Disclosure Overload?

An empirical analysis of IFRS disclosure requirements

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ABSTRACT

Despite the positive effects of the adoption of IFRS noted in the literature, standard-setters have issued reports suggesting that the required disclosures in IFRS have become too burdensome and should be reduced. We examine this disclosure overload problem by testing whether the disclosure reduction recommendations of the *Excess Baggage Report* issued by professional accounting bodies from Scotland and New Zealand in 2012 are associated with companies' disclosure incentives and are value relevant for a sample of 196 Australian listed companies. The *Excess Baggage Report* classifies current IFRS disclosure requirement items into three categories: *Retain*; *Delete*; and *Disclose if Material*. We find that *Retain* items are disclosed the most, followed by those classified as *Disclose if Material*, and then by *Delete* items. Only *Retain* items are significantly associated with companies' disclosure incentives. We also find that these disclosure categories are value relevant but the result is restricted to loss-making firms.

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INTRODUCTION

Our paper addresses the disclosure overload problem – the claim that current accounting standards contain too many unnecessary, complex and burdensome disclosure requirements. In many countries, the movement to reduce required disclosures has arisen, potentially due to the widespread adoption of International Financial Reporting Standards (IFRS). More than 130 jurisdictions have now adopted IFRS for their domestic listed companies (IASPlus, 2018). While the effects of globalization and demand for comparability of financial statements have made countries move towards a global set of accounting standards, IFRS usually require companies to publish more extensive disclosure information than under local GAAP (Leuz and Verrecchia, 2000).

Recent investigations by standard setters (e.g., FASB, 2012; IASB, 2017) have concluded that the disclosure overload problem exists and have recommended that required disclosures in standards be reduced and streamlined. These investigations are based on input from expert panel members, experienced practitioners, submissions from preparer and user groups and the like. While such input based on practical experience is valuable and insightful, it is unclear whether the resultant recommendations are consistent with the research literature's findings about firms' incentives to disclose and whether the targeted disclosures are value relevant to investors. If disclosures recommended for retention were linked to economic incentives to disclose and were value relevant, such findings would lend support to the recommendations. Relatedly, if disclosures targeted for removal/streamlining were *not* linked to economic incentives to disclosure and were *not* value relevant, these findings would also lend support to the recommendations. Our paper attempts to do this.

We focus on one such investigation: *Losing the Excess Baggage – Reducing Disclosures in Financial Statements to What's Important* (2011), a joint report by the Institute of Chartered Accountants Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) (the *Excess Baggage Report*, hereafter). Unlike other investigations, the Excess Baggage Report contains standard-by-standard recommendations to *Retain*, *Delete*, or *Disclose if Material* specific disclosure requirements in current IFRS. The precision of these recommendations lends itself to empirical testing.

We address the following three research questions: first, we consider whether there is a difference in compliance with mandatory IFRS disclosure requirements based on the three disclosure categories *Retain*, *Delete* and *Disclose if Material* (RQ1). We then examine whether these three disclosure category items are associated with economic determinants of disclosure in sample companies (RQ2). Finally, we address the issue of whether the disclosure items in *Retain*, *Delete* or *Disclose if Material* categories are value relevant (RQ3).

Our sample comprises 196 large Australian companies in 2012, the year after the release of the *Excess Baggage Report*. The choice of the year is based on the notion that we want to capture disclosure practices of companies around the time of the report for relevance, but not too long after so that companies change their reporting behavior. We measure disclosure levels using a 24-item checklist based on *Retain*, *Delete* and *Disclose if Material* items from each of eight IFRS accounting standards[1].

We choose Australia for the following reasons. First, Australia adopted IFRS[2] from 2005 (Zeff and Nobes, 2010) and, consequently, at the time of the publication of the *Excess Baggage* Report, Australian firms are well-versed in the application of IFRS. Second, Australia

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[1] We select eight out of the 26 IFRS standards covered by the *Excess Baggage Report*. Each of the eight standards chosen comprises at least one disclosure requirement in *Retain*, *Delete*, and *Disclosure if Material* categories, and each are deemed to be applicable and relevant to all sample companies.

[2] AASB and IFRS are equivalent, where compliance with AASB ensures compliance with IFRS requirements. IFRS disclosure items examined in this study are equivalent to respective AASB disclosure items (Zeff and Nobes, 2010).

is sufficiently similar economically, legally and culturally to the two countries where the Excess Baggage Report originated (i.e. Scotland and New Zealand). In other words, given these macroeconomic similarities, the recommendations by the professional accounting bodies of Scotland (ICAS) and New Zealand (NZICA) could sensibly be tested in Australia, where there are enough listed companies with varying firm-level characteristics. Third, Australia also has the advantage of *not* being the setting where the recommendations originated. Testing the Excess Baggage Report's recommendations on New Zealand or Scottish companies runs the risk of examining the same companies on which the committee, consciously or unconsciously, may have based their recommendations, leading to a form of self-fulfilling prophecy if tested in that setting. Finally, existing Australian initiatives to reduce the disclosure burden on some companies (for example, the tiered approach) indicate that excessive disclosure is considered an issue in Australia.

Following Daske *et al*. (2013), the economic determinants we consider are a disclosure propensity score, an abnormal accruals measure, analyst following, auditor type, and US listing. Value relevance is assessed using a modified Ohlson (1995) model. We find that more than a quarter of our sample (29.82%) did not disclose one or more mandatory disclosures, although noncompliance varies across standards. *Retain* items are disclosed more frequently than *Delete* items with *Disclose if Material* items falling in between. Our results also indicate that disclosure propensity is positively associated with *Retain*, *Delete* and *Disclose if Material* disclosures but the other determinants are not. Drilling down, however, the components of the disclosure propensity score are only reliably associated with *Retain* disclosures. In terms of value relevance, *Retain*, *Delete* and *Disclose if Material* disclosures are value relevant but the result occurs only in loss making firms. We conclude that the recommendations of the Excess Baggage Report appear to have some merit when judged against these economic determinants of disclosure and value relevance criteria.

Our study makes several contributions to the accounting literature. First, the paper empirically examines whether disclosure requirements in IFRS are excessive. We do that by investigating the recommendations of the Excess Baggage Report, to *Retain*, *Delete* or *Disclose if Material* existing disclosure items in eight IFRS standards. By doing so, we examine an unconventional issue - disclosure reduction - in a non-US setting and thus respond to Leuz and Wysocki's (2016, p. 530) recent call for more disclosure research in novel settings[3].

Second, we show that substantial non-compliance with IFRS exists in Australia consistent with the findings of prior studies in Australia and elsewhere (Glaum and Street, 2003; Carlin and Finch, 2010; Carlin and Finch, 2011; Glaum *et al.*, 2013; Verriest *et al.*, 2013; Lucas and Lourenco, 2014; Cascino and Gassen, 2015). Companies failing to comply with mandatory IFRS disclosure requirements are likely of concern to regulators and stakeholders. Further, the IASB published a discussion paper on *Principles of Disclosure* which suggests "specific disclosures could be deleted by introducing disclosure principle in a general disclosure standard" (IASB, 2017, p. 41). In this regard, our research informs the IASB that there is a significant noncompliance and care needs to be taken before giving more choices to preparers in terms of what they disclose. Otherwise, further noncompliance may result which could create additional uncertainties to users of financial statements.

