Edge
FRC Chair

The AASB Academic Advisory Panel's main objective is to facilitate engagement between Australian academics and the AASB. Research on Australian financial reporting is vital to informing the AASB's decision making. Academics are encouraged to engage with the AASB by sharing their research findings with the AASB and can also undertake collaborative research with the AASB.

This literature review provides an example of the AASB's use of evidence from relevant published research to help the Board appropriately assess the impact of its standards and use the learnings to improve its future decision making. The literature review has also enabled the AASB to conduct targeted outreach more effectively and efficiently.

On behalf of the Panel, I welcome the literature review as part of the AASB's project on appraising IFRS adoption in Australia. I congratulate and thank Nick Pawsey from Charles Sturt University for diligently working with the AASB Academic Advisory Panel and staff in authoring the Research Report.

Ann Tarca
AASB Academic Advisory Panel Chair

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EXECUTIVE SUMMARY

To assist the AASB and Financial Reporting Council (FRC) assess the impact of adopting International Financial Reporting Standards (IFRS) in Australia in 2005, a detailed literature review has been conducted. IFRS currently forms the basis of reporting by all sectors, both for-profit and not-for-profit. The outcomes of this research form part of a larger IFRS Review project conducted by the AASB to inform its views on how IFRS should be incorporated into the Australian Reporting Framework in the future.

The focus of this report is on the impact of IFRS adoption on publicly-listed Australian companies and other capital market participants (i.e. for-profit sector).

Key messages

- The FRC directive regarding adoption of IFRS in Australia continues to be appropriate.
- Most of the research findings generally support the view that IFRS adoption has benefited the Australian economy.
- There is no significant evidence suggesting reconsideration of adopting IFRS is warranted.

We grouped the 35 relevant research papers published in journals rated at A*, A or B in the Australian Business Deans Council (ABDC) or Excellence in Research Australia (ERA) journal lists into four categories:

1. the impact of IFRS adoption on the **quality** of Australian financial reporting;
2. the impact of IFRS adoption on the **comparability** of Australian financial reporting;
3. the benefits of IFRS adoption by publicly-listed Australian companies for **investors and analysts**; and
4. **surveys** of senior personnel from publicly-listed Australian companies to capture their perceptions about the impact of IFRS adoption.

Key findings

Overall, our analysis of the current Australian evidence concerning the effect of IFRS adoption revealed:

- IFRS adoption by Australian companies appears to have had a positive outcome for investors and analysts based on research revealing improved analyst following, and analyst forecast accuracy.
- Some studies reported positive outcomes through improvements in the value relevance of financial reports post-IFRS adoption, and reductions in the number of firms

engaging in earnings management. Research findings have further supported the adoption of the IFRS goodwill impairment and deferred taxes regimes as having improved accounting quality. Others studies, however, suggested that the accounting quality have not significantly improved when compared to Australian Generally Accepted Accounting Principles (AGAAP) and that prior AGAAP treatments for identifiable intangible assets were more appropriate. Findings also suggests that the use of IFRS has seen financial reports become longer but easier to read.

- Most studies reported positive results in terms of the promotion of the comparability of Australian entities' financial reporting practices with their global peers.
- Survey research around the time of IFRS adoption revealed a degree of pessimism among managers from listed Australian companies towards many of the possible benefits from accounting convergence.

The following lines of enquiry for future research would assist the AASB determine future directions relating to Australian financial reporting requirements:

- As a result of ongoing refinements to IFRS and increases in the number of companies across the world applying IFRS, ongoing research is required to monitor IFRS accounting quality and the comparability of financial reports. Further research scrutinising the impact on users of specific areas of change from AGAAP to IFRS may also be useful in identifying future directions for the AASB and IASB (e.g. are there other areas where AGAAP treatment provided more useful information to users than current IASB treatments?). This will complement the existing research that has, for example, considered the results of significant changes in regard to intangible assets and deferred taxes.

- Given the wide-ranging impacts of IFRS adoption across the Australian economy, future research is needed on the impact of IFRS adoption, and the AASB's use of the principle of transaction neutrality, for the not-for-profit sector.

List of Acronyms/Abbreviations Used in the Research Report

AASB	Australian Accounting Standards Board
ABDC	Australian Business Deans Council
AGAAP	Australian Generally Accepted Accounting Principles
AIFRS	Australian Equivalents to International Financial Reporting Standards[1]
ASX	Australian Securities Exchange
AU	Australia
CEO	Chief Executive Officer
CFO	Chief Financial Officer
ERA	Excellence in Research Australia
EU	European Union
HK	Hong Kong
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
PIR	Post-implementation Review
UK	United Kingdom

[1] AIFRS (Australian Equivalents to IFRS) is a term no longer used by the AASB.

1. Introduction

1.1 Overview

The 2005 adoption of International Financial Reporting Standards (IFRS) by Australian companies followed a number of years of policy debate concerning the potential desirability of the international convergence of accounting standards. In committing to IFRS adoption at this time, Australia was one of the first major economies to adopt IFRS. Today, the list of jurisdictions that require IFRS for all or most public companies has grown to more than 110[2] (see Pacter, 2015). Given the desirability of having quality, transparent and comparable financial statement information for use by global capital market participants (see IFRS Foundation Trustees, 2012), the use of IFRS presents a number of potential benefits for Australian companies. The adoption of IFRS is not, however, without potential transitionary and ongoing costs for adopting companies and convergence benefits may not be relevant or significant to all.

To assist the AASB and FRC assess the impact of adopting IFRS in Australia in 2005, a detailed literature review has been conducted. The outcomes of this research form part of a larger IFRS Review project conducted by the AASB to inform its views on how IFRS should be incorporated into the Australian Reporting Framework in the future. IFRS currently forms the basis of reporting by all sectors, both for-profit and not-for-profit.

The study of the outcomes from IFRS adoption has been a popular research topic globally including research conducted by other national standard-setters.[3] This Report presents the results of a detailed literature review of the published empirical research that has examined the effect of IFRS adoption on publicly-listed Australian companies. The specific focus of this Report is those studies published on or after 2005 that provide evidence of the overall effectiveness of the decision to require Australian companies to adopt IFRS in terms of the benefits and costs experienced by companies.

The application of the literature search method and criteria (see Section 1.2) revealed high quality and relevant research in 35 papers published in academic journals. The specific focus of these research papers was along four major lines of inquiry:

1. the impact of IFRS adoption on the **quality** of Australian financial reporting;
2. the impact of IFRS adoption on the **comparability** of Australian financial reporting;
3. the benefits of IFRS adoption by publicly-listed Australian companies for **investors and analysts**; and
4. **surveys** of senior personnel from publicly-listed Australian companies to capture their perceptions about the impact of IFRS adoption.

[2] http://www.ifrs.org/use-around-the-world/pages/jurisdiction-profiles.aspx
[3] For example, the European Commission (EU) conducted a review investigating the effects of using IFRS within the EU and the Korean Accounting Standards Board (KASB) completed a number of studies relevant to IFRS adoption.

The research method employed by these studies in respect of 1, 2 and 3 above was predominately quantitative in nature. These studies typically involved applying complex statistical techniques to financial statement and capital markets information in order to draw inferences about various questions and hypotheses relating to IFRS adoption.

1.2 Research Method

The conclusions of this Report are based on a detailed search and synthesis of relevant research papers that have considered the impact of IFRS adoption for publicly-listed Australian companies. This is the most advanced field of IFRS adoption research in the Australian setting and only a limited number of papers have considered IFRS adoption from the perspective of other Australian stakeholder groups including public sector entities and educators. The table below summarises the search criteria used to identify relevant papers. To ensure that the research studies considered were of a high quality and have been through a rigorous peer-review process, we limited our search to papers included in either the ABDC or ERA journal lists, and rated A*, A or B. To ensure the relevance of the papers to the understanding of the direct impact of IFRS adoption within the Australian context, we focused on studies reporting empirical results based on data captured on or after the transition to IFRS. Furthermore, we focused on those studies based exclusively on Australian companies, and broader international studies that report detailed, country specific results for Australian companies included in the study sample.

Criteria for papers to be included in the literature review

Criteria	Details
Source	Must be published in journals rated at A*, A or B in the ABDC or ERA journal lists.
Research focus	The impact of IFRS adoption: benefits, costs, and/or desirability.
Sector	Publicly-listed Australian companies.
Paper type	Research paper (i.e. editorials, letters, literature reviews and commentary papers omitted).
Other	Must provide detailed results for Australian companies (i.e. exclude international studies which only report pooled results and omit country specific results)

Relevant papers were identified through a consolidation of two key sources. Firstly, the project researchers reviewed and consolidated their existing libraries of research papers accumulated as part of their prior international accounting research. Secondly, the project members organised for the La Trobe University, Research Partnership Team, to conduct a customised literature search in accordance with the specified search criteria. The customised search reviewed key business research databases including ABI inform, Business Source Complete, Informit Business, and Emerald insight. As summarised below, collectively, after the elimination duplicates, we initially identified 321 potential journal articles. These papers were subsequently reviewed to ensure conformance with the journal article criteria. Our final sample of conforming journals included 35 papers.

Summary of total number of papers included in the literature review

Papers identified from database	321
After eliminating papers without detailed Australian results reported for publicly-listed companies, and eliminating papers not published in A*, A or B journals	35

1.3 Report Limitations

Readers of this Report should be cognisant of the Report's limitations. As elaborated below, these include limitations relating to the research method employed to identify relevant papers and those relating to the nature of the studies identified by our review. Fundamentally, a key challenge all researchers face in their attempt to understand the impact of IFRS adoption is the difficulty of controlling for the numerous other factors beyond the standards in use that can impact the variables under consideration. This includes the quality of financial reporting practices and the ability of analysts to make accurate predictions of firm performance. There is also the issue of the relevance and reliability of drawing inferences about the relative quality of IFRS through a comparison of reporting practices under AGAAP in the pre-2005 period with more recent IFRS reporting practices. Had IFRS not been adopted, AGAAP would have continued to evolve and any improvements in the quality of financial reporting observed from the adoption of IFRS may have also been achieved through AASB enhancements to AGAAP.

Limitations relating to the research method employed

Our reliance on research papers published within quality, ranked journals helped to ensure that only papers published in internationally recognised journals that have been through a rigorous peer review process are cited. Doing so, however, resulted in the omission of conference and other working papers.

The literature search strategy included a broad range of search terms designed to capture relevant research papers within the defined date range and ranked journal criteria. Given the use of alternative key words and descriptors by different researchers, however, relevant research papers may have been omitted from our search.

Limitations relating to nature of the studies reviewed

Each of the classes of research reviewed for this Report have their own potential limitations. In relation to the predominately capital markets research which has considered the impact of the Australian adoption of IFRS on quality, comparability, and analysts and investors, for example, it is difficult to reach a general consensus given the use of different samples, study periods and constructs to measure the benefits and costs of IFRS adoption.

Furthermore, such studies typically captured data before 2009. Subsequent results could be different given, for example, the increased use of IFRS globally, ongoing refinements to IFRS, and learning effects as practitioners and users become more accustomed to IFRS. The existing survey evidence concerning Australian practitioners' perceptions towards IFRS shares an equivalent limitation given the timing of the surveys around the transition to IFRS.

