Advances in Accounting, incorporating Advances in International Accounting xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Advances in Accounting, incorporating Advances in International Accounting

journal homepage: www.elsevier.com/locate/adiac

Disclosure indexes and compliance with mandatory disclosure—The case of intangible assets in the Italian market

Alain Devalle [a,*,1], Fabio Rizzato [b,2], Donatella Busso [b,3]

[a] Department of Management, School of Management and Economics, University of Turin, Corso Unione Sovietica 218 bis, 10134 Torino (TO), Italy
[b] Department of Management, School of Management and Economics, University of Turin, Corso Unione Sovietica 218 bis, 10134 Torino (TO), Italy

ARTICLE INFO

Available online xxxx

Keywords:
Italy
IFRS
Intangible assets
Disclosure

ABSTRACT

Disclosure of financial statements is an important topic both for investors and for preparers as disclosure allows investors to understand the application of the accounting principles used by companies. This research examines the 2010 financial statements under IFRS of 189 Italian listed groups and their compliance with mandatory disclosure on intangible assets and presents an in depth empirical analysis of the Italian market—that belongs to the Continental European accounting cluster. Different variables were tested to analyze the compliance with the mandatory disclosure such as size variables, performance variables, financial interest variables and market variables. Many studies on mandatory disclosure are based on one disclosure index method and results are affected by the different approaches used: Cooke's dichotomous approach, Partial Compliance method, weighted and unweighted. In this paper, the decision was taken to run all the previous methods: results show that the only significant variable for all Dscore indexes is the weight of interests on revenues and this result is a distinctive feature of the Italian market where the role of the banking systems is more important than in other countries.
© 2016 Elsevier Ltd. All rights reserved.

1. Introduction

The topic of disclosure is extremely frequent in the international accounting debate as it represents a key item to understand the financial statements of a company. With reference to financial disclosure, it represents "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels" (Gibbins, Richardson, & Waterhouse, 1990). Disclosure allows investors to evaluate the application of the accounting principles used by companies and permits investors to analyze the relevant information (Graham, Harvey, & Rajgopal, 2005; Healy & Palepu, 2001; Lambert, Leuz, & Verrecchia, 2007). Users generally rely on information contained in financial statements to make economic decisions (IASB, *Conceptual Framework*, 2010) and some authors (Graham et al., 2005) stated that a relevant and complete disclosure produces economic advantages for companies even if it entails investments in information systems (Botosan, 2000; Darrough & Stoughton, 1990; Skinner, 1994; Verrecchia, 1983). IFRSs request mandatory disclosure but, as many studies have proved, the level of compliance with these requirements is not the same in the different jurisdictions (Ball, 2006; Larson & Street, 2004; Nobes, 2006; Soderstrom & Sun, 2007; Tsalavoutas, André, & Dionysiou, 2014; Weetman, 2006; Zeff, 2007). Moreover, disclosure of the financial statements is a topic fuelled by the European Financial Reporting Advisory Group (EFRAG) with the publication of the Discussion Paper (EFRAG, 2012) entitled *Towards a Disclosure Framework for the Notes*. This paper's objective is to "ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements". In fact, if on the one hand companies do not provide all the disclosure required by the different standards, on the other hand the increase in these requirements has led to a growth in the notes pushing the EFRAG and the IASB to face the topic. In 2013, the IASB started a project, called *Disclosure Initiative* (made up of a number of implementation and research projects) in order to improve the disclosure usefulness. Among all the different standards that require disclosure, those about intangible assets and impairment test are particular thorny. In fact, the financial crisis has shown the weaknesses of the recoverable amount of some intangible assets (e.g. goodwill) and financial statements have shown a lack of information in the notes. The relevance of IAS 36 *Intangible Assets* and, in particular, of the goodwill impairment test is proved also by two interventions of the European Securities and Markets Authority ESMA (ESMA, 2011, 2013) calling for improvements in disclosure related to goodwill impairment. In particular, in 2013 ESMA stated that "Although the major disclosures related to goodwill impairment testing were generally included, in many cases these were of a boilerplate nature and not entity-specific. This stems from a combination of a failure to comply