Third, the findings of this study provide some limited support for the *Excess Baggage Report*'s recommendations. We show that companies treat different disclosure items (marked *Retain*, *Delete* and *Disclose if Material*) differently. The *Excess Baggage Report* was based on an approach developed by the joint working party emphasizing materiality, which is a concept receiving much attention from the IASB and recently has published two practice statements for the application of materiality to financial statements and making materiality judgements

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[3] A few studies examine why firms deregister from the SEC in the USA, or delist from a Stock Exchange, and hence no longer need to abide by the disclosure requirements imposed by the SEC (e.g. Leuz *et al*. 2008). Our study examines companies that remain listed on the Australian Stock Exchange and so must comply with IFRS.

(IASB, 2017). Our findings show that disclosure requirements marked *Retain*, *Delete* and *Disclose if Material,* plus a composite disclosure score, *Total Disclosure* are value relevant for loss making firms but not for profitable firms; in other words, these disclosures seem to be useful to investors but in restricted circumstances.

THE DISCLOSURE OVERLOAD PROBLEM

Background

The origin of the disclosure overload movement appears to be a news release by the Financial Accounting Standards Board in the USA on July 8, 2009 that the FASB was to add a new project to their agenda 'aimed at establishing an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant' (FASB 2009). The expression *disclosure overload* was explicitly used when the FASB published a follow-up discussion on *Disclosure Framework* (FASB 2012)[4].

In Europe, several reports and discussion papers have also been published by standard setters dealing with the disclosure overload problem. They include: *Losing the Excess Baggage: Reducing Disclosures in Financial Statements to What's Important* (2011) and *Financial Reporting Disclosures: Market and Regulatory Failures* (2013) by the Institute of Chartered Accountants in England and Wales (ICAEW); *Considerations of Materiality in Financial Reporting* (2011) by the European Securities and Markets Authority (ESMA); *Towards a Disclosure Framework for the Notes* (2012) by the European Financial Reporting Advisory Group (EFRAG); and *Cutting Clutter* (2011) and *Thinking about disclosures in a broader context* (2012) by the UK Financial Reporting Council (FRC).

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[4] For the sake of brevity, the US initiatives on disclosure reduction are not pursued further here. Our focus is on IASB related initiatives.

The disclosure overload problem has also been discussed in Australia and New Zealand: *Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework* (2013) and *To Disclose or Not to Disclose: Materiality is the Question* (2014) were published by the Australian Accounting Standards Board (AASB), and *Noise, Numbers and Cut-Through* (2015) by Chartered Accountants Australia and New Zealand.

The IASB has also addressed the disclosure overload issue by conducting a survey of preparers and users of IFRS information (IASB, 2013). The survey results showed that over 80% of 225 respondents[5] believe a disclosure overload problem exists. The users' felt that IFRS disclosure requirements do not produce enough relevant information. Companies produce information that is immaterial to the entity and information is not being communicated well to users. In addition, users of IFRS information believe that standards should be written in more generic language. The preparers agreed with the users about the need for generic language and on the existence of immaterial information leading to disclosure.

Following the feedback statement, the IASB started the formal project called *Disclosure Initiative*, which is a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Disclosure Initiative now includes a number of active projects namely, (a) Materiality (b) Principles of Disclosure and (c) Standards Level Review of Disclosures. As part of the Disclosure Initiative projects a number of amendments to standards have been issued to address disclosure overload problem. For example, a number of amendments were made in IAS 1 to address some of the concerns expressed about existing presentation and disclosure requirements. By making these amendments, the IASB made sure that entities use judgment when applying IAS 1.

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[5] They received 225 responses of which approximately 50% of the respondents were preparers, 20% were users and the other 30% were regulators, auditors and industry organizations.

A common feature of the responses by regulators and survey respondents is that the majority of the disclosure problems can be resolved by focusing on the materiality criterion more stringently (IASB, 2013). It is stated that:

"Our expectation is that improving the understanding and application of materiality would go a long way towards addressing the cumulative effect of many Standards, because preparers will be better able to assess which Standards, and disclosures, are material to their entity." (p. 21)

The sentiment has been repeated in Australia. The Chairman of AASB Kris Peach recently stated in a media release: 'Entities are not required to disclose immaterial information in their financial statements. Just because a standard contains a list of disclosures does not mean that an entity must always make each of those disclosures in its financial statements. Judgment is required to determine whether the relevant line item is material and also whether the specified disclosure is material.' The Chairman of AASB's statement is supported by ASIC and they mention in a media release: 'ASIC does not pursue immaterial disclosure that may add unnecessary clutter to financial reports.' According to a survey conducted by a leading accounting firm BDO, 51% of ASX100 firms went through financial statement decluttering activities in 2015 (BDO, 2015)

Excess Baggage Report

The Excess Baggage Report was produced by a joint working party from ICAS and NZICA and other financial reporting experts. The project followed a request by Sir David Tweedie, the chairman of the IASB (2001-2011), to help reduce the volume of disclosure requirements in the IFRS. The joint working party reviewed 26 IFRS to date[6] to determine whether specific

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[6] All IFRS mandatorily applicable in 2011 were reviewed, except for those under revision (8 standards), those subject to separate reports (2 standards), and those without disclosure requirements (2 standards).

disclosure requirements therein met the principles of paragraphs 6 and 7 of the Conceptual Framework. The joint working party then proposed deletions and changes to the existing disclosure requirements. Finally, for each standard the working party considered the proposed disclosure requirements in totality to determine whether, as a whole, they met the key principles for disclosure.

The Excess Baggage report recommended that each standard should include a disclosure objective emphasizing the need for management to exercise judgement when determining what is material. As a result, the report classified the IFRS disclosure requirements into three groups: (a) *Retain*, (b) *Delete* and (c) *Disclose if Material*, and is the only regulatory investigation into disclosure overload to do so. The aim is that, if implemented properly, these recommendations would reduce the length of financial statements by removing unnecessary detail and enable clearer communication in mandatory IFRS disclosures. The working party considered the overall impact of its proposals by applying the recommendations to a model set of financial statements and notes, which resulted in a 30% reduction in disclosure volume in that model company's annual report.

However, it is not completely clear how the joint working party assessed specific disclosure requirements. Each member's personal knowledge and experience about certain disclosures possibly influenced his/her decisions about which disclosure items should be retained, deleted and disclosed only if material. There is, thus, a potential endogeneity issue in that items targeted for deletion might be those that the working party members knew, from their own experience, were poorly disclosed in practice and/or were troublesome items for companies to comply with.

For that reason, we test the Excess Baggage recommendations on Australian companies and not on New Zealand or Scottish companies. In addition, there were no representatives from the investor/shareholder community in the joint working party and their perspective was

not explicitly considered. Shareholders/investors (i.e. users of financial statements) have different interests in disclosures compared to preparers and standard setters (i.e. professional bodies). Therefore, the Excess Baggage report's recommendations may reflect the preferences of financial statement preparers and their auditors, rather than financial statement users.

LITERATURE REVIEW AND RESEARCH QUESTIONS

If there were perfect compliance with all IFRS disclosure requirements, then there would be reduced support for the points raised by preparers and regulators regarding disclosure overload. Furthermore, there are many stakeholders who rely on corporate disclosure to make important decisions about a company, especially shareholders solely reliant on companies to make disclosures about their operations. The concerns with disclosure overload raised by preparers and regulators may be motivated by factors such as reducing reporting cost and streamlining reporting. Most of the reports published on disclosure overload fail to capture shareholders' perspective on disclosures.