Finally, in attempting to reach high-level conclusions regarding the outcomes from the adoption of IFRS in Australia, it is important to acknowledge the difficulty of trying to compare studies which draw from different samples of companies, from different countries and time periods and which adopt different research techniques. As acknowledged by Singleton-Green (2015, p. vii) as part of his discussion of a similar examination of IFRS adoption research evidence in the EU:

> "On many issues that arise from the EU's adoption of IFRS, the evidence is unclear and different researchers arrive at different answers. This is usually because they have applied different tests or looked at different samples or at different periods. But such apparent contradictions make it difficult for the reader of research to draw conclusions".

1.4 Report Structure

This Report is divided into eight key sections. Sections 2 through 6 provide an overview of the existing published empirical research concerning the desirability of IFRS adoption for Australian companies. Within each of these sections, a summary of the key findings of the individual research papers is provided. Section 7 provides a summary of the key findings of the report together with recommendations for possible future actions. Finally, Section 8 provides the reference details of the various papers reviewed within this Report and other supporting references.


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Review of Research
Accounting Quality
Comparability
Benefits for Investors and Analysts
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Conclusions

2. Accounting Quality

2.1 Overview – content and findings

Overall, researchers have utilised a range of measures and statistical techniques to explore IFRS accounting quality. Amongst others, these have included the study of the influence of the Australian adoption of IFRS on the:

- value relevance of accounting information;
- number of companies engaging in earnings management;
- relative conservatism of accounting practices;
- reliability of accrual accounting;
- readability of financial reports;
- matching between revenues and expenses; and
- recognition of impairment losses.

Other studies have also evaluated the economic effects from the changes to the treatment of goodwill and how firms account for business combinations.

The existing research focused on IFRS adoption has included studies that consider the overall outcomes of change, and those studies that have considered the change in relation to individual standards. The latter includes, for example, studies of the impact of changes in relation to intangible assets and deferred taxes.

Despite research on IFRS accounting quality being one of the most established and popular international accounting research topics, overall, the current evidence concerning the impact of IFRS adoption on the quality of Australian financial reporting is generally inconclusive. Some studies have reported positive outcomes in terms of reductions in the number of companies engaging in earnings management, improvements in the value relevance of accounting reports post-IFRS adoption, and positive results for the changes to deferred tax accounting. Others, by comparison, have found that these and other measures of accounting quality have not improved when compared with AGAAP.

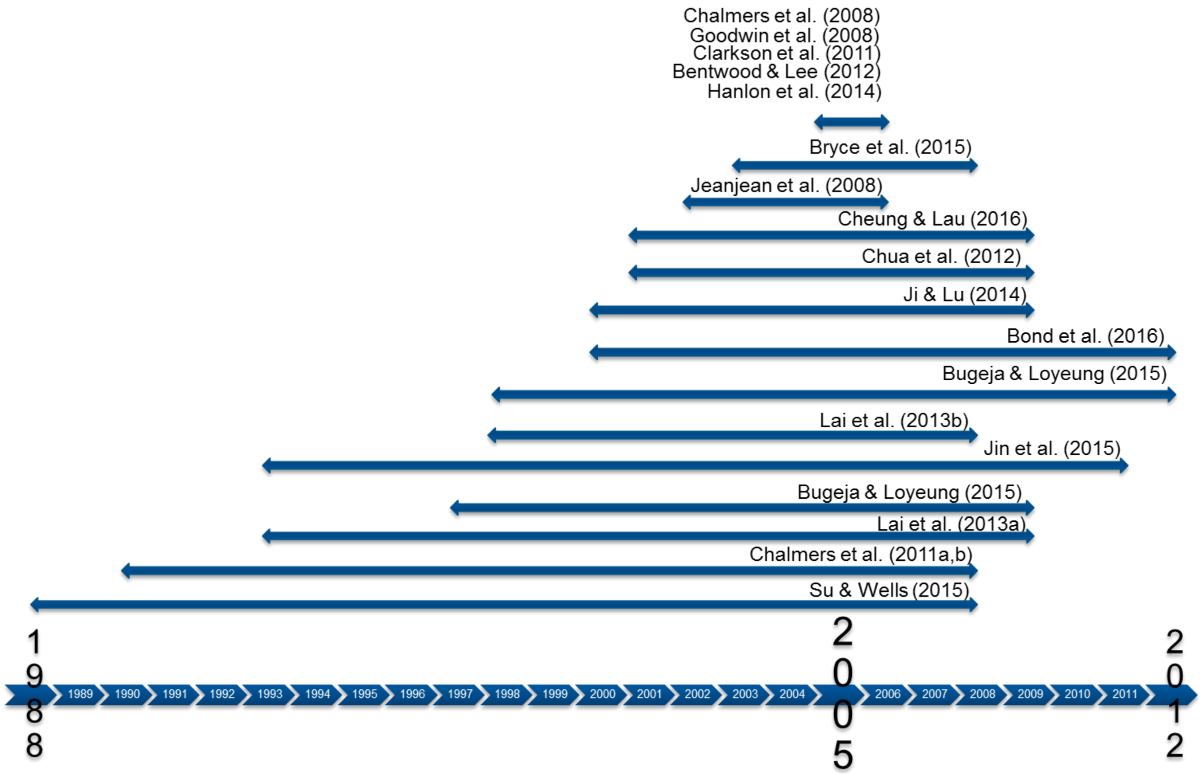
Whilst some studies have reported positive outcomes from the change to goodwill impairment, others have suggested that the changes to the treatment of internally generated intangible assets have reduced the quality of Australian financial reports. The move to goodwill impairment appears to have other consequences given an apparent increase in the proportion of the purchase price that firms now allocate to goodwill, relative to other assets, and other research results suggesting that either before or after IFRS adoption there is still no evidence of an association of identifiable assets from business combinations with postacquisition performance.

Also in regards to impairment, firms appear more likely to recognise asset impairments under IFRS, however, many firms still appear to not comply with asset impairment recognition requirements.

In terms of the readability of financial reports, it has been suggested that the use of IFRS has seen reports become longer but easier to read.

These findings regarding the influence of IFRS adoption on the quality of Australian financial reporting practices parallels the conclusions reached by broader literature reviews of the past empirical research that has considered IFRS accounting quality globally (see, for example, Brown, 2011; Chen et al., 2010; Chua and Taylor, 2008; Pope and McLeay, 2011; Singleton-Green, 2015). These reviews have generally attributed the mixed results to sampling issues and the use of diverse measures of quality. Sampling issues have related chiefly to the fact that a number of studies have considered the results of the voluntary adoption of IFRS on quality. As noted by Chua and Taylor (2008) and Pope and McLeay (2011), those adopting IFRS voluntarily may be unrepresentative of other firms and it is difficult to control for incentives and other market factors that may also have impacted quality.

Overall, we identified 19 papers that looked at IFRS accounting quality of Australian companies. In discussing the research on IFRS accounting quality, it is important to acknowledge that the existing published research in the Australian context has considered a relatively narrow period of time (typically pre-2009) and the standards themselves are undergoing ongoing refinement.



Accounting Quality

Value Relevance

Following IFRS adoption, are accounting numbers (i.e. earnings, equity) more closely correlated with stock prices and changes in these prices?

Earnings Management

Does IFRS adoption appear to have had an impact on the extent to which firms use their discretion to manipulate reported results?

Conservatism

Has IFRS adoption had an impact on the tendency for firms to under(over) value assets(liabilities) and the timing in which they recognise "bad news" (see Lai et al. 2013a)?

Accrual Reliability

Has IFRS adoption influenced the persistence *of the accrual components of earnings with the cash flow components of earnings (see Richardson et al. 2005; Lai et al. 2013b)?*

Financial Report Readability

Are IFRS based financial reports longer *and more complex to read given the language used (Cheung & Lau, 2016)?*

Matching Between Revenues and Expenses

Has IFRS adoption improved matching between revenues and expenses and the reliable measurement of profitability on a periodic basis (Jin et al. 2015)

The Recognition of Asset Impairments

Are firms more likely under IFRS to recognise asset impairments in situations in which indicators of impairment are present (Bond et al. 2016)?

Key findings identified from our review of studies that explored the impact of IFRS adoption on the quality of Australian financial reporting include:

Study	Years	Findings
Chalmers et al. (2008)	2005 and 2006	Aggregated identifiable intangible AGAAP measures convey incremental information beyond the equivalent measure under AIFRS.[4]
Goodwin et al. (2008)	First year of IFRS adoption.	No evidence is found that IFRS earnings and equity are of higher quality (more value relevant) than AGAAP earnings and equity.
Jeanjean et al. (2008)	2002-2006	Earnings management has remained stable after the transition to IFRS.
Chalmers et al. (2011a)	1990-2008	Despite the potential for higher volatility under IFRS, earnings are more persistent and hence more value-relevant upon IFRS adoption.
Chalmers et al. (2011b)	1990-2008	The "adoption of [the IFRS] goodwill impairment regime has enhanced the usefulness of financial statements for decision-making purposes as recognised goodwill is more likely to reflect firms' underlying economic attributes" (p. 637).
Clarkson et al. (2011)	2004-2005	Depending on the empirical model employed, the results showed that after the adoption of IFRS, there was either a slight increase or decrease in the ability of accounting numbers to explain price variation.
Bentwood and Lee (2012)	2006	16.85% of companies provided erroneous information of a material nature in their reconciliations to IFRS during the transition period and, on the balance of probabilities, 5.03% of companies in the sample managed their prior year's earnings benchmarks.
Chua et al. (2012)	2001/02-2008/09	Australian firms engage in less earnings management by way of income smoothing, and more timely loss recognition. An improvement in the value relevance of accounting information after the adoption of IFRS was also observed.

[4] AIFRS (Australian Equivalents to IFRS) is a term no longer used by the AASB.

Study	Years	Findings
Lai et al. (2013a)	1993-2009	The adoption of IFRS has led to a decrease in conditional conservatism ("firms under-measure the book value of assets or over-measure the book value of liabilities" (p. 736)).
Lai et al. (2013b)	1998-2008	Accrual reliability declined significantly after mandatory IFRS adoption. The use of a Big 4 audit firm, however, significantly attenuated any decrease in accrual reliability post-IFRS adoption.
Hanlon et al. (2014)	2004/05 - 2005/06	Incremental deferred taxes under AASB 112 have value relevance.
Ji and Lu (2014)	2000-2009	The adoption of IFRS has had "a significant impact on the value relevance of intangibles. In general, the value relevance of intangibles has declined since the adoption of IFRS. However, intangibles are still more value relevant in firms where reported intangibles are assumed to be more reliable in the post-adoption IFRS period" (p. 184).
Bryce et al. (2015)	2003-2008	"Accounting quality is not significantly enhanced subsequent to the adoption of IFRS in Australia. Further, we find that audit committees are more effective in maintaining accounting quality under IFRS than under previous Australian GAAP" (p. 165).
Bugeja and Loyeung (2015)	1998-2012	The proportion of the purchase price from business combinations allocated to goodwill increased after Australia adopted IFRS.
Jin et al. (2015)	1993-2011	"Overall, our results suggest that the extent of matching between contemporaneous revenues and expenses declined in Australia during 2001–2003, but improved around the more recent mandatory implementation of IFRS in 2005" (p. 93).
Su and Wells (2015)	1988-2008	There is "no evidence of identifiable intangible assets acquired and recognised in business acquisitions being associated with postacquisition firm performance or changes in postacquisition firm performance, either before or after transition to IFRS" (p. 1171).

