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Abstract

The Determinants of Disclosure Level

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Abstract

The significant role of financial information disclosure, further to the presentation of the accounting data in the financial statements, is one of the main determinants of the International Financial Reporting Standards. The disclosure information required by each single Accounting Standard according to the field analyzed, in combination to the specific Standards for information disclosure (IAS14 substituted by IFRS8) constitute basic principles for the true and fair view of complete financial information. The information required by IAS14 is concentrated to present segmental disclosure by defining reporting segments as the organizational units. The definition of organizational units is based on product lines or on geography, for which information is reported to key management personnel for the purpose of performance assessment and future resource allocation. The need for more specific segment disclosure and the extensive use of this type of information provided by many supervisory authorities and other users, had as a result the update of IAS14 and its substitution by IFRS8. The new management approach for segment reporting, which characterizes IFRS8 as well the relevant SFAS 131 which was also recently released, is therefore examined and analyzed from the perspective of the quality of the information provided, as well, as for the usefulness of this information to supervisory authorities and the rest of the users of the financial statements. Moreover, the motives provide by IFRS8 to voluntarily disclose further company's information is also examined, since companies frequently make use of disclosure requirements in order to direct information and conclusions according to their strategy.

According to Berger and Hann (2002) the disclosure requirements introduced by SFAS131 induced firms to reveal previously "hidden" information enhancing not only monitoring but also analysis from an investors point of view. On the other hand, the study of Bell (2015) on disclosure provided based on SFAS 131 concludes that segment disclosure practices have remained unchanged and require a re-examination of the standard. No significant change is identified regarding the information provided and the types and names of segments presented. In addition, on IFRS basis, the application of IFRS 8 by Australian companies did not seem to take advantage of the new provisions for the increase of the information provided, whereas a negative effect on the disclosure of segment items was also realized (Steman, 2016). The characteristics of the firms have been realized to influence the application of disclosure standards as well as the voluntarily presented information on this basis. According to Hemann and Thomas (2000) large and complex companies report information for multiple segments. When operating segments have divergent profitability, further segmental information is significant for valuation purpose, as proved by Chen and Zhang (2003). The relevance of disclosure level to firm characteristics and more specifically to proprietary and agency costs was also realized by Wang et al. (2011).

In order to examine the relevance of firm specific characteristics to the compulsory and voluntary disclosure provided by firms, a segmental reporting quality index is developed based on the models applied by Hayes and Lundholm (1996), Street et al. (2000) and Berger and Hann (2003). The index includes information regarding the disclosure on segment income, the number of items disclosed, geographical segments and industrial segments. The development of the disclosure index is followed by the examination of the firm characteristics related to the disclosure level. A regression analysis examines the effect of the firm characteristics of size, profitability, effective tax rate and leverage.

The sample consists of high and medium capitalization companies of the Athens Stock Exchange. The analysis of the data is conducted for the years 2008 and 2009, this means the years before the application of IFRS 8, when the segment definition of IAS 14 was applied. The analysis also extends for the years 2014, 2015 and 2016 as the most recent years of application of the new disclosure requirements according to IFRS 8. The companies included in the sample should have available data for all the years under examination. This limits the sample to 86 companies for the 5 fiscal years described above. The initial analysis of the descriptive statistics provide information regarding the relation between segmental reporting index and profitability and effective tax rate. The examination of the relation between disclosure level and tax rates provides evidence regarding the effect of extensive disclosure of country and sector operations and lower effective tax rate. Companies which operate in many different countries and present geographical segment information, appear to present lower effective tax rate. The presentation of this information reveals that the application of IFRS 8 is effective and that useful information can derive from the analysis of the notes provided. The strategic plans and characteristics of firms become obvious through this analysis and could be classified as companies with high or low level of disclosure. The taxation strategy of a company could also be described by the disclosure level provided. The operation of a company in different countries as described in geographical segmental disclosure could be used as an indicator for the type of tax planning and strategy of a firm. A negative relation between the segmental reporting geographic index and the effective tax rate reveals the possible use of segmental reporting for tax planning purposes.

A regression model based on the model of Leung and Verriest (2015) examines the impact of the change of IAS14 to IFRS8 and the size of the firm on the disclosure index. Then, the impact of leverage, profitability and effective tax rate is also examined in respect to the disclosure index. The level of leverage is identified as a significant variable for the specific analysis both for companies with national and international activities. Profitability in cross country analysis and effective tax rate for the group are significant factors as well for the decision of the disclosure level.

According to the results of the model developed, larger firms with lower effective tax rate are expected to have higher disclosure index, whereas the impact of the change from IAS 14 to IFRS8 was not proved to have a significant impact on the disclosure level provided.

As a conclusion, the disclosure level provided by the firms, according to the accounting standard applied is defined by a number of factors and it is apparent that firms do make use of the information revealed according to its profitability and tax planning. It could be

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therefore supported that the compulsory disclosure requirements and the relevant criteria defining disclosure, are less significant than the disclosure strategy of the firm itself. Future specialization of the analysis on the relation between geographical disclosure and effective tax rate and tax planning could provide further results for the role of disclosure on the special area of taxation.