It is therefore important to know whether disclosure items targeted for deletion, retention or disclose based on materiality by the *Excess Baggage Report* are reported differently depending on economic characteristics of companies associated with other accounting disclosures in the literature.

Further, whether or not different types of disclosure are value relevant, that is, priced differently by the market and whether they have a moderating effect on the value relevance of the book value of equity and earnings are also important. For example, if certain disclosure requirements are value relevant and/or enhance the book value of equity or earnings then, it can be proposed that reducing or removing value relevant disclosures would potentially negatively affect investors. Following IFRS adoption, available evidence indicates that capital market reactions have been favorable, accounting quality has improved (Brown and Tarca,

2005; Brown, 2011; Pope and McLeay, 2011; Kim, 2013; Barth *et al*., 2014) as have disclosure levels, although this evidence is not uniformly consistent. The movement to reduce required disclosures has arisen despite the widespread adoption of IFRS and generally favorable capital market reactions to it.

Prior researchers have documented a number of advantages of IFRS. Brown (2011) summarizes the benefits of IFRS adoption as: reduced cost of capital (Li, 2010); less earnings management and more timely loss recognition (Barth *et al*., 2008); enhanced information environment for analysts (Byard *et al.*, 2011; Stecher and Suijs, 2012; Horton *et al.*, 2013); more accurate earnings forecasts (Chalmers *et al.*, 2012); and, increased stock ownership by international mutual funds (Yu and Wahid, 2014). Furthermore, IFRS eliminates barriers to cross-border investing (DeFond *et al.*, 2010); increase the reliability, transparency and comparability of financial reports (Barth *et al.*, 2012); and reduces crash risk (DeFond *et al.*, 2015).

However, other studies have contested some of these findings. For example, a number of European studies have shown that IFRS adoption can lead to more earnings management (Capkun *et al.*, 2010) and less timely loss recognition (Gebhardt and Novotny-Farkas, 2011). Ahmed *et al.* (2013) document that IFRS-adopting companies have exhibited significant increases in income smoothing and aggressive reporting of accruals, and a significant decrease in timeliness of loss recognition. More recently, Christensen *et al.* (2015) find the lack of accounting quality improvements for firms that are forced to adopt IFRS. In addition, some have argued that IFRS were not a major improvement over domestic GAAP in countries such as the UK and Australia (e.g. Lai *et al.*, 2013). These findings raise questions about whether IFRS have actually improved accounting quality.

Furthermore, there is an ongoing debate about whether IFRS have increased and improved mandatory disclosure practices. Studies dealing with International Accounting

Standards (IAS) compliance/non-compliance issues, where IAS have been voluntarily adopted, document significant non-compliance with IASs (Street *et al.*, 1999) and lack of compliance with IASs when firms are not listed in the US (Street and Bryant, 2000).

Studies dealing with IFRS compliance/non-compliance issues when IFRS adoption is mandatory (e.g. after 2005 in the European Union (EU) and Australia) also provide evidence of noncompliance (Glaum and Street, 2003; Carlin and Finch, 2010; Carlin and Finch, 2011; Glaum *et al.*, 2013; Verriest *et al.*, 2013; Lucas and Lourenco, 2014; Cascino and Gassen, 2015).

In short, both types of compliance studies (i.e. voluntary and mandatory) have documented significant non-compliance with IFRS disclosure requirements. Companies may have various incentives for not disclosing certain information; for example, to reduce reporting costs, to hide price sensitive information and to manage good/bad news information (Patell and Wolfson, 1982; Kothari *et al.*, 2009). However, the non-compliance could also be because of the excessive disclosure requirements in IFRS. Therefore, it is important to ascertain whether the level of compliance varies with the different types of required disclosures (i.e. Retain, Delete and Material) as suggested by the Excess Baggage report. In light of the above discussion and the section on the disclosure overload problem, we investigate the following research question:

RQ1. Is there a difference in compliance with mandatory IFRS disclosure requirements targeted as (a) Retain (b) Delete, and (c) Disclose if Material by Excess Baggage?

If compliance does vary across these three categories of Retain, Delete and Disclose if Material, the question then becomes why. Similar to Daske *et al.* (2013), we assume that each firm has an underlying reporting environment which is manifested by (a) its internal incentives to disclose and the resultant quality of its reported accounting numbers, and by (b) external sources of demand for high quality accounting numbers. Internal incentives to disclose include

economic factors found to be associated with disclosure, including size, leverage, profitability, proportion of small shareholders, growth opportunities, new share issue, new debt issue, internal complexity and international orientation (Daske *et al.*, 2013; Christensen *et al.*, 2015). Larger companies tend to disclose more (Lobo and Zhou, 2001), as do companies that have recently raised debt or equity finance (Firth, 1980; Meek *et al.*, 1995), or those that have larger numbers of small shareholders. Similarly, firms with more complex operations have more to disclose and firms with an international orientation face demands for disclosure from a wider array of stakeholders than purely domestic firms do (Jaggi and Low, 2000). More profitable firms and those with more growth opportunities also have incentives to report more information (Wallace and Naser, 1995).

We use principle components analysis (PCA) to extract a single underlying factor which combines all these variables and, as in Daske *et al*. (2013), we label it Disclosure Incentives. We predict there will be a positive relationship between Disclosure Incentives and compliance with mandatory IFRS accounting standards. The quality of reported accounting numbers we proxy by taking the ratio of absolute accruals to absolute cash flow from operations, which we label Reporting Behavior, as in Daske *et al.* (2013). We get similar results using the Dechow and Dichev (2002) measure of discretionary accruals. A good underlying reporting environment will result in a better mapping of accruals into cash flow from operations. We predict that the better the level of Reporting Behavior the higher the rate of compliance with IFRS standards.

External sources of demand for compliance with standards include, firstly, demand for information by analysts. We assume that the more analysts following a company, the higher that demand will be. Therefore, following Daske *et al*. (2013) we argue that the rate of compliance with standards will be positively associated with the number of analysts following a firm. Secondly, level of compliance should be associated with auditor type. Big 4 auditors

have an incentive to protect their reputations by insisting that client firms comply with standards. Therefore, we expect a positive association between compliance with standards and the appointment of a big 4 auditor. Thirdly, listing on a US stock exchange provides an important additional source of demand for better financial reporting, and hence higher compliance with accounting standards, all else equal. We expect higher compliance from firms that are US-listed. Therefore, the second research question addressed is:

RQ2. Are mandatory IFRS disclosures targeted as (a) Retain (b) Delete and (c) Disclose if Material by Excess Baggage positively associated with Disclosure Incentives, Reporting Behavior, Number of Analysts, Auditor type and US-listing status?

Value relevance research addresses whether financial reporting provides equity investors with relevant information for estimating share price, by examining whether particular pieces of accounting information are statistically associated with firms' market value of equity (Barth, Beaver and Landsman 2001). If no association exists between company value and accounting numbers, including disclosures, they are not value relevant for investors and financial reports are therefore unable to fulfil one of their primary objectives (Beisland 2009)

The pioneering work of Ball and Brown (1968) and Beaver (1968) examined the relationship between accounting information and stock prices. Subsequently, many studies have been conducted to observe the association between stock price and accounting information. A common approach used to test value relevance of information is to regress stock price or the market value of equity on the book value of equity and earnings. This approach is followed here because stock values have been shown theoretically to be a function of the book value of equity and earnings (Ohlson, 1995).