Study	Years	Findings
Bond et al. (2016)	2000-2012	"While there is an increase in the recognition of asset impairments subsequent to the adoption of more prescriptive regulation [i.e. AASB 136], the problem of many firms appearing not to comply with the regulatory requirements for recognising asset impairments persists" (p. 262).
Bugeja and Loyeung (2016)	1997-2009	"Our results show a negative association between premiums and the pre-acquisition step-up with this association decreasing after IFRS adoption. These findings suggest that when a greater proportion of the step-up is required to be expensed, bidders pay less for targets with a higher step-up prior to the acquisition to avoid a further reduction in post-acquisition profit. However, after the adoption of IFRS, when goodwill is no longer amortised, this discounting of premiums for targets with a higher pre-acquisition step-up no longer occurs" (p. 18).
Cheung and Lau (2016)	2001-2009 (excluding 2005)	Financial reports after IFRS adoption are "significantly longer but more readable" (p. 163).

2.2 Summary of Research

2.2.1 Conservatism

Lai et al. (2013a, p. 731) described accounting conservatism and the tendency for "bad news to be recognized in earnings in a more timely manner than good" as "one of the bedrock concepts of financial reporting". The authors summarised the past academic literature concerning the benefits of conservatism given that most stakeholders can benefit from the prompt recognition of losses. On the other hand, conservative accounting practices can be viewed as resulting in the omission of relevant and timely information to financial statement users. Conservatism research includes the study of both unconditional and conditional conservatism. Unconditional conservatism includes the study of cases "where firms under-measure the book value of assets or over-measure the book value of liabilities" (Lai et al. 2013a, p. 736). By comparison, conditional conservatism research includes studies "concerned with the asymmetric timeliness in the recognition of good and bad news" (Lai et al. 2013a, pp. 736-737).

Lai et al. (2013a) examined whether Australian financial reporting has become more conservative over the period of 1993-2009 and whether the adoption of IFRS had an impact. The full sample of firms considered by Lai et al. (2013a) ranged from 693 firms in 1993 to approximately 1,250 in 2009. To ensure comparability of results, however, the researchers further conducted analysis on a constant sample of 190 firms that were present throughout the research period. In restricting their analysis to the four years before and after IFRS adoption, overall, Lai et al. (2013a, p. 758) found that "conditional conservatism has decreased… while unconditional conservatism has increased". It was suggested that financial statement users should factor in such changes in the behavior relating to conservatism as part of their analysis.

2.2.2 Earnings Management

A range of empirical research methods is available to explore the extent to which IFRS adoption has reduced the number of firms engaging in earnings management. Jeanjean et al. (2008) explored this topic through an assessment of irregularities in the distribution of earnings. As reviewed by the authors, past assessments of the distributions of firm profits tend to find that "the frequencies of small losses are unusually low, whereas the frequencies of small profits are extraordinarily high" (p. 485). For the period 2002 through 2006 and using a sample of 1,146 firms from Australia, France and the UK, Jeanjean et al. (2008) studied whether IFRS adoption has resulted in a reduction in the propensity for firms to manage earnings and avoid losses. Overall, the results for the assessment of the distribution of income reported by the 422 Australian firms suggested that earnings management under IFRS was consistent with AGAAP.

2.2.3 Earnings Management, Timely Loss Recognition and Value Relevance

Chua et al. (2012) compared the quality of Australian accounting under AGAAP and IFRS using three different perspectives as outlined by the researchers:

> "First, we compare the pervasiveness of earnings management under Australian GAAP and IFRS, by examining the extent in which earnings are smoothed and managed toward a positive target. Second, we assess whether the mandatory change in accounting standards has affected the timely loss recognition in the Australian capital market. Third, we assess whether IFRS has led to a change in the value relevance of accounting numbers produced by Australian firms" (p. 121).

Based on a sample of 1,376 firm-year observations for 172 Australian listed firms over 2001/02 – 2008/09,[5] Chua et al. (2012) concluded that IFRS adoption has improved the quality of Australian accounting quality. As summarised by the authors:

> "… we find evidence that following the mandatory adoption of IFRS, Australian firms engage in less earnings management by way of income smoothing, better timely loss recognition, and improvement in value relevance of accounting information" (p. 121).

2.2.4 The Value Relevance of Earnings and Equity

Chalmers et al. (2011a) investigated the influence of IFRS adoption on the value relevance of earnings and equity for ASX listed firms over the period 1990-2008. That is, "the ability of equity book values and reported earnings (NI) to capture information that affects share prices" (p. 155). The results suggested that the value relevance of shareholders' equity remained consistent across the pre-IFRS, transition and IFRS periods. Consistent with the notion that firms were anticipating the likely impacts of IFRS adoption on accounting choices, it was revealed that there was evidence of change in the transition year prior to adoption. Further statistical analysis revealed that the earnings changes identified were "attributable to both small and large industrial firms and firms that report IFRS-AGAAP differences in either shareholders' equity or earnings in 2005" (p. 169). Finally, it was found that earnings persistence increased following the adoption of IFRS. Given this finding, the researchers

[5] 2001-2008 for firms with December year ends and 2002-2009 for firms with June year ends.

concluded that "this implies that earnings, despite the potential for higher volatility under IFRS, are more persistent and hence more value-relevant upon IFRS adoption" (p. 169).

In addition to examining the financial impacts of IFRS adoption, Goodwin et al. (2008) explored how IFRS adoption influenced the value relevance of earnings and quality for 1,065 ASX listed Australian firms. To achieve this, the researchers made use of comparative AGAAP and IFRS results released as part of the transition to IFRS. In summary, Goodwin et al. (2008, p. 114) concluded that "no evidence is found that IFRS earnings and equity are of higher quality (more value relevant) than AGAAP earnings and equity" (p. 114). These results were consistent regardless of firm size, industry sector or financial performance (i.e. profit- versus loss-making firms). In discussing accounting quality for various specific areas of changes from AGAAP to IFRS, the researchers summarised that:

> "Both the earnings and equity adjustments for intangibles are negatively associated with price. This suggests that the change to IFRS accounting for intangibles is too conservative when compared with AGAAP. We also find that the provisions, investments and impairment adjustments are value relevant but not consistent with investors' perceptions. These adjustments are not timely however. We also find that the adjustment for share-based payment is timely, and is not consistent with the market's perception. We find no association of share-based payment with price. The goodwill component which comprises mainly amortisation reversal is positively associated with market price and returns, consistent with investors' perceptions of value changes for this asset. We also find that foreign exchange translation adjustments are negatively associated with market value" (p. 114).

2.2.5 Relevance of Book Value and Earnings for Equity Valuation

Clarkson et al. (2011) held that "the value relevance of aggregate book value and earnings is a natural place to look for the impact of IFRS adoption on financial reporting quality given the paramount role of equity valuation in the IFRS conceptual framework" (p. 2). As part of their study, Clarkson et al. (2011) considered a sample of 3,488 firms from Australia and Europe and "compare the relevance of local GAAP accounting measures as originally reported for the pre-IFRS adoption year with the relevance of the restated accounting measures for the same year, as presented in the comparative financial statements for the IFRS adoption year" (p. 5). Depending on the empirical model employed, the results for the sample of 895 Australian firms revealed either a slight increase or decrease in the ability of accounting numbers to explain price variation.

2.2.6 Benchmark Management During Transition

As outlined by Bentwood and Lee (2012), in restating their profit results from the last year of AGAAP to IFRS as part of the requirements of AASB 1, companies were essentially restating their benchmarks. Bentwood and Lee (2012) reviewed these restatements of benchmark results during the transition to IFRS and examined whether companies exploited the opportunities to manage their benchmarks. The study found that 16.85% of companies provided erroneous information of a material nature in their reconciliations and that, on the balance of probabilities, 5.03% of companies in the sample managed their prior year's earnings benchmarks.

2.2.7 Goodwill Impairment and the Capitalisation of Internally Generated Intangibles

Whether goodwill should be amortised or subject to impairment testing and the appropriate treatment of internally generated intangibles has been a controversial issue. Contributing to this debate, Chalmers et al. (2008) "investigated the association between share prices of Australian firms and capitalised goodwill and identifiable intangibles" reporting under AGAAP and IFRS regimes. The study utilised comparative AGAAP and IFRS balances for a sample of 599 Australian firms during the transition to IFRS in 2005 and 2006. Overall, the researchers concluded:

> "Relative to AIFRS, AGAAP measures of goodwill are not incrementally useful to investors. For aggregated identifiable intangible assets, we find no evidence that AIFRS measurement conveys incremental information beyond the corresponding AGAAP aggregation. However, we find strong evidence that aggregated identifiable intangible AGAAP measures convey incremental information beyond the equivalent measure under AIFRS" (p. 238).

Chalmers et al. (2011b) investigated "whether the economic value of goodwill is reflected better in an impairment or amortisation regime" (p. 636). Using 4,310 ASX listed firm year observations over the period 1999-2008, the researchers compared the "association between Australian firms' goodwill charges against income and their IOS [investment opportunities] during the accounting regimes requiring straight-line amortisation of goodwill (AGAAP) and one that requires goodwill impairment testing (IFRS)" (p. 636). The association between goodwill impairment charges and firms' IOS under the IFRS regime was found to be stronger than compared to goodwill amortisation and firms' IOS during the comparative AGAAP period. This result supported the argument that the "adoption of a goodwill impairment regime has enhanced the usefulness of financial statements for decision-making purposes as recognised goodwill is more likely to reflect firms' underlying economic attributes" (p. 637).

Ji and Lu (2014) examined the value relevance of intangible assets in the pre- and post-IFRS adoption periods for a sample of 6,650 firm-year observations over the period 2001 to 2009 for Australian-listed firms with capitalised intangible assets. Extending prior value relevance of intangible assets research, Ji and Lu (2014) also considered how the value relevance of intangible assets was affected by the reliability of such information. To explore this, Ji and Lu (2014, p. 183) compared the value relevance of intangible assets for two groups of firms: "(1) firms with more reliable information about intangibles; and (2) firms with less reliable information about intangibles, to investigate whether value relevance is influenced by the value reliability of intangibles". The results of the analysis of data suggested the following:

> "… the adoption of IFRS has a significant impact on the value relevance of intangibles. In general, the value relevance of intangibles has declined since the adoption of IFRS. However, intangibles are still more value relevant in firms where reported intangibles are assumed to be more reliable in the post-adoption IFRS period" (p. 184).