* Corresponding author.
E-mail addresses: alain.devalle@unito.it (A. Devalle), fabio.rizzato@unito.it (F. Rizzato), donatella.busso@unito.it (D. Busso).
[1] Tel.: +39 0 116 706 022.
[2] Tel.: +39 0 116 706 160.
[3] Tel.: +39 0 116 706 028.

http://dx.doi.org/10.1016/j.adiac.2016.04.003
0882-6110/© 2016 Elsevier Ltd. All rights reserved.

Please cite this article as: Devalle, A., et al., Disclosure indexes and compliance with mandatory disclosure—The case of intangible assets in the Italian market, *Advances in Accounting, incorporating Advances in International Accounting* (2016), http://dx.doi.org/10.1016/j.adiac.2016.04.003

with the requirements of the standard by issuers, as well as, arguably, a lack of specificity in the standard, especially in the area of sensitivity analysis. This also means that, in many cases, the user of the financial statements is not able to evaluate the reliability of the assumptions used from the disclosures given, which is the primary purpose of those disclosures". Similar concerns were highlighted by the Accounting Standards Board of Japan (ASBJ), EFRAG and the Italian Standard Setter (Organismo Italiano di Contabilità OIC) in the Discussion Paper on Goodwill *Should goodwill still not be amortized* (ASBJ, EFRAG, & OIC, 2014): according to their opinion, the impairment-only approach leaves significant room for managerial discretion, interpretation, judgment and bias and in fact may result in the entity failing to recognize an incurred impairment loss. The Discussion Paper states that there is a perception that users are not able to anticipate when impairment will occur or understand why it has not occurred based on the information provided in notes. Furthermore, the Discussion Paper underlines claims that compliance with disclosure provided by IAS 36 *Intangible Assets* and IFRS 3 *Business Combination* is lacking or merely formal. This paper addresses these concerns and contributes to literature in the following ways. First, this research examines the 2010 financial statements under IFRS of 189 Italian listed groups and their compliance with mandatory disclosure on intangible assets. The sample represents 78.43% of the Italian FTSE ALL Share companies: the paper presents an in depth analysis of the Italian market whose results show the level of compliance with mandatory disclosure with reference to intangible assets. Moreover, the analysis is one of the very few papers with reference to the Italian market that belongs to the Continental European accounting cluster. Then different variables were tested to analyze the compliance of the mandatory disclosure such as size variables, performance variables, financial cost variables and market variables. Secondly, this paper contributes to literature by identifying as a significant variable the weight of interests on revenues. This result is specific of the Italian market where the leverage of companies is higher than in other countries. Thirdly, most of the previous studies on mandatory disclosure are based on one disclosure index method and results are affected by the different disclosure index approaches used: weighted, unweighted, Cooke's dichotomous approach and the Partial Compliance method. In this paper, the decision was taken to run all the previous methods in order to identify results not influenced by the model of Dscore used.

2. Literature review

The first studies on disclosure refer to the late sixties. For example, we can quote Copeland and Fredericks (1968), Mautz and May (1978), Nair and Frank (1980), Gray, McSweeney, and Shaw (1984), etc. Groups disclose information through different channels such as annual reports, analyst presentations, investor relations, interim reports, etc. (Hassan & Marston, 2010). As stated by Marston and Shrives (1991), disclosure "aroused a great deal of academic interest in the past". Literature classifies disclosure in different ways (Devalle & Rizzato, 2013), depending on the obligation to disclose information, on the typology of information disclosed and on the way it is reported. With reference to the obligation to disclose information, it is possible to distinguish between mandatory disclosure that is, for example, required by laws or accounting standards and voluntary disclosure. The latter refers to information that companies disclose that are not specifically required by laws and regulations, but whose information could be relevant for investors (Graham et al., 2005). Analyzing the typology of information disclosed we can analyze the financial information related to the financial statements of the company and non-financial information not related to the financial statements, such as for example market share and customer satisfaction (Robba, Singleb, & Zarzeskic, 2001). Finally, regarding the way the information is disclosed (Boyatzis, 1998; Marston & Shrives, 1991) we can identify the quantitative information, based on tables, graphs, numbers, etc. and the qualitative information based on texts, diagrams, etc.