Extensive research has been conducted to determine the value relevance of accounting information. A considerable number of these studies are conducted using US samples (Beisland, 2009) and, although a large number of studies have examined the value relevance

of accounting numbers, research on the value relevance of IFRS disclosures is still developing. Given that the scope of this paper is limited to IFRS disclosure requirements, we only focus on the studies that have examined the value relevance of IFRS disclosures. Cormier *et al.* (2009) document mandatory transitional IFRS adjustments are more value relevant than French GAAP equity, while Horton and Serafeim (2010) find that transitional IFRS reconciliation adjustments attributed to impairment of goodwill, share-based payments and deferred taxes are incrementally value-relevant for UK firms. However, Clarkson *et al.* (2011) document no change in the value relevance before and after mandatory IFRS adoption in 2005 for firms in the European Union and Australia. Though Chalmers *et al.* (2011), find an improvement in value-relevance of earnings, but not the book value of equity, following IFRS adoption for their sample of mainly industrial firms using sample consist of a longer time period (1990–2008). Similarly, Bonetti *et al.* (2012) shows IFRS7's sensitivity analysis about currency risk is informative for investors.

In addition, Tsalavoutas and Dionysiou (2014) documented that the level of compliance with IFRS disclosure is significantly positively associated with market values, thus indicating that IFRS mandatory disclosures are value relevant. Recently, Wee *et al.* (2014) provide evidence that discussion of IFRS impact is value-relevant for firms with relatively higher levels of disclosure. The value relevance research technique is important for the current study because a substantial amount of information is provided in the form of mandatory IFRS disclosures in the notes to the accounts. Any decision about excluding or changing current mandatory disclosure requirements should be evaluated from the perspective of investors. In other words, the value relevance of this information needs to be tested. Furthermore, there is a call for more research on the valuation implications of mandatory disclosure requirements (Leuz and Wysocki, 2016; Hassan *et al.*, 2009; Bushee and Leuz, 2005; Kang and Pang, 2005).

The extant literature shows that IFRS disclosures are mostly value relevant. However, these studies look only at selected issues and not IFRS disclosures in all standards. Furthermore, most of these studies examine the value relevance of IFRS transition information and there is a paucity of research looking at the value relevance of actual IFRS disclosures once IFRS has been ''bedded down'', particularly within the context of disclosure overload tension raised by the regulators and standards setters. If overall disclosures are value relevant to the investors, there may be no need for disclosure reduction. Hence, it is important to examine the extent to which different types of Excess Baggage recommended disclosures are value relevant. In light of the above discussion and answering the call for further research on the value relevance of mandatory disclosure, we formulate our third research question, which addresses whether the disclosures examined in this study are value relevant, either by themselves (main effect) or as the moderating effects on the value relevance of the book value of equity and earnings. The market reaction to all three types of Excess Baggage disclosures will be examined to ascertain whether the market reacts differently to each type. For example, if the market reacts significantly and positively to all three types of disclosure requirements, there may be no need for disclosure reduction. In other words, if current disclosure practice adds value to the current and potential shareholders, a departure from the current practice is likely to result in negative consequences for them. Therefore, the first part of the final research question addressed in the study is as follows:

RQ3a. Do mandatory IFRS disclosures targeted as (a) Retain (b) Delete and (c) Disclose if Material by Excess Baggage differ in their value relevance, i.e. are they priced differently by the market?

Additionally, we also explore whether each of the three different types of disclosures has a moderating effect on the value relevance of the book value of equity and earnings. A similar approach has been applied by Vafaei *et al.* (2011), who investigated the value relevance

of intellectual capital information and its moderating effect on the valuation impact of earnings and equity numbers. Therefore, the second part of the final research question is formulated as follows:

RQ3b. Do mandatory IFRS disclosures targeted as (a) Retain, (b) Delete and (c) Disclose if Material by Excess Baggage have a moderating effect on the value relevance of the book value of equity and earnings?

RESEARCH DESIGN

Sample selection

Our sample consists of 196 Australian publicly listed companies from the ASX200 (refer to Table 1 for sample selection process). ASX200 is real-time, market capitalization-weighted index that includes the 200 largest and most liquid stocks in the Australian market and covers approximately 80% of the Australian equity market by capitalization. We examine selected IFRS disclosures from the companies' 2012 annual reports (the year after the *Excess Baggage Report* was released).

[INSERT TABLE I HERE]

Standard selection

The *Excess Baggage Report* reviews disclosure requirements from 26 of 38 then available IFRS/IAS. We examine eight of the 26 standards covered by Excess Baggage, based on the following criteria. First, in each standard the Excess Baggage Report had to clearly identify at least one disclosure item for retention (*Retain*), one for deletion (*Delete*)[7] and one where

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[7] In some cases, the Excess Baggage report identified disclosures for deletion because these requirements are covered by another IFRS standard, i.e. 'repeated disclosures'. We do not consider these items as genuine *Delete* items; thus, they are not included in our index.

disclosure is required only if the item is material (*Disclose if Material*). This aids the understanding of aggregated disclosure patterns for these three groups across all selected standards. Secondly, the standards chosen had to be applicable and relevant to all companies, thus allowing more generalizable conclusions to be drawn. Eight standards met the two selection criteria: AASB101 Presentation of Financial Statements (IAS1 equivalent), AASB7 Financial Instruments: Disclosures (IFRS7), AASB8 Operating Segments (IFRS8), AASB107 Statement of Cash Flows (IAS7), AASB112 Income Taxes (IAS12), AASB119 Employee Benefits (IAS19), AASB133 Earnings Per Share (IAS33), AASB138 Intangible Assets (IAS38). Appendix 1 shows the disclosure index covering these standards.

Research instrument and rating scale

We measure disclosure using an index, similar to a long line of prior literature (reviewed by Marston and Shrives, 1991 and Hassan and Marston, 2010). Our disclosure index comprises 24 items from the eight selected standards, with three items from each standard (i.e., one Retain item, one Delete item, and one Disclose if Material item). Appendix 1 shows the disclosure index covering the eight standards. We conducted a pilot study to understand the complexity of the data collection process and to test the design of our disclosure index. Milne and Adler (1999) suggest for the less experienced coders at least coding experience of 20 reports are necessary for their coded output could be relied on. Therefore, we collect data from the top 20 companies from the ASX200 list in the pilot study. We found that items are not always reported in the same location, search terms for various items differ, and sometimes the information provided is not adequate to be classified as a fully complied disclosure item. Therefore, we measured disclosure quantity with three categories in the rating scale, namely, whether the disclosure is adequate[8], partial, or inadequate.

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[8] The word "adequate" as a measure for disclosure was first used by Buzby (1974)

The main aim of this measure is to check the compliance aspect of disclosure. From our point of view a disclosure is considered adequate when an entity has complied with all the key components of a specific disclosure requirement. In that case we coded that item "1". The maximum score of each disclosure item is "1" and the minimum score is "0". The maximum disclosure score for each standard is "3" and minimum is "0". Therefore, an entity can score a maximum of "24" and a minimum of "0" for the eight standards in the disclosure index. We collected disclosure data by using various search terms. We realized during our pilot study phase that companies use terms in different ways. Therefore, we identified a list of potential terms for each of the disclosure items. Additionally, we had to look at places in the annual report where disclosure of an item is usually made. To ensure reliability of our data, disclosure items are reviewed by a second coder. Most of the times, we ended up with a very similar result. Any disagreements were resolved by discussion.