2.2.8 The Value Relevance of Deferred Taxes

Hanlon et al. (2014) explored the value relevance of the IFRS balance sheet approach to deferred tax accounting with the pre-IFRS income statement approach. The study further considered "whether such incremental value relevance (if any) is attributable to the deferred tax consequences of asset revaluations" (p. 87). The research sample consisted of 291 ASX listed firms. The researchers made use of comparative AGAAP and IFRS results released by firms during the transition to IFRS over the period 2004/05 through 2005/06 (dependent of firm year end). In summary, Hanlon et al. (2014, p. 98) concluded that:

> "… incremental deferred taxes under AASB 112 have value relevance. Moreover, evidence from an examination of the deferred tax components that comprise the divergent deferred tax balances indicates that the disclosure of deferred taxes attributable to two out of three revaluation components (namely, revaluations of PPE and equity-accounted investments) is significantly value relevant, while the disclosure of deferred taxes attributable to the non-revaluation balance sheet component is not significant. From the five income statement components, only the disclosure of deferred taxes attributable to one component (namely, stock option payments) is significant".

The authors interpreted these results as: "reflecting investors' preference for the balance sheet approach to deferred tax accounting and their view that deferred taxes on asset revaluations are real liabilities" (p. 87).

2.2.9 Accrual Reliability

Lai et al. (2013b) focused on the impact of IFRS adoption on accrual reliability for 7,509 ASX listed firm year observations over the period 1998 to 2008. The authors concluded:

> "Results indicate that accrual reliability declined significantly after the mandatory adoption of IFRS. Working capital, non-current operating, and financing accruals all contribute to this decline… However, we also find that brand name audit firms are able to attenuate the decrease in accrual reliability during the post-IFRS period" (p. 515).

In further discussing their results and reflecting on other research revealing that IFRS adoption has increased the value relevance of accounting information, Lai et al. (2013b, pp. 515-516) noted:

> "… we can infer that fair value oriented IFRS may have enhanced the relevance of accounting information at the expense of reliability. This inference is consistent with the inherent trade-off between reliability and relevance".

2.2.10 Financial Report Readability

Cheung and Lau (2016, p. 162) asserted that the readability – a function of financial report length and complexity – "is critical to the effective communication of financial information to users (as readers) so that they can make economic decisions". With this in mind, Cheung and Lau (2016) sought to measure the impact of IFRS adoption on the readability of financial statement notes. The research sample included 7,843 firm-years over the period between 2001 and 2009 (excluding 2005). Length was measured using the number of words, whilst the complexity of text was measured using the Gunning Fog Index[6]. Applying these measures, Cheung and Lau (2016, pp. 171-172) drew the following two conclusions about the impact of IFRS adoption:

[6] Gunning Fog Index estimates the years of formal education needed to understand the text on a first reading.

> "(1) financial reports are significantly longer; however, in spite of their increased length, financial reports are more readable. In addition, (2) three accounting policies, namely, *Summary of Significant Accounting Policies, Financial Instruments* and *Intangible Assets* have significantly longer disclosures as a result of the adoption of IFRS".

2.2.11 Matching Between Revenues and Expenses

Jin et al. (2015) focused on the matching between revenues and expenses for Top 200 listed Australian non-financial firms during the period 1993 to 2011. This focus reflected the authors belief that the "matching principle is arguably the most important theoretical underpinning for the traditional income statement approach to financial reporting" and that "high quality matching between revenues and expenses is essential for reliable determination of firm profitability on a periodic basis" (p. 90). Consistent with the "evidence of increased value relevance of Australian financial reporting following mandatory adoption of IFRS", it was concluded that "the extent of matching between contemporaneous revenues and expenses declined in Australia during 2001–2003, but improved around the more recent mandatory implementation of IFRS in 2005" (p. 93). Further exploring this significant result, Jin et al. (2015, p. 93) found that "increased matching is largely attributable to operating expenses and other expenses, which increase the coefficient on contemporaneous expenses".

2.2.12 Accounting Quality and the Impact on Audit Committee Effectiveness

Bryce et al. (2015) evaluated the impact of IFRS adoption on accounting quality through an analysis of earnings management and accruals quality for 200 ASX listed companies between 2003 and 2008. Motivated by the increasing importance of audit committees following various ASX (i.e. ASX 2003, 'Principles of Good Corporate Governance and Best Practice Recommendations') and Federal Government (i.e. CLERP 4) initiatives, Bryce et al. (2015) further examined whether audit committees are more effective in promoting accounting quality under IFRS than previous Australian standards. Bryce et al.'s (2015, p. 180) results suggested that "accounting quality is not significantly enhanced subsequent to the adoption of IFRS in Australia" and that both measures of accounting quality explored by the investigation are "stable under AGAAP and IFRS". In regard to the role of audit committees, it was found that "audit committees with accounting expertise, more members and meeting more regularly are better able to constrain earnings management and ensure accruals quality under IFRS" (Bryce et al., 2015, p. 180).

2.2.13 The Recognition of Asset Impairments

The objective of Bond et al.'s (2016, p. 259) study was to "evaluate how managers of Australian firms are implementing the regulations requiring asset impairments through an examination of realised asset impairments". The research sample consisted of 5,842 Australian firm-years between the period 2000 and 2012. In exploring this period, the researchers were able to review the impact of the implementation of AASB 136, which, whilst "maintaining the same concepts as AASB 1010, is much more prescriptive in the measurement of the recoverable amount" (p. 261). A focus of the study was the extent to which firms recognised asset impairments in situations in which indicators of impairment were present. In conclusion, it was found that:

> "While there is an increase in the recognition of asset impairments subsequent to the adoption of more prescriptive regulation [i.e. AASB 136], the problem of many firms appearing not to comply with the regulatory requirements for recognising asset impairments persists" (p. 262).

2.2.14 Other Business Combination Issues

As considered by Su and Wells (2015), the move to IFRS in Australia and the shift away from the goodwill amortisation model reduced the incentives to recognise identifiable assets from business combinations rather than goodwill. Given these significant changes, the researchers evaluated "the association between identifiable intangible assets acquired and recognised in business combinations with postacquisition firm performance in Australia and considers whether this association changed on transition to IFRS" (P. 1171). Based on a sample of 367 ASX listed firms over the period 1988 to 2008, it was concluded that:

> "… there is no evidence of identifiable intangible assets recognised in business acquisitions being associated with postacquisition performance or changes in postacquisition performance. In contrast, amounts recognised as goodwill are associated with postacquisition performance and increases in postacquisition performance. These results are consistent with overpayment and/or opportunistic motivations impacting the decision to recognise identifiable intangible assets. The sensitivity of these results to the adoption of IFRS, when the incentives to recognise identifiable intangible assets were reduced, was considered, and there is still no evidence of an association of identifiable intangible assets with postacquisition performance, either before or after the adoption of IFRS" (pp. 1173-1174).

Following the adoption of the IFRS goodwill impairment model, Bugeja and Loyeung (2015) sought to examine the proportion of the purchase price from business combinations allocated to goodwill. The study drew conclusions from research based on a sample of 308 successful Australian takeovers from 1998 to 2012. The overall results of the study were summarised as follows:

> "Consistent with managerial opportunism we find that CEOs with an accounting based bonus plan allocate a greater proportion of the purchase price to goodwill both before and after IFRS adoption... We also find that the proportion of the purchase price allocated to goodwill increases after Australia adopted IFRS. This result suggests that firms took advantage of the change in accounting requirements by allocating more to goodwill (and less to other depreciable assets) so as to achieve an improvement in profitability" (p. 246).

Further exploring the economic consequences of the change from systematic annual goodwill amortisation to impairment testing, Bugeja and Loyeung (2016, p. 2) investigated: "(a) the association between the target firm pre-acquisition step-up and premiums; (b) whether this association changed when Australia adopted International Financial Reporting Standards (IFRS); and (c) whether any association between premiums and the target firm pre-acquisition step-up is driven by incentives arising from accounting-based compensation plans offered to the bidding firm CEO". The research considered takeovers for Australian publicly-listed targets between 1997 through 2009, with the analysis considering the results of two models.

The first involved 380 takeovers and the second involved 316 takeovers. Consistent "with an unintended consequence of Australia's adoption of IFRS, being an increase in premiums for target firms with a larger step-up" (p. 18), the researchers concluded that:

> "Our results show a negative association between premiums and the pre-acquisition step-up with this association decreasing after IFRS adoption. These findings suggest that when a greater proportion of the step-up is required to be expensed, bidders pay less for targets with a higher step-up prior to the acquisition to avoid a further reduction in post-acquisition profit. However, after the adoption of IFRS, when goodwill is no longer amortised, this discounting of premiums for targets with a higher pre-acquisition step-up no longer occurs".

The researchers also reported that "the change in the association between premiums and the target firm preacquisition step-up post-IFRS holds only for bidders which offer an accounting-based performance plan to their CEOs prior to the takeover announcement" (p. 18).

3. Comparability

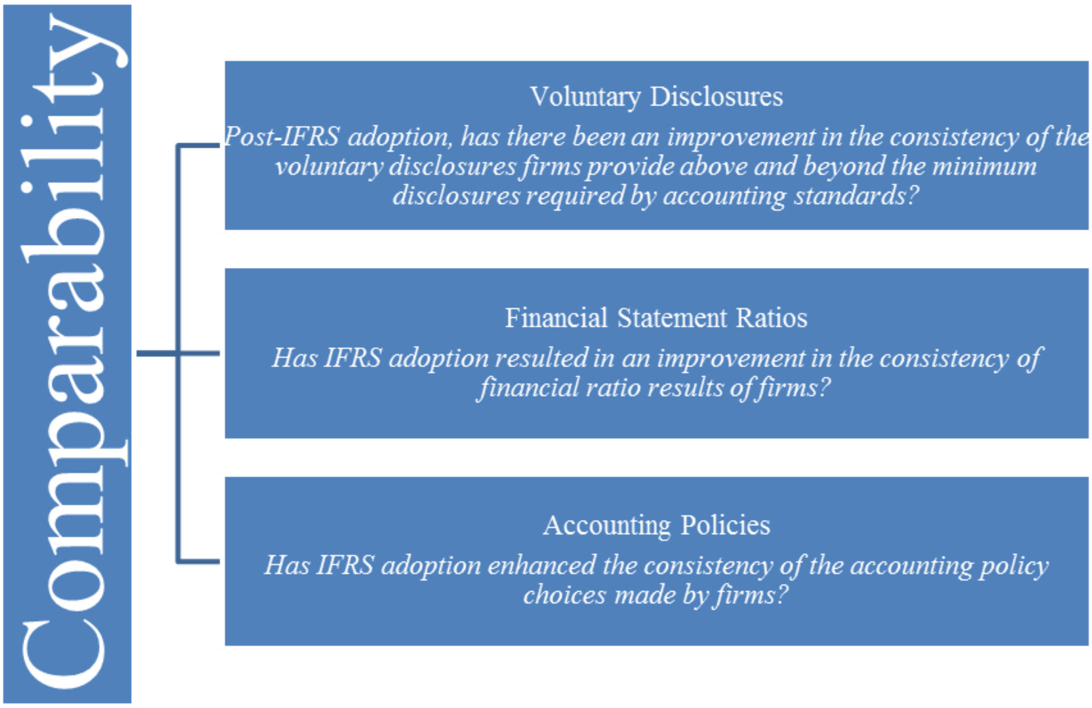
3.1 Overview

One of the main benefits of international accounting standards relates to increasing the global comparability of financial statements is to facilitate international capital flows[7]. A key potential challenge associated with the attainment of IFRS adoption comparability benefits, however, is that other factors may affect the underlying financial reporting practices of companies. These other factors potentially include ongoing global diversity in regard to: auditing practices and regulatory oversight (see, for example, Brown & Tarca, 2005; DeFond et al., 2011; Zeff, 2007); the incentives facing financial report preparers (Ball et al., 2000, 2003; Brown, 2011; Gassen & Sellhorn, 2006; Soderstrom & Sun, 2007); and the education and training of accountants (Schultz & Lopez, 2001; Vellam, 2004).

