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The costs and benefits of IFRS implementation in the UK and Italy

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Abstract

Purpose – The purpose of this paper is to examine the opinions of national stakeholders on the costs and benefits of International Financial Reporting Standards (IFRS) implementation and to determine whether countries with disparate social, economical and political backgrounds have different experiences when complying with IFRS.

Design/methodology/approach – Semi-structured interviews were conducted with preparers, users and auditors of annual reports and accounting regulators in the UK (including Ireland) and Italy.

Findings – There were some differences in the experiences of IFRS implementation between stakeholders from different countries. However, there was widespread agreement that costs exceeded the benefits of reporting under the new standards. Further it is recognised that international standard-setters have a large set of stakeholder views to manage and it is therefore important that standard-setters are aware of the costs and benefits of their accounting requirements.

Originality/value