Research model and measurement of the dependent and independent variables

We use disclosure scores to address RQ1. Our independent variable of interest is a disclosure score obtained from applying our disclosure index (*DEXT*)*.* We use four measures of *DEXT*: overall total disclosure (*DEXT_TOTAL*); *Retain* disclosure (*DEXT_RET*); *Delete* disclosure (*DEXT_DEL*); and *Disclose if Material* disclosure (*DEXT_MAT*). For RQ2, we test the following model:

$$DEXT_i = \beta_0 + \beta_1 DisclosureIncentives_i + \beta_2 ReportingBehavior_i$$
$$+ \beta_3 NumberAnalysts_i + \beta_4 Big4AUD_i + \beta_5 USListing_i + Controls + \varepsilon_i \qquad (1)$$

where *DEXT_i* is, by turns, (i) *DEXT_TOTAL,* each firm's total score (out of 24) on our disclosure checklist; (ii) *DEXT_RET*, each firm's score (out of eight) on the *Retain* items; (iii) *DEXT_DEL,* each firm's score (out of eight) on *Delete* items; and (iv) *DEXT_MAT,* each firm's score (out of eight) on *Disclose if Material* items.

DisclosureIncentives$_i$ is the score on the first principle component from a PCA[9] with Promax rotation of size (ln total assets), leverage (total liabilities/total assets), return on assets, number of business segments, number of geographic segments, proportion of small shareholders, market to book ratio, long-term debt issue, and new share issue. All are for 2012 except business segments and geographic segments[10]. *ReportingBehavior$_i$* is absolute total accruals / absolute cash flow from operations, where total accruals equals cash flow from operations minus net profit after tax but before abnormal items, all for 2012.

NumberAnalysts$_i$ is the number of analysts following firm i proxied by the number of one year ahead EPS forecasts at June 22, 2012 from the IBES database (for three firms other dates in 2012 were used). June 22 was chosen because most Australian companies have a June 30 balance date. Following Daske *et al.* (2013), we take the natural log plus 1 of the number of EPS forecasts. Nineteen companies had no forecasts in IBES, and these were coded zero. *Big4AUD$_i$* is coded 1 if the firm has a big 4 auditor, and zero otherwise. *USListing$_i$* is coded 1 if the firm is listed on a US stock exchange, and zero otherwise. Controls are five (0,1) industry fixed effects.

We use the modified Ohlson (1995) model to test research questions RQ3a and RQ3b (see also Clarkson *et al.*, 2013). Several versions of the models are used to examine the main and interaction value relevance effect of different types of disclosure.

$$PRICE_i = \beta_0 + \beta_1 BVE_i + \beta_2 EARNS_i + \beta_3 DEXT_i + \beta_4 BVE*DEXT + \beta_5 EARNS_i*DEXT + \varepsilon$$

(2)

where, *PRICE* is defined as share price three months after the fiscal year end. The book value of equity (*BVE*) is measured as the book value of equity scaled by the number of outstanding

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[9] The PCA has a KMO value of sample adequacy of .502. After parallel analysis, three factors were retained. All nine variables load positively on the first principal component, except market to book.

[10] The number of business segments proxy for internal complexity, while the number of geographic segments proxies for international orientation. Segment data were downloaded from the DatAnalysis database, which only retains segment data from recent years. The available segment data spans the years 2014 to 2016. However, segments are relatively invariant across time so this should not be a concern.

shares at the fiscal year end and earnings (*EARNS)* is measured as the net profit after tax scaled by the number of outstanding shares at the fiscal year end. *DEXT* is a measure of disclosure based on the four proxies as Equation (1). Descriptions of each variable and data source are provided in Appendix 2.

RESULTS

RQ1 – Variation in disclosure and compliance:

Table 2 Panel A shows that disclosure varies across the *Retain*, *Delete* and *Disclose if Material* categories (for the detailed disclosure index, refer to Appendix 1). For example, for disclosure item #1, 17 out of 196 (8.67%) sample companies did not disclose at all a required mandatory disclosure item, which is a *Retain* item. 46 (23.47%) companies had a partial disclosure, meaning that these companies disclosed some components of mandatory disclosure item but not all; and 133 (67.86%) companies disclosed the required item as per the accounting standard.

Not unexpectedly, the most disclosed item is an item from the *Retain* category (#13: disclosure on income tax expense), which was disclosed by 193 out of 196 companies (98.47%), followed by item #19 (EPS disclosure), another *Retain* item. The disclosure item least complied with is item #11 (cash flow additional disclosure), for which 175 out of 196 (89.29%) companies did not disclose; interestingly, it is an item marked *Delete* by the *Excess Baggage Report.*

[INSERT TABLE 2 HERE]

Table 2 Panel B reports the summary statistics for disclosure scores. The minimum, maximum, mean scores and standard deviation for the overall disclosure score (*TOTAL_DEXT*) are 5.50, 22.50, 16.475 and 2.865, respectively, where the maximum possible score is 24. These

scores are also broken down into the three sub-categories. For the *Retain* disclosures, the minimum, maximum, mean scores and standard deviation for the sample companies are 1.50, 8.00, 6.393 and 1.387, respectively, where the maximum possible score is 8. The average *Delete* disclosure score (3.791) is lower than the averages for *Retain* (6.393) and *Disclose if Material* (6.291).

There is a wide variation in the disclosure scores, which supports RQ1. In terms of non-compliance, 29.82% of sample companies did not comply overall: *Retain* items had the lowest non-compliance (18.18%) and *Delete* items, the highest (51.46%). Interestingly, items marked *Disclose if Material* are disclosed quite well, with 19.83% non-compliance percentage. Based on the paired-sample t-tests, disclosure scores for *Retain* and *Disclose if Material* are only marginally significantly different (t=-1.068, p<0.1), whereas there is a significantly higher disclosure for Retain compared to Delete (t=24.184, p<0.01) and Delete compared to Material (t=-25.460, p<0.05) items.

RQ2 – Economic determinants of DEXT measures

Table 3 Panel A shows descriptive statistics of variables used to test RQ2 on the economic determinants of disclosures and Table 4 reports on the main regression analysis based on Equation 1.

[INSERT TABLES 3 AND 4 HERE]

As shown in Table 4, for all four models with the disclosure dependent variable, as proxied by *DEXT_TOTAL, DEXT_RET, DEXT_DEL, and DEXT_MAT,* the incentive to disclose variable (*ReportingIncentives*) is positive and significant, as predicted. However, the *DEXT_DEL* model is not significant overall (F=1.147, p>0.1), so the significant coefficient for

ReportingIncentives cannot be relied upon in that model (Cohen, Cohen, West and Aiken 2003, p.187). Also, in the *DEXT_MAT* regression, *ReportingIncentives* is only significant at the 10% level, and so is likely a type 1 error. Therefore, *ReportingIncentives* is only reliably significant for the *DEXT_TOTAL and DEXT_RET* models. None of the other test variables are significant except *USListing* where *DEXT_MAT* is the dependent variable.