The purpose of this section is to summarise academic studies that address the question of whether IFRS adoption enhances global comparability in financial statements. Most academic studies compared the effect of IFRS adoption on various countries to examine and draw inferences about global comparability in financial statements after IFRS adoption. Based on the objective of this literature review, this Report only considers and summarises academic studies that include Australian companies in the sample.

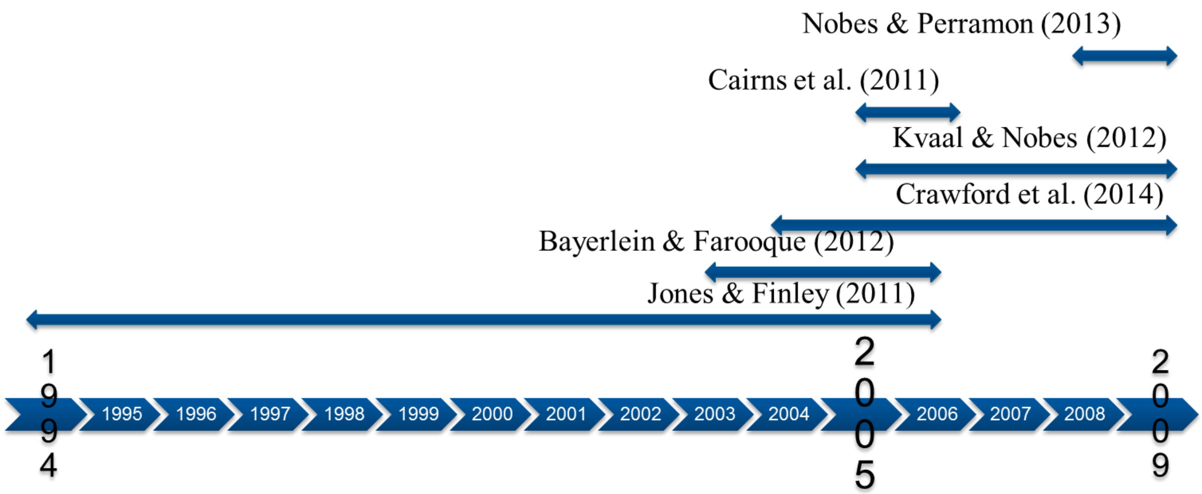
Studies of IFRS adoption and the comparability of the financial statements of Australian firms with their global peers identified by this literature search, included studies that explored the impact of IFRS adoption on the consistency of voluntary disclosures, financial statement ratios, and accounting policy choices of companies.

[7] Source: AASB Policy Statement PS 4 *International Convergence and Harmonisation Policy*, April 2002, available at http://www.aasb.gov.au/admin/file/content102/c3/ACCPS4_4-02.pdf.



In summary, this research suggested that IFRS adoption has provided instances of improved cross-border comparability of voluntary expense disclosures and reduced the variability of financial statement ratios. The studies that considered IFRS adoption and the international consistency of accounting policy choices, however, reported mixed results. Collectively these mixed results concerning the outcomes of IFRS adoption in promoting the global comparability of financial statements of Australian companies suggest a need for further research.

Overall, there are six papers identified that looked at comparability. Collectively, these studies spanned the period 1994 through 2009.



Key findings identified from our review of studies concerning the impact of IFRS adoption on the comparability of Australian financial reporting include:

Study	Years	Findings
Cairns et al. (2011)	2004/05 - 2005/06	Post-IFRS adoption, mandatory fair value requirements in relation to financial instruments and share-based payments have increased comparability.
Jones and Finley (2011)	1994-2004 and 2006	The results showed some statistically significant reductions in the variability of ratio measures in the post-IFRS period which indicated a reduction in financial reporting diversity.
Bayerlein and Farooque (2012)	2003-2006	The results suggested that the IFRS adoption in AU, HK, and the UK has improved the comparability of goodwill and deferred taxation practices.
Kvaal and Nobes (2012)	2005/06 and 2008/09	The authors found that, post-IFRS adoption, national patterns in accounting policy choices are still apparent and concluded “international comparability remains in doubt” (p. 343).
Nobes and Perramon (2013)	2008-2009	Following IFRS adoption, there are highly significant differences between the policies of small and large companies. However, smaller companies make more homogenous choices, within a country, compared to large companies.

Study	Years	Findings
Crawford et al. (2014)	2004-2009	The findings suggested that IFRS adoption has improved firms' consistency in reporting expenses.

3.2 Summary of Research

3.2.1 Voluntary Disclosures

Crawford et al. (2014) looked at expense disclosure in New Zealand and Australia around the time of IFRS adoption. The authors found that both Australian and New Zealand firms increased voluntary expense disclosure in the post-IFRS adoption period. Crawford et al. (2014, p. 1095) explained their measurement of expense disclosure as follows:

> "Expense disclosure is measured as both the percentage of total unspecified expense (i.e. consolidated into 'other') and the count of expenses disclosed. Furthermore, we create a list of expenses that are specifically mandated under each reporting standard to examine the number of 'voluntary' expenses reported".

The findings further suggested that IFRS reduced the variability of disclosures attributable to firm diversity. The results indicated that IFRS adoption enhances comparability of financial statements between countries.

3.2.2 Impact on Financial Ratios

Jones and Finley (2011) studied variation in 21 financial ratios derived from the balance sheet, income statement, and cash flow statement over the pre-IFRS and post-IFRS periods at the intra-country level, the intra-industry level and across different size groups of IFRS-adopting companies within the EU and Australia. The sample comprised 81,560 firm years which included a sample from Australia covering 17,040 firm-years over the period 1994 - 2004 and 2006. The authors concluded that the results showed some statistically significant reductions in the variability of ratio measures in the post-IFRS period which indicated a reduction in financial reporting diversity. This conclusion should be viewed as preliminary because the study only looked at the year 2006 (the first year of reporting for companies with non-December financial end year dates) when IFRS had only recently been made mandatory.

3.2.3 Accounting Policy Choices

Kvaal and Nobes (2012) compared the accounting policy choices made in 2008/09 IFRS financial statements between 210 large listed companies, from Australia, France, Germany, Spain, and the UK, with those choices that had been made by the same companies in 2005/06. The authors found there were few policy changes for Australian and UK companies. However, French and Spanish companies had made more changes than the other companies; and they also made more changes after transition than at transition. The authors concluded that "despite some changes in some countries, the national patterns are still clear" (p. 344).

Bayerlein and Farooque (2012) evaluated the changes of accounting policy choices and the harmonisation of deferred taxation and goodwill accounting practices of three IFRS-adopting countries, Australia, Hong Kong and the UK. The sample comprised 18 randomly selected companies per country. By using an index value (the Split C-index), the study demonstrated that mandatory IFRS adoption in Australia (AU), Hong Kong (HK) and the UK are most likely to have improved the harmony of deferred taxation and goodwill accounting practices in AU, HK, and the UK. The results suggested that the IFRS adoption in AU, HK, and the UK has improved the comparability of financial reporting.

The aim of Cairns et al.'s (2011, p. 1) study was to "investigate the use of fair value measurement and its impact on accounting policy choice and the comparability of financial statements in the UK and Australia around the adoption of International IFRS from 1 January 2005". The study compared measurement policies under national GAAP and IFRS in each country and whether comparability (within and between countries) has increased under IFRS. The sample consisted of 228 large listed companies (114 UK firms and 114 Australian firms). The study period spanned two years: the first IFRS reporting period and the latest period of UK or AGAAP. Cairns et al.'s (2011, p. 18) analysis revealed some positive improvements in regard to the impact of IFRS adoption on comparability within each country and between countries:

> "Within and between country comparability for derivatives and share-based payments have increased as a result of the mandatory use of fair value measurement, arguably improving both comparability and relevance, consistent with the IASB's objectives. In contrast, within and between country comparability for property, plant and equipment have increased as a result of companies electing to use historical cost-based measurement and abandoning prior policies of revaluation. In this case, comparability may have increased at the expense of relevance. We observe that the use of the fair value option for financial assets or financial liabilities that would otherwise be measured at amortised cost reduces within and between country comparability because some companies have elected to use fair value which may be more relevant notwithstanding the loss of comparability".

In discussing the results concerning the limited uptake of fair value measurement where it is optional (i.e. intangible assets, plant and equipment, and investment), other than investment property, Cairns et al. (2011, p. 18) suggested that the results imply:

> "the likelihood of less intentional or unintentional measurement error in financial statements, which may reassure some investors and analysts. On the other hand, greater use of cost measures means that less current information is provided, which may not be consistent with the preferences of some standard setters and needs of some users of financial reports for more relevant information".

Nobes and Parramon (2013) highlighted that many policy choices are embodied within IFRS and firms from different countries and of different sizes may make different choices. Given this, the authors investigated the IFRS policy choices of small listed companies from Australia (n = 40), France (n = 25), Germany (n = 25), Spain (n = 25) and the UK (n = 40). The authors "handpicked data on IFRS policy choices from the annual reports of the companies for accounting years beginning on 1 January 2008 or nearest after". To test the hypothesis that IFRS policy choice was influenced by firm size, the researchers compared the policy choices of small firms with the largest listed companies in the same period. In summary, the researchers concluded that:

> "On 12 of the topics, there was a significant difference (in many cases at the 1% level) between the policies of the large and the policies of the small companies, for at least one country. For some topics… most of our countries showed significant differences

> associated with size. Several of the differences are consistent with small companies being less interested in international users of their financial statements and in any effects of their accounting numbers on capital markets. Consistent with this, we also noted that (compared to large companies) a smaller proportion of small companies used Big 4 auditors, and a smaller proportion of French and Spanish companies provided English translations of their reports. For some topics, nearly all the listed companies (both large and small) in a particular country made the same IFRS policy choice. On other topics, there was variety within a country for both large and small companies" (p. 214).

Taken as a whole, Nobes and Parramon (2013, p. 208) commented that their research provided "further evidence that harmonisation of accounting practice is still far from complete, even among listed companies using IFRS. Furthermore, it is less complete for smaller listed companies than for large ones".

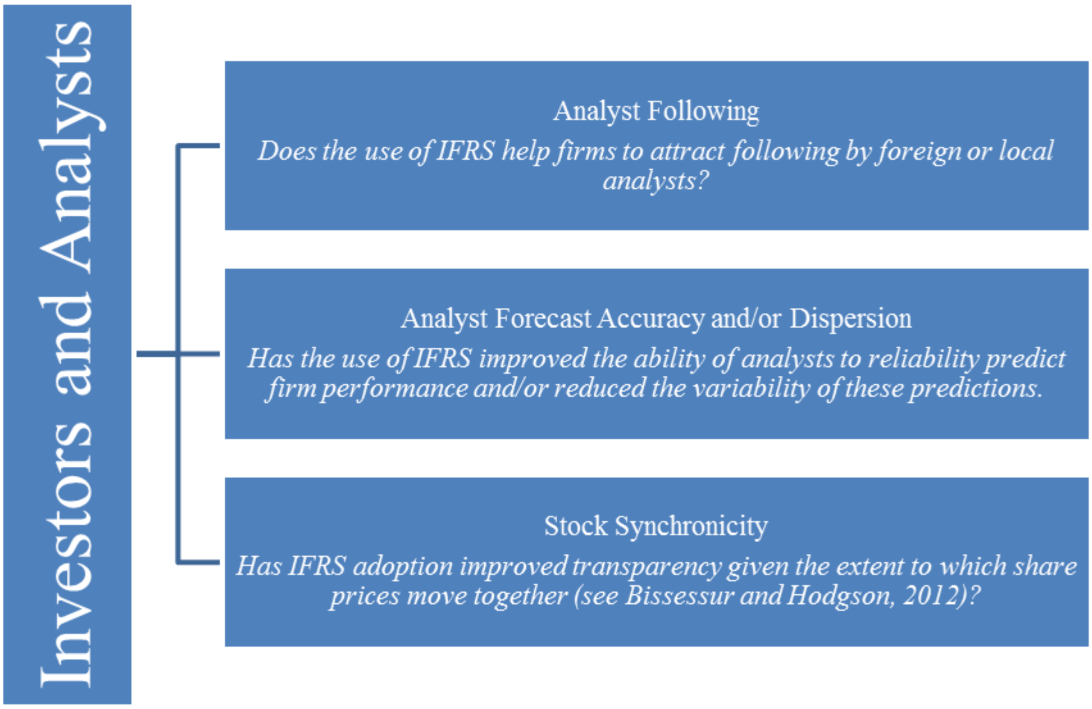
4. Benefits for Investors and Analysts

4.1 Overview

Given the potential for global adoption of IFRS to promote the international comparability and quality of financial statements, investors and analysts are key potential beneficiaries. Research exploring the impact of the Australian adoption of IFRS on investors and analysts is particularly significant given that:

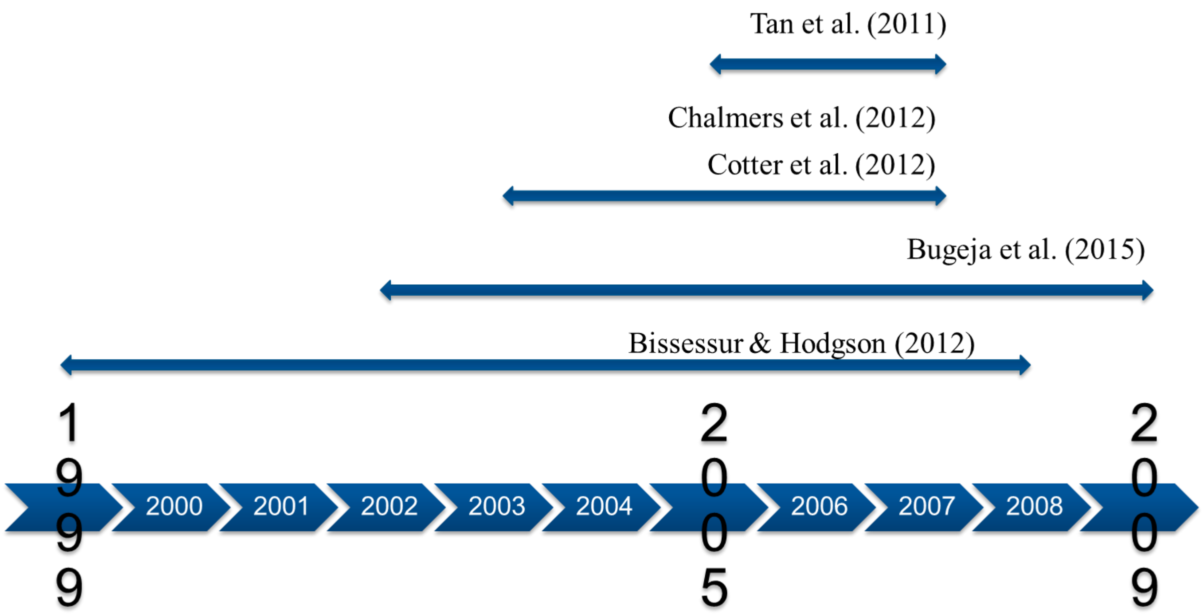
> "Analysts are a useful proxy for economic effects because they provide explicit measures of expectations (forecast errors) and uncertainty therein (forecast dispersion)" (Bugeja et al., 2015, p. 354).

A number of studies have examined the effects of IFRS adoption in Australia by looking at the properties of analysts' forecasts. Specifically, whether IFRS adoption has improved the ability of analysts to make accurate forecasts and whether the change has reduced the dispersion of forecasts. Other studies have examined whether IFRS adoption has promoted Australian share ownership by foreign investors. Within the international business literature, diversity in accounting standards has been suggested as contributing to an investor 'home-bias' phenomena. That is, the tendency for investors to avoid investing in companies from outside their home countries (see, for example, Ball, 2006; Nobes & Zeff, 2008; Whittington, 2005). It has been asserted that international diversity in accounting creates much uncertainty as investors endeavor to evaluate and compare financial statements from different countries as part of their global investment strategies. Investors and analysts may further lack confidence in the quality of financial statements prepared according to unfamiliar standards. Howieson (1998) suggested that investors could elect to acquire the necessary skills to evaluate and compare financial statements prepared under different domestic accounting systems, although he noted that doing so would not be without cost.



From our review of the research that has explored how IFRS adoption has influenced investors and analysts, we suggest the following two primary conclusions. Firstly, in general, IFRS adoption appears to have had a beneficial impact on analyst forecasts and dispersion. Secondly, available research suggests the change has had a positive influence on the foreign analyst following.

Overall, five papers exploring the impact of IFRS adoption on investors and analysts were identified. These papers covered study periods spanning 1999 through 2009.



Key findings identified from our review of studies in relation to the impact of IFRS adoption on investors and analysts include:

Study	Years	Findings
Tan et al. (2011)	2005-2007	1) Mandatory IFRS adoption attracts foreign and local analysts; and, 2) mandatory IFRS adoption improves foreign analysts' forecast accuracy but has no impact on local analysts' forecast accuracy.
Bissessur and Hodgson (2012)	1999-2008	An initial fall in synchronicity after IFRS adoption was detected. This was followed by a period of significantly higher synchronicity in 2007-2008. Using adjusted and unadjusted analyst forecast errors, the authors found decreased errors after the mandatory adoption of IFRS. The error coefficient in 2008 for both data sets was significantly lower, suggesting the increased synchronicity in that year had a positive information effect.

Study	Years	Findings
Chalmers et al. (2012)	2003-2007	The authors found a strong negative association between reported intangibles and both the earnings forecast error and the earnings forecast dispersion. The authors note "an improvement in the association between forecast accuracy and reported intangibles subsequent to adopting IFRS suggests that firms' information risk related to intangibles decreased after IFRS adoption, enabling analysts to better predict future earnings" (p.707).
Cotter et al. (2012)	2003-2007	The authors found that analyst forecast accuracy improves in the adoption year while forecast dispersion is unchanged. Further, the authors did not find information about the impact of adoption provided by firms in financial statements at transition year end was associated with analyst forecast accuracy or dispersion in the adoption year.
Bugeja et al. (2015)	2002-2009	The authors did not find a significant change in analyst forecast accuracy or dispersion following the adoption of either IAS 14R[8] or IFRS 8. The authors also found that changes in analyst following experienced by firms that reported additional segments on the adoption of IAS 14R or IFRS 8 was not associated with segment disclosures.

4.2 Summary of Research

4.2.1 Analysts Following and Analysts' Forecasts

Two papers explored whether IFRS adoption can increase analyst following and the accuracy of analysts' forecasts. If IFRS adoption enhances comparability in financial statements, one would expect companies will have more analysts following after IFRS adoption. Further, as financial statements of post-IFRS are more comparable than pre-IFRS adoption, analysts' forecasts could become more accurate.

Looking at the period of 2005 – 2007, Tan et al. (2011) found that 1) mandatory IFRS adoption attracts foreign and local analysts; and, 2) mandatory IFRS adoption improves foreign analysts' forecast accuracy but has no impact on local analysts' forecast accuracy. The sample comprises 3,280 firms from 25 countries, which includes 330 Australia firms.

[8] For ease of exposition, the authors refer to IAS 14 (revised) as IAS 14R.

Horton et al. (2013) examined whether the increase in forecast accuracy after IFRS adoption can be attributed to higher-quality information and/or greater comparability from IFRS adoption. The sample comprises 8,124 firms from 46 countries that include 253 Australian firms and covers fiscal years ending on or after December 31, 2001, through December 31, 2007. The authors concluded that: 1) forecast accuracy and other measures of the quality of the information environment improve significantly, and 2) the larger the difference between IFRS earnings and local GAAP earnings the larger is the improvement in forecast accuracy.

4.2.2 Information Flow and Analysts

Bissessur and Hodgson (2012) investigated the relationship between the mandatory adoption of IFRS and the information flow for investors in Australia by examining the movements of stock market synchronicity after the mandatory introduction of IFRS. Stock returns move together depending on the relative amounts of market- and firm-specific information. "As richer firm information becomes available, market synchronicity [i.e. stock returns moving together] will decrease because share prices switch their reliance towards more specific information and general investors are able to formulate improved predictions about firm events." (p.188). As such, stock market synchronicity is used to capture information flow. Using a data set from a sample that consisted of all Australian firms spanning the years 1999-2008 that resulted in 7,661 firm-year observations, the authors documented "…an initial fall in synchronicity after IFRS followed by a significantly higher level of synchronicity in 2007-2008…" (p 190). Two explanations of the findings are provided by the authors:

> "First, the result is consistent with the 'comparative' goal of the IASB framework as a qualitative indicator of financial reports. That is, the higher relevance of the new accounting regime increases stock synchronicity, as comparability amongst firms increases because of higher confidence in financial accounting reports and the market progressively re-evaluates the weight placed on firm-specific information. The other possible explanation is that IFRS reports are subjective and/or highly firm specific thus lowering reliability and comparability which forces investors to turn to other macro factors (rather than accounting reports) to estimate value" (p. 209).

To examine the possible explanations, the authors provided further evidence by examining forecast errors. Using adjusted and unadjusted analyst forecast errors, the authors found decreased errors after the mandatory adoption of IFRS. In particular, the error coefficient in 2008 for both data sets is significantly lower, suggesting the increased synchronicity in that year had a positive information effect.

Cotter et al. (2012) explored the effect of IFRS adoption on the properties of analysts' forecasts and the role of firm disclosure about IFRS impact. Based on a sample of 145 large listed Australian firms, which are from a list of the largest Australian firms (by market capitalisation) and followed by at least four analysts in the period of 2003-2007, the authors found that analyst forecast accuracy improves in the adoption year while forecast dispersion is unchanged. Further, the authors did not find information about the influence of adoption provided by firms in financial statements at transition year end was associated with analyst forecast accuracy or dispersion in the adoption year, "perhaps because relevant information was provided through channels other than the financial statements" (p. 414).

Some papers examined the impact of specific standards imposed by IFRS on analyst forecast accuracy or dispersion. These include intangible assets and segment reporting.

Chalmers et al. (2012) looked at the association between intangible assets recognised in firms' financial statements and the accuracy and dispersion of analysts' earnings forecasts in the post-IFRS adoption period in a pre- and post-IFRS period in Australia. By using a sample of 695 firms and 3,328 Australian firm-years from 1993 to 2007, the authors found that there is a strong negative association between reported intangibles and both the earnings forecast error and the earnings forecast dispersion. Further, the authors identified that "the association between the magnitude and the dispersion of analyst forecast errors and reported total intangibles have become more negative subsequent to the adoption of IFRS by Australian firms" (p.718). As concluded by the authors "an improvement in the association between forecast accuracy and reported intangibles subsequent to adopting IFRS suggests that firms' information risk related to intangibles decreased after IFRS adoption, enabling analysts to better predict future earnings" (p.707).

Bugeja et al. (2015) examined the impact of the adoption of both IAS 14R *Segment Reporting* in 2002 and IFRS 8 *Operating Segments* in 2009 on Australian listed firms. The authors investigated whether the adoption of IAS 14R and IFRS 8 improves the information set available to analysts by looking at the accuracy and dispersion of analyst cash flow and earnings forecasts after adopting either IAS 14R or IFRS 8. Based on a sample of ASX listed firms which adopted IAS 14R in 2005 and IFRS 8 in 2009, the authors did not find a significant change in analyst forecast accuracy or dispersion following the adoption of either standard. The authors acknowledged that:

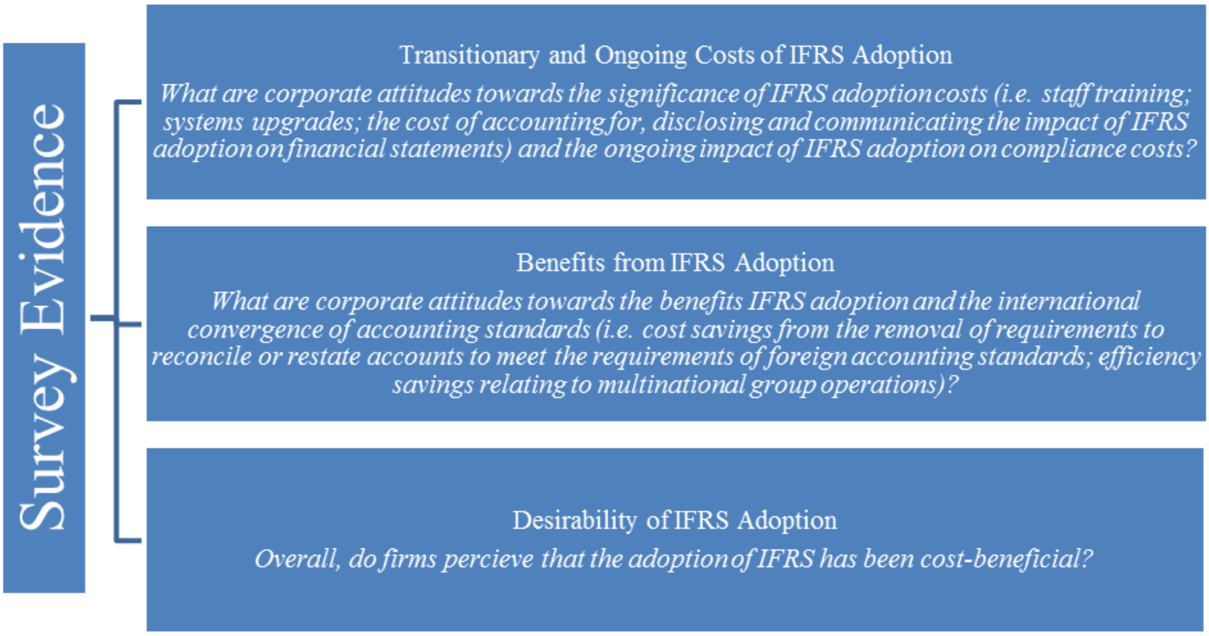
> "One possible interpretation for these findings is that the new information revealed upon the adoption of the standards was already available from other sources. Alternatively, as many firms in our original sample do not have analyst coverage... This smaller sample size perhaps limits our ability to find a significant effect on the properties of analyst forecasts around the adoption of the new accounting standards" (p. 359).

Further, the authors examined whether the adoption of IAS 14R or IFRS 8 resulted in an increase in the number of analysts following firms that reported additional segments. The findings suggested that the change in analyst following was not associated with segment disclosure.

5. Survey Evidence

5.1 Overview

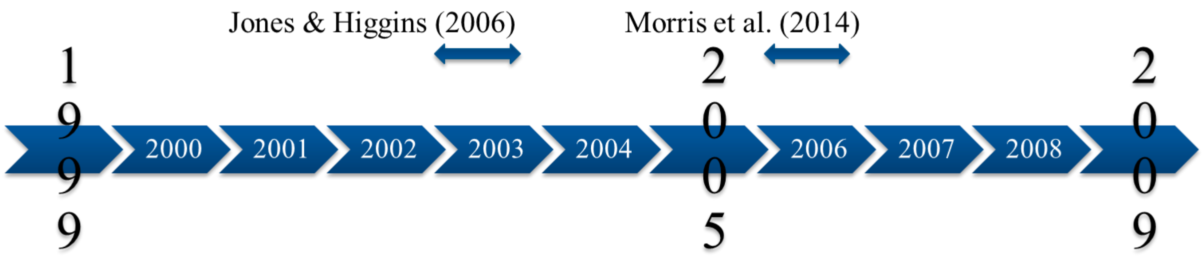
To this point, our review of the current Australian IFRS adoption research has considered evidence in relation to various specific potential benefits from IFRS adoption. A small number of published studies have surveyed CFOs and other senior managers from Australian companies to obtain their attitudes towards these and other potential IFRS adoption benefits. These surveys have further considered the costs and/or overall desirability of IFRS adoption. These studies complement capital market studies considered in earlier sections that make use of largely publicly-available information to explore the quality and comparability of IFRS financial statements, and the impact on financial statement users. The chief benefit of IFRS company survey research is that it permits researchers to better understand the internal effects of IFRS adoption and, in particular: the significance of IFRS adoption costs; the ongoing impact of IFRS adoption on compliance costs; and the significance of internal IFRS adoption benefits.



Overall, the results of surveys of Australian corporate attitudes towards IFRS adoption has revealed very little support for any of the typically expected benefits from IFRS adoption. Furthermore, many survey respondents do not believe that the change was cost-beneficial. The initial adoption of IFRS was acknowledged as impacting a range of operational areas and many perceived that the adoption of IFRS has resulted in an ongoing increase in compliance costs. IFRS are often regarded as a complex body of standards and the IFRS treatment of financial instruments, intangible assets and income taxes are often noted as areas of concern.

In discussing the results of current survey evidence regarding Australian corporate attitudes towards IFRS adoption, it is important to note at least two significant limitations. These relate to sample size and survey timing. To the best of our knowledge, only two published studies exist. The first of these (Jones and Higgins 2006) was conducted prior to the actual adoption of IFRS. At the time of their survey, the majority of respondents rated their knowledge of IFRS as either ‘poor’ or ‘fair’. The second study (Morris et al. 2014) was conducted very close to the timing of IFRS adoption. As acknowledged by the researchers, a risk associated with surveying respondents “at the time of implementation is that they likely will be focused on immediate issues and costs of implementation, and will tend to downplay benefits that may be realized only in future years” (Morris et al. 2014, p. 145). Further research is required to validate the current survey results and further explore the ongoing impacts of IFRS adoption.

We identified two papers reporting “survey evidence”.



Key findings identified from our review of corporate surveys of perceptions towards the costs and benefits of IFRS adoption include:

Study	Years	Findings
Jones and Higgins (2006)	2003	Only 38% agreed that the benefits would outweigh the costs. Further, the majority of respondents disagreed with the specific statements concerning the potential benefits of adoption relating to increased access to overseas capital markets, reduced cost of capital, the ability to produce one set of reports for overseas stock exchanges, more transparent and understandable standards, and an improved quality of financial reports.
Morris et al. (2014)	2006	The overall tone of respondents regarding the benefits of IFRS was pessimistic.

5.2 Summary of Research

Jones and Higgins (2006) used telephone interviews to capture the perceptions of 60 senior representatives from Top 200 ASX listed companies. The interviews were conducted in late 2003 and covered the IFRS adoption preparedness of firms and the expected impacts and benefits of the change. Most respondents agreed with the statements that IFRS adoption would have a significant impact on their reported financial position (52%) and performance (62%). The majority of respondents agreed with the statements that IFRS would impact a range of organisational functions and responsibilities including the board of directors and CEO (83%); accounting/finance department (93%); investor relations department (90%); information technology department (52%); and external audit (97%). A range of flow-on effects from the financial reporting effects were identified with a number of respondents (45%) agreeing that IFRS adoption would likely impact executive compensation contracts, and most agreeing (58%) that debt covenants would be impacted. When asked about the benefits of adoption, only 38% agreed that the benefits would outweigh the costs. Further, the majority of respondents disagreed with the specific statements concerning the potential benefits of adoption relating to increased access to overseas capital markets, reduced cost of capital, the ability to produce one set of reports for overseas stock exchanges, more transparent and understandable standards, and an improved quality of financial reports. Also in regard to the perceived impact of IFRS on accounting quality, Jones and Higgins (2006) documented a long list of standards which interview respondents identified as problematic.

In 2006, Morris et al. (2013) surveyed 305 Australian-listed companies to capture their perceptions of the difficulties, costs, and benefits involved at the time of adopting IFRS. In relation to general IFRS issues: “At least 40 percent of respondents rated as difficult (6 or 7) issues with the standards themselves (their complexity, uncertainty of interpretation or applicability, technical knowledge), people issues (staff time in general or spent on IFRS rather than other activities; and time/discussions with external auditors) and issues with standards (financial instruments and income taxes)” (p. 159).

The overall tone of respondents regarding the benefits of IFRS was pessimistic. The benefits considered included improved ability to raise equity capital, improved ability to raise debt capital, reduced cost of capital, improved information for shareholders, increased domestic comparability, increased international comparability, reduced cost of compliance with foreign regulators, and reduced efforts of compliance with foreign regulators. For all benefit items, “the percentage of respondents reporting little benefits (scores 1 or 2) is greater than the percentages in the other two categories, particularly those reporting substantial benefits (score 6 or 7)” (p. 160).

In relation to the costs of IFRS adoption, the “large majorities of respondents estimated that the one-off (83.9 percent) and on-going (90.8 percent) monetary costs of IFRS adoption would be $500,000 or less”. The large majority of respondents further estimated that there would be an ongoing increase in costs associated with preparing financial statements under IFRS.

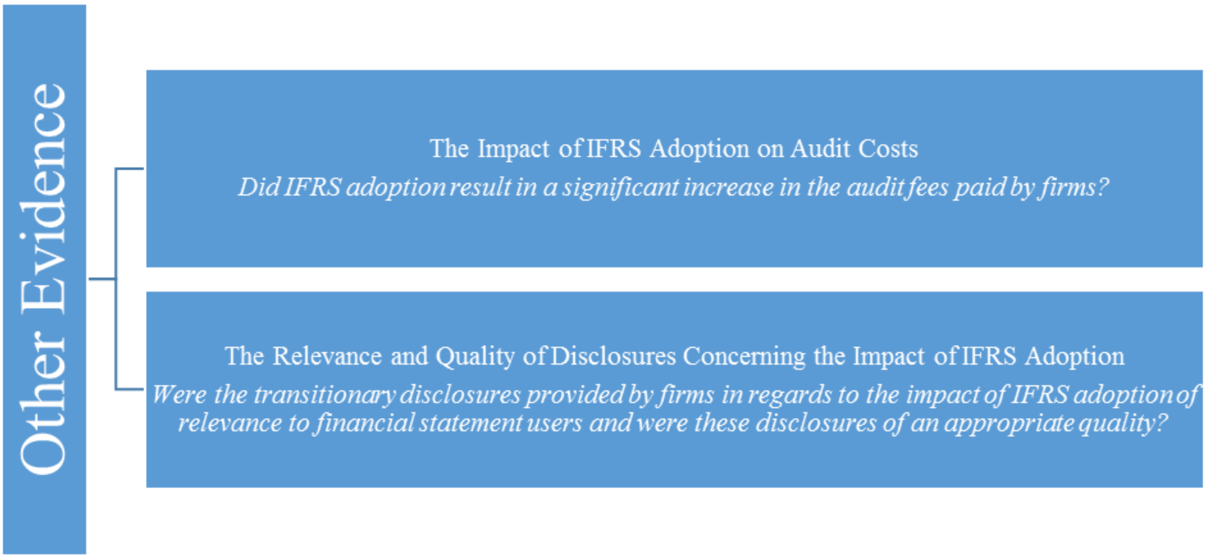
In further exploring the attitudes of respondents, Morris et al. (2013, pp. 167-168) concluded that:

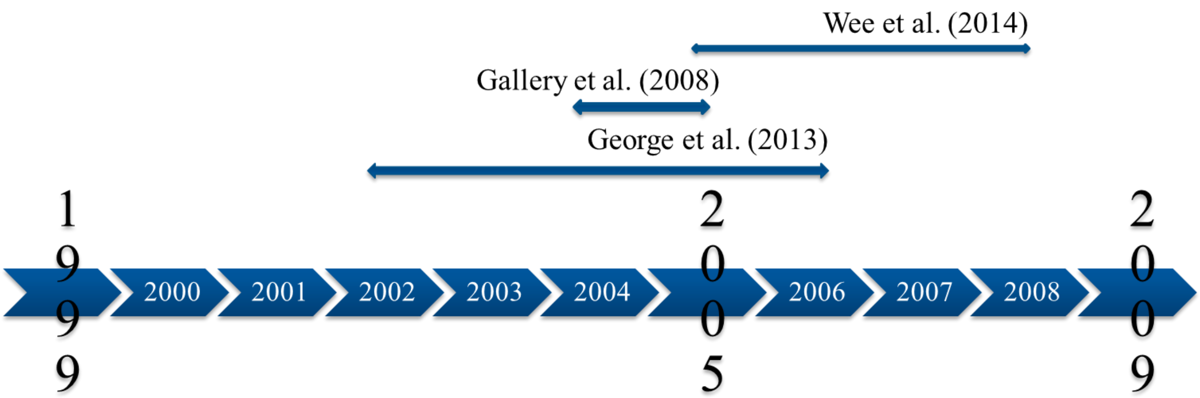
> “… the primary sources of concerns about the General Issues with IFRS, Issues with Non-Accounting Professionals, and the low level of Benefits of IFRS are difficulties with specific accounting issues, the ongoing monetary costs involved, and the limited capital market impact of the changes introduced”.

6. Other Research Evidence

6.1 Overview

Also identified as part of this literature search were a number of individual studies that considered unique aspects of IFRS adoption. Whilst it does not necessarily correspond with the research questions or approaches adopted by other researchers, these studies are nonetheless relevant in helping to further understand the impact of IFRS adoption on Australian companies. Specifically, these studies have considered the impact of IFRS adoption on audit costs and the relevance and reliability of the disclosures provided by companies in regard to the impact of IFRS adoption.





Key findings identified from our review of these other studies include:

Study	Years	Findings
Gallery et al. (2008)	2004-2005	The quality of the disclosures provided by firms in regard to the impact of IFRS adoption varied according to the significance of IFRS financial statement impacts and firm size, industry and profitability. The individual Big 4 audit firm was also found to influence disclosure quality.
De George et al. (2013)	2002-2006	A significant increase in audit costs was observed during the year of transition to IFRS.
Wee et al. (2014)	2005-2008	Firms were sensitive to the need to ensure market participants understood the impact of IFRS adoption and the information provided by firms appeared to be relevant to financial statement users.

6.2 Summary of Research

6.2.1 Impact of IFRS Adoption on Audit Fees

De George et al. (2013) looked at the cost of IFRS adoption by examining audit costs at the time of IFRS adoption. The authors acknowledge that IFRS adoption can be costly to firms "because of the greater effort, knowledge, and information systems needed to implement the new standards, and the additional effort needed to manage the risk of material misstatements appearing in IFRS-compliant financial statements" (p. 432). As discussed by the authors, "audit fees represent a direct, observable and measurable cash outflow that incorporates significant changes in accounting regulations" (p. 430). Using a total sample of 907 ASX listed companies for the period 2002-2006, the authors find "an economy-wide increase in the mean level of audit costs of 23 percent in the year of IFRS transition, varying with firm size and firm IFRS exposure" (p. 457). The authors also find that in the year of IFRS adoption, there was an increase of 8 percent in audit fees, "beyond normal yearly increases in fees" (p. 431). Further, the authors found that smaller report preparers exhibited "disproportionately larger increases in audit fees around the adoption of IFRS relative to large firms" (p. 457).

The authors also surveyed Big 4 auditors and find that "auditors believe that certain aspects of the new IFRS reporting requirements (i.e., share-based incentive payments, financial instruments including hedge accounting, and impairment of goodwill and other intangible balances) require greater auditor effort and expertise to ensure adequate compliance". After constructing a firm-specific score of IFRS exposure based on the survey results, the authors conclude that "firms with the greatest exposure to these standards incur greater increases in audit fees in the year of adoption" (p.457).

6.2.2 Disclosures Around the Time of IFRS Adoption

Wee et al. (2014) inspected the content, timing and relevance of the disclosures provided by 150 ASX listed firms during the three-year period surrounding the adoption of IFRS. Four research questions were explored as part of this inspection:

> "… what are the attributes and timing of firms' IFRS disclosures? To what extent do firms experiencing greater financial impacts on earnings and equity from IFRS adoption provide more disclosure about the IFRS effects, given that IFRS is an accounting change, not a change in economic fundamentals? Do firms experiencing a larger negative impact on earnings and equity provide earlier disclosure and do they make greater use of more disclosure channels? Finally, is firm disclosure about IFRS impact beneficial: that is, is it value relevant for market participants?" (p. 266).

In summarising their results, Wee et al. (2014), confirming that changes to reported earnings were a priority, concluded:

> "Overall, the results show firms are sensitive to the need to ensure reported financial changes are understood by market participants, irrespective of the source of the changes (i.e. an accounting change compared to an economic change). Some firms used both financial statements and firm announcements to promote understanding of the impact of IFRS on reported position and performance" (p. 284).

Firms experiencing an adverse change in earnings were found to disclose more. Firms experiencing weak economic performance were likely to disclose more about the IFRS adoption effects. Finally, narrative financial statement disclosures and firm announcements about the effects of IFRS adoption were found to be useful to market participants. As noted by the researchers, "understanding the accounting impact of IFRS was likely to be important for predicting future earnings" (p. 284).

6.2.3 IFRS Impact Disclosure Quality

The purpose of Gallery et al.'s (2008) study was to examine the quality of the disclosures provided by 408 Australian companies in regard to the impact of IFRS adoption between 2004 and 2005. Using a disclosure quality index, Gallery et al. (2008) found that the quality of IFRS impact disclosures were a function of IFRS financial statement impact, profitability and industry. The authors observed weak evidence that the use of a Big 4 audit firm improved disclosure quality, however, they identified differences between individual audit firms. In discussing the apparent role of audit firms in influencing disclosure quality, Gallery et al. (2008, p. 268) suggested that: "Managers appear to have deferred to their external auditors for guidance on how to satisfy the mandated disclosure requirements rather than exercise the level of discretion often observed in other disclosure studies". Furthermore, Gallery et al. (2008, p. 268) commented that, "these findings highlight the difficulty preparers and the accounting profession experienced in complying with a disclosure standard based on broadly defined principles and vague guidance".

7. Conclusion

The outcomes of this research form part of a larger IFRS Review project conducted by the AASB to inform its views on how IFRS should be incorporated into the Australian Reporting Framework in the future.

Overall, there is no significant evidence suggesting reconsideration of IFRS adoption is warranted. Whilst our analysis of the current Australian evidence generally supports the view that the Australian economy has benefited from IFRS adoption, further research is warranted to shed more light on other potential benefits of IFRS adoption such as cost of capital and staff mobility. In addition, this literature review focuses on research related to the for-profit sector and inferences cannot be drawn for the not-for-profit sector and/or public sector. Given that Australia has adopted IFRS for all sectors, i.e. transaction neutrality, it is important to also assess the relevance of IFRS for others sectors, other than for-profit sectors. As such, the AASB conducted targeted outreach as a separate project to gather views from a wider range of stakeholders from all sectors that will be the subject of a separate publication.

In summary, evidence concerning the effect of IFRS adoption revealed:

- IFRS adoption by Australian companies appears to have had a positive outcome for investors and analysts based on research revealing improved analyst following, and analyst forecast accuracy and dispersion.
- Some studies reported positive outcomes through improvements in the value relevance of financial reports post-IFRS adoption, and reductions in the number of firms engaging in earnings management. Research evidence has further supported the adoption of the IFRS goodwill impairment and deferred taxes regimes as having improved accounting quality. Others studies, however, suggested that these and other measures of accounting quality have not significantly improved when compared to Australian Generally Accepted Accounting Principles (AGAAP) and that prior AGAAP treatments for identifiable intangible assets were more appropriate. Research evidence also suggests that the use of IFRS has seen reports become longer but easier to read.
- Most studies reported positive results in terms of the promotion of the comparability of Australian entities' financial reporting practices with their global peers.
- Survey research around the time of IFRS adoption revealed a degree of pessimism among managers from listed Australian companies towards many of the possible benefits from accounting convergence.

As a result of ongoing refinements to IFRS and increases in the number of companies across the world applying IFRS, ongoing research is required to monitor IFRS accounting quality and the comparability of financial reports. Further research scrutinising the impact on users of specific areas of change from AGAAP to IFRS may also be useful in identifying future directions for the AASB and IASB (e.g. are there other areas where AGAAP treatment provided more useful information to users than current IASB treatments?). This would complement the existing research that has, for example, considered the results of significant changes in regard to intangible assets and deferred taxes.

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