The aim of this paper is to analyze the mandatory disclosure of the financial statements. In the following paragraphs, we report the Italian financial reporting environment, the literature review on mandatory disclosure under IFRSs in general and in particular about intangible assets and the literature review on the methodologies used to assess compliance with IFRS-required disclosures.

2.1. The Italian financial reporting environment

IFRS have been heavily influenced by the shareholder-based orientation typical of the Anglo-Saxon system (Flower & Ebbers, 2002; Hung & Subramanyam, 2007). For this reason, the introduction of IFRS represented a profound change for many European accounting models and, in particular, for those more different from that model, like the Italian one (Ding, Hope, Jeanjean, & Stolowy, 2007). In fact, the Italian financial reporting environment belongs to the Continental European cluster (Ali & Hwang, 2000; Delvaille, Ebbers, & Saccon, 2005; Joos & Lang, 1994). With reference to the classification made by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997), who posit a link between the legal system and the quality of protection for outsiders (both common shareholders and creditors), the Italian financial reporting environment belongs to the French-origin group that have the poorest protection for outsiders and the least-developed capital markets (Leuz, 2010). The Italian economy is characterized by many small enterprises which obtain funds mainly from banks and other financial institutions with a limited recourse to financial markets. For this reason, even if Italian Local GAAP (named OIC) state "financial statements' users are shareholders, lenders, other people and institutions" (OIC 11), the Italian financial statements model is designed to satisfy lenders' information needs (Gavana, Guggiola, & Marenzi, 2013). Moreover, financial statements prepared under the Continental European model are likely to report more conservative profits than those prepared under the Anglo-Saxon model (Demaria & Dufour, 2007). In particular, according to the Italian Civil Code (art. 2423), financial statements must be based on prudence (i.e. conservatism) that dictates that only gains that are certain should be recorded, while appropriate provisions should be set aside for potential losses. In order to achieve this goal, historical cost is the main criterion for subsequent measurement of assets. The balance sheet value (historical cost) of an asset can decrease if its value is believed to have fallen; but it cannot increase except as a result of an exceptional event, or if an increase is justified by a specific law. In the Anglo-Saxon model, historical cost is frequently modified on the basis of revaluations to reflect "fair value", even if fair value is not always decisive (Cairns, 2006).

For the above mentioned reasons, the gap between Italian Local GAAP and IFRSs was (is) large: users of IFRS financial statements are existing and potential investors, lenders and other creditors (IASB, *Conceptual Framework*, par. OB2) whereas the main users of an Italian financial statements are creditors. When preparing financial statements under IFRSs, an entity must use the accrual basis of accounting (IAS 1, par. 27) whereas an entity preparing financial statements Italian GAAP compliant must use conservatism (prudence) (OIC 11). Under IFRSs, fair value, defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (IFRS 13, par. 9), is a relevant criterion for both initial recognition and subsequent measurement of assets and liabilities. According to Italian GAAP, fair value is not an allowed criterion for subsequent measurement if its application leads to the recognition of a gain, but only one of the ways to determine the decrease in the historic cost when the asset value falls.

Differences in objectives, users and general assumptions have generated many other differences in the initial recognition and measurement, subsequent measurement and derecognition of many categories of assets and liabilities. In particular, intangible assets are one of the categories most affected by many changes when moving from Italian GAAP

Download English Version:

https://daneshyari.com/en/article/7339885

Download Persian Version:

https://daneshyari.com/article/7339885

Daneshyari.com