To explore this further, we broke down the *ReportingIncentives* variable into its nine component parts and regressed each *DEXT* variable measure, in turn, on these nine explanatory variables and on *ReportingBehavior, NumberAnalysts, Auditor, USListing,* and Industry Fixed Effects. Results for these regressions are shown in Table 5.

[INSERT TABLE 5 HERE]

Of the nine variables making up the *ReportingIncentives,* leverage (*LEV*), small shareholdings (*OWN*), business segments (*#BusSeg*) and geographic segments (*#GeoSeg*) are significantly positively associated with *DEXT_TOTAL* and *DEXT_RET*. The *DEXT_DEL* regression is not significant overall, as reported in Table 4. For the *DEXT_MAT* regression, only *#BusSeg* is marginally significant ($p<0.1$). In short, the results in Table 5 are consistent with those in Table 4, and the results for *DEXT_TOTAL* and *DEXT_RET* in Table 4 appear to be driven by *LEV*, *OWN*, *#BusSeg* and *#GeoSeg*. *DEXT_DEL* and *DEXT_MAT* are not reliably associated with any *ReportingIncentives* variables.

RQ3 –Value relevance results

In order to address RQ3, we examine the value relevance of different types of disclosure and interaction effects of those disclosures with the book value of equity (*BVE*) and earnings (*EARNS*). The disclosure variable is used as a moderating variable based on the proposition

that the relationship between *PRICE*, *BVE* and *EARNS* is likely influenced by the level of disclosure. In other words, the presence of required disclosures (proxied by *DEXT_TOTAL, DEXT_RET, DEXT_DEL,* and *DEXT_MAT*) should moderate the value relevance of *BVE* and *EARNS*.

Table 6 shows the results of the value relevance multiple regression analysis for each of the disclosure type based on Equation (2). As can be seen in Table 6, all of the models are significant, with Model 1d (*DEXT_MAT*) having the highest explanatory power (adjusted $R^2 =$ 72.80%).

[INSERT TABLE 6 HERE]

As expected, *BVE* and *EARNS* show significant results for each regression, which is consistent with the proposition that share price is positively associated with book value of equity and earnings (Ohlson, 1995). In Model 2d (*DEXT_MAT)*, the main effect of items from *Disclose if Material* category (*DEXT_MAT)* is significantly positive and is thus value relevant. This means that *DEXT_MAT* disclosures by themselves positively impact share price. In Model 2a *(DEXT_TOTAL)*, Model 2b (*DEXT_RET*) and Model 2c (*DEXT_DEL*), the main effect of the disclosure does not show a significant result, respectively, meaning that the different categories of disclosures tested are not value relevant individually. However, the interaction variable between respective disclosure types and *BVE* shows significant positive results in all four models, thus illustrating that the presence of these four categories of disclosures enhances the value relevance of *BVE.*

The interaction between disclosure type and *EARNS* is negatively significant in all four models, contrary to expectations. To explore this result further, we partition our sample into those firms that are profitable (n = 159) and those that are loss-making (n = 37) in 2012 and rerun the

regressions in table 6 separately for each of the two subgroups. Untabulated results show that for profitable firms, the four *DEXT* variables and their interactions with *BVE* and *EARNS* are all insignificant. However, for loss making firms, the main effects for *DEXT_TOTAL*, *DEXT_RET* and *DEXT_MAT* are all significantly positive; the four *DEXT*BVE* interactions are all significantly positive; and the *DEXT*EARNS* interaction is significantly positive but for *DEXT_MAT* only. In short, when firms are partitioned into profit vs loss makers, the significant negative coefficient for *DEXT*EARNS* disappears and the value relevance of the *DEXT* variables and their interactions with *BVE* and *EARNS* occurs only in loss making firms.

CONCLUSION

In this study, we examine whether regulators and standard setters raised valid concerns about disclosure overload using the Excess Baggage report's recommendations on 196 Australian companies listed on the ASX200. Our results show that 29.82% of the sample did not comply with one or more mandatory disclosure requirements. We find a wide variation across disclosure scores. More specifically, 18.18% of *Retain* items are non-compliant, 51.46% items marked for *Delete* are non-compliant and 19.83% of *Disclose if Material* items are non-compliant. While companies rarely disclose information for some items, there are quite high levels of disclosure for other items. This also applies to the various standards examined in the study; some standards are associated with near-perfect compliance, others with significant non-compliance. Items that Excess Baggage recommends be retained are disclosed more frequently than those items recommended be deleted.

We also examined whether there is an association between economic incentives of each company, proxied by the disclosure incentives, and the level of disclosure based on different categories of the *Excess Baggage Report* recommendations. We find that incentives to disclose are significantly associated with disclosure scores only for the overall disclosure

(*DEXT_TOTAL*) and those marked to be retained (*DEXT_RET*). The *DEXT_TOTAL* result appears to be driven by that of *DEXT_RET*.

Further, we find the *Retain* and *Delete* disclosures identified by the Excess Baggage do not seem to be value relevant as main effects, except in loss-making firms. The interaction between the book value of equity and each of the four disclosure scores (*DEXT_TOTAL, DEXT_RET, DEXT_DEL* and *DEXT_MAT*) is positively significant, meaning that the presence of each of the four categories of disclosures moderates the value relevance of the book value of equity. However, the result is restricted to loss-making firms. In profitable firms, the four *DEXT* variables and their interactions with *BVE* and *EARNS* are not value relevant.

Therefore, this study provides some limited empirical support for the recommendations of the *Excess Baggage Report*. Australian firms do not always comply with the mandatory IFRS disclosure requirements, and disclosure levels vary across different categories marked as *Retain*, *Delete* and *Disclose if Material*. However, *Retain* disclosure items are the most complied with and are significantly positively associated with firms' disclosure incentives. *Delete* disclosure requirements are the least complied with, suggesting that companies believe disclosing these items to be non-value adding, and they are not associated with firms' disclosure incentives. And the four *DEXT* variables are not value relevant for profit making firms. However, for loss making firms, all four *DEXT* measures positively moderate the value relevance of *BVE*, and *DEXT_MAT* positively moderates *EARNS*. Why this occurs in loss-makers requires further investigation. We conjecture that investors in loss making firms may require more disclosures to better assess how bad the situation is in such firms.

Overall, it seems that regulators, practitioners and standard setters around the world have raised valid concerns about the potential disclosure overload problem. In particular, the findings of this study could inform the standard setters, such as the IASB in their standard level disclosure project. For example, the IASB is planning to review disclosure requirements in

each standard. The findings of this study show which disclosure requirements are most and least complied with and which types of the Excess Baggage report's disclosures are associated with firms' disclosure incentives and which disclosures are value relevant.

The study has two limitations. First, only three items (one item each for *Retain*, *Delete* and *Disclose if Material* categories) from each of the eight standards were selected for the current study. Future studies can investigate each category with more items from additional standards. For example, a study could be designed including all the *Delete* items that were recommended by the *Excess Baggage Report* and consider other standards and test their findings in empirical settings. Second, despite using large companies from a wide range of industry sectors in Australia, our sample comprises 196 companies, which is a relatively small sample size. Given that IFRS is a truly global issue, a future study could consider using a larger sample from multiple countries and various jurisdictions.

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Table 1: Sample firms

Panel A: Sample selection process

	# of Firms
Firms listed on the ASX 200 as of 28 September 2012	200
Less:	
Takeovers/mergers	2
NZ company	1
Use of Irish GAAP	1
Final Sample	**196**

Panel B: Industry type

	Industry sector	**# of firms**
1	Materials	49
2	Financial	34
3	Industrial + Energy	56
4	Consumer Discretionary + Consumer Staples + Discretionary	33
5	Others (Health Care + Telecommunications + IT + Utilities)	24
	Total	**196**

Table 2: Disclosure scores (RQ1)

Panel A: Number of firms

DI#	Retain			Delete			Disclose if Material		
	0	0.5	1	0	0.5	1	0	0.5	1
1	17	46	133						
2				30	10	156			
3							0	17	179
4	64	0	132						
5				108	0	88			
6							5	0	191
7	27	14	155						
8				104	0	92			
9							45	8	143
10	34	0	162						
11				175	0	21			
12							7	23	166
13	3	0	193						
14				11	2	183			
15							9	0	187
16	82	0	114						
17				127	0	69			
18							71	0	125
19	4	0	192						
20				124	24	48			
21							8	0	188
22	54	0	142						
23				128	0	68			
24							166	0	30

Panel B: Disclosure scores and % of non-compliance

	Mean	Min	Max	SD	% non-compliance
Total (/24)	16.475	5.50	22.50	2.865	29.82%
Retain (/8)	6.393	1.50	8.00	1.387	18.18%
Delete (/8)	3.791	0.00	7.00	1.270	51.46%
Disclose if Material (/8)	6.291	1.50	8.00	1.087	19.83%

Paired-sample t-tests

Retain vs. Delete	24.184***
Retain vs. Disclose if Material	-1.068*
Delete vs. Disclose if Material	-25.460***

***, **, * denote significance at p<0.01, p<0.05 and p<0.1, respectively, two-tailed.

Table 3: Descriptive Statistics

Panel A: Economic determinants of disclosures (RQ2)

Variable	N	Mean	Min	Max	SD
SIZE	196	21.554	17.885	27.361	1.750
LEV	196	0.463	0.004	1.620	0.240
ROA	196	0.059	-0.664	0.476	0.112
#BusSeg	196	2.690	1	5	1.428
#GeoSeg	196	2.360	1	5	1.361
OWN	196	0.444	0.126	0.894	0.153
MB	196	2.381	-0.760	19.130	2.537
			0	1	
NewShareIssue	196		60	136	
LTDIssue	196		93	103	
USListing	196		183	13	
Big4AUD	196		16	180	

Panel B: Value relevance of disclosures (RQ3)

	N	Mean	Min	Max	SD
PRICE	196	7.381	0.140	67.150	11.093
BVE	196	0.000	-5.910	32.160	5.363
EARNS	196	0.000	-2.900	4.130	0.752
DEXT_TOTAL	196	0.000	-10.970	6.030	2.865
DEXT_RET	196	0.000	-4.890	1.610	1.387
DEXT_DEL	196	0.000	-3.790	3.210	1.270
DEXT_MAT	196	0.000	-4.790	1.710	1.087
BVE x DEXT_TOTAL	196	3.216	-40.610	145.780	15.217
EARNS x DEXT_TOTAL	196	0.224	-10.610	6.330	1.742
BVE x DEXT_RET	196	1.994	-11.470	42.400	6.301
EARNS x DEXT_RET	196	0.209	-3.090	6.630	0.839
BVE x DEXT_DEL	196	0.827	-28.870	58.290	7.825
EARNS x DEXT_DEL	196	0.010	-5.330	3.630	0.935
BVE x DEXT_MAT	196	0.395	-20.560	45.100	5.104
EARNS x DEXT_MAT	196	0.005	-4.100	4.290	0.783

All variables are centred for regression analysis except for PRICE.

Table 4: Determinants of Disclosures (RQ2)

$DEXT = \beta_0 + \beta_1 ReportingIncentives + \beta_2 ReportingBehavior + \beta_3 NumAnalyst$
$+ \beta_4 Big4AUD + \beta_5 USListing + Controls + \varepsilon$ (1)

	Dependent Variable			
	DEXT_TOTAL	DEXT_RET	DEXT_DEL	DEXT_MAT
Intercept	16.506***	6.022***	4.118***	6.365***
	(18.623)	(15.174)	(9.770)	(18.362)
ReportingIncentives	1.050**	0.662**	0.257**	0.130*
	(4.826)	(6.801)	(2.484)	(1.532)
ReportingBehavior	-0.011	0.004	-0.003	-0.012
	(-0.443)	(0.313)	(-0.210)	(-1.236)
NumAnalyst	-0.028	-0.011	-0.046	0.028
	(-0.162)	(-0.135)	(-0.548)	(0.408)
Big4AUD	-0.006	0.062	0.007	-0.076
	(-0.009)	(0.189)	(0.021)	(-0.264)
USListing	0.867	0.192	-0.153	0.829**
	(1.079)	(0.532)	(-0.400)	(0.009)
Industry FE	Included			
N	196	196	196	196
F statistic	4.445***	8.701***	1.147	2.970***
Adjusted R^2	0.137	0.262	0.007	0.083
Max VIF	1.746	1.746	1.746	1.746

***, **, and * denote significance at $p<0.01$, $p<0.05$ and $p<0.1$ respectively, two-tailed.

Table 5: Components of reporting incentives (RQ2)

$$DEXT = \beta_0 + \beta_{1...} \beta_9 Components\_ReportingIncentives + \beta_{10}ReportingBehavior + \beta_{11}NumAnalyst + \beta_{12}Big4AUD + \beta_{13}USListing + Controls + \varepsilon$$

	Dependent Variable			
	DEXT_TOTAL	DEXT_RET	DEXT_DEL	DEX_MAT
Intercept	11.249***	0.983	3.656**	6.611***
	(3.154)	(0.614)	(2.190)	(4.715)
SIZE	0.075	0.154	-0.039	-0.039
	(0.426)	(1.946)	(-0.477)	(-0.570)
LEV	2.285**	1.173**	0.875**	0.237
	(2.083)	(2.382)	(1.704)	(0.549)
ROA	1.048	1.223	-0.679	0.504
	(0.465)	(1.209)	(-0.644)	(0.569)
LTDIssue	0.061	0.087	-0.216	0.191
	(0.148)	(0.464)	(-1.111)	(1.169)
NewShareIssue	-0.406	-0.070	-0.154	-0.182
	(-0.907)	(-0.349)	(-0.734)	(-1.036)
OWN	2.605**	1.274**	1.172**	0.160
	(1.902)	(2.072)	(1.828)	(0.297)
#BusSeg	0.340**	0.139**	0.106	0.095*
	(2.253)	(2.050)	(1.498)	(1.606)
#GeoSeg	0.311**	0.131**	0.149**	0.030
	(1.870)	(1.763)	(1.919)	(0.461)
MB	-0.025	-0.052	0.026	.001
	(-0.268)	(-1.217)	(0.583)	(.015)
Other Eq (1) variables		Included		
Industry FE		Included		
N	196	196	196	196
F statistic	2.724***	4.890***	1.360	1.819**
Significance	0.001	0.000	0.162	0.029
Adjusted R^2	0.131	0.253	0.030	0.067
Max VIF	2.587	2.587	2.587	2.587

***, **, and * denote significance at p<0.01, p<0.05 and p<0.1 respectively, two-tailed.

Table 6: Value relevance of different types of disclosures

$PRICE = \beta_0 + \beta_1 BVE + \beta_2 EARNS + \beta_3 DEXT + \beta_4 BVE\ x\ DEXT + \beta_5\ EARNS\ x\ DEXT + \varepsilon$ (2)

	Dependent Variable=PRICE			
	Model 2a	**Model 2b**	**Model 2c**	**Model 2d**
Intercept	7.203	7.189	7.256	7.172
	(16.393)	*(15.220)*	*(16.937)*	*(17.280)*
BVE	0.840***	0.980***	0.994***	0.796***
	(6.205)	*(7.312)*	*(8.042)*	*(6.572)*
EARNS	7.014***	6.171***	5.833***	7.640***
	(8.443)	*(7.299)*	*(7.457)*	*(9.219)*
DEXT_TOTAL	0.177			
	(1.147)			
BVE x DEXT_TOTAL	0.128***			
	(3.317)			
EARNS x DEXT_TOTAL	-1.037)***			
	(-3.824)			
DEXT_RET		0.315		
		(0.906)		
BVE x DEXT_RET		0.267**		
		(2.409)		
EARNS x DEXT_RET		-1.63**		
		(-2.186)		
DEXT_DEL			0.037	
			(0.110)	
BVE x DEXT_DEL			0.181**	
			(2.403)	
EARNS x DEXT_DEL			-2.371***	
			(-4.394)	
DEXT_MAT				1.000**
				(2.595)
BVE x DEXT_MAT				0.560***
				(5.112)
EARNS x DEXT_MAT				-2.470***
				(-3.726)
Observations	196	196	196	196
F statistic	98.389***	90.009***	98.026***	105.609***
Adjusted R^2	0.714	0.695	0.713	0.728
Max VIF	2.923	2.690	2.430	2.463

***, ** and * denote significance at p<0.01, p<0.05 and p<0.1 respectively, two-tailed.

Appendix 1: Disclosure Index

Standard	#	Type	Required Disclosure
AASB101 Presentation of Financial Statements	1	R	An entity shall disclose the following items in the statement of comprehensive income as allocations for the period: (a) profit or loss for the period attributable to: (i) non-controlling interests, and (ii) owners of the parent; (b) total comprehensive income for the period attributable to: (i) non-controlling interests, and (ii) owners of the parent. [para.83]
	2	D	An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes: (b) a description of the nature and purpose of each reserve within equity. [para.79]
	3	M	The statement of comprehensive income shall include line items that present the following amounts for the period: (a) revenue; (b) finance costs; (c) share of the profit or loss of associates and joint ventures accounted for using the equity method; (d) tax expense; (ea) a single amount for the total of discontinued operations. [para.82]
AASB7 Financial Instruments: Disclosures	4	R	In determining classes of financial instrument, an entity shall, at a minimum: (a) distinguish instruments measured at amortised cost from those measured at fair value; and, (b) treat as a separate class or classes those financial instruments outside the scope of this Standard. [para.B2]
	5	D	The carrying amounts of each of the following categories, as defined in AASB9, shall be disclosed either in the statement of financial position or in the notes: (d) available-for-sale financial assets. [para.8]
	6	M	For each type of risk arising from financial instruments, an entity shall disclose: (a) the exposures to risk and how they arise. [para.33]
AASB8 Operating Segments	7	R	An entity shall disclose the following general information: (a) factors used to identify the entity's reportable segments, including the basis of organisation. [para.22]
	8	D	An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements. [para.32]
	9	M	An entity shall provide a reconciliation of: (a) the total of the reportable segments' revenues to the entity's revenue. [para.28]
AASB107 Statement of Cash Flows	10	R	Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. [para.35]
	11	D	Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include: (d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment. [para.50]
	12	M	An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position. [para.45]

Standard	#	Type	Required Disclosure
AASB112 Income Taxes	13	R	The tax expense (income) related to profit or loss from ordinary activities shall be presented in the statement of comprehensive income. [para.77]
	14	D	An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or, (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed. [para.82A]
	15	M	The major components of tax expense (income) shall be disclosed separately. [para.79]
AASB119 Employee Benefits	16	R	An entity shall disclose the amount recognised as an expense for defined contribution plans. [para.46]
	17	D	The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on: (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and, (ii) the accumulated post-employment benefit obligation for medical costs. [para.120A]
	18	M	An entity shall disclose the following information about defined benefit plans: (a) the entity's accounting policy for recognising actuarial gains and losses. [para.120A]
AASB133 Earnings Per Share	19	R	An entity shall present in the statement of comprehensive income basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented. [para.66]
	20	D	Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and conditions of such financial instruments and other contracts is encouraged, if not otherwise required. [para.72]
	21	M	An entity shall disclose the following: (b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share. [para.70]
AASB138 Intangible Assets	22	R	A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include: (a) brand names; (b) mastheads and publishing titles; (c) computer software; (d) licences and franchises; (e) copyrights, patents and other industrial property rights, service and operating rights; (f) recipes, formulae, models, designs and prototypes; and (g) intangible assets under development. [para.119]
	23	D	An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets: (d) the line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included. [para.118]
	24	M	An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period. [para.126]

Disclosure Index #1, 2, 3, 7, 9, 12, 14 and 20 have partial scoring (i.e. 0.5)

Appendix 2: Variable descriptions and data sources

Variable	Description	Data source
PRICE	Share price three months after the fiscal year end	DatAnalysis, Yahoo finance
BVE	Book value of equity measured as the book value of equity scaled by the number of outstanding shares at the fiscal year end.	DatAnalysis
EARNS	Earnings measured as the net profit after tax scaled by the number of outstanding shares at the fiscal year end.	DatAnalysis
DEXT	Disclosure score of each type of following: Total disclosure score (DEXT_TOTAL) Retain disclosure score (DEXT_RET) Delete disclosure score (DEXT_DEL) Material disclosure score (DEXT_MAT)	Disclosure Index
DEXT_TOTAL	Total disclosure score from the disclosure index	Disclosure Index
DEXT_RET	Total score of disclosures suggested for retention from the disclosure index	Disclosure Index
DEXT_DEL	Total score of disclosure suggested for reduction from the disclosure index	Disclosure Index
DEXT_MAT	Total score of material disclosure from the disclosure index	Disclosure Index
SIZE	Log of total assets	DatAnalysis
LEV	Total liabilities/total assets	DatAnalysis
ROA	Net profit after tax/total assets	DatAnalysis
#BusSeg	Number of business segments (2014-2016)	Datastream
#GeoSeg	Number of geographic segments (2014-2016)	Datastream
OWN	Proportion of dispersed ownership	Annual report
MB	Market to book value ratio	DatAnalysis
NewShareIssue	Dichotomous variable taking a value of 1 for firms with new share issue, 0 otherwise	DatAnalysis
LTDIssue	Dichotomous variable taking a value of 1 for firms with long term debt issue, 0 otherwise	DatAnalysis
USListing	Dichotomous variable taking a value of 1 for firms with US listing, 0 otherwise	Annual report
Big4AUD	Dichotomous variable taking a value of 1 for firms with Big 4 auditor, 0 otherwise	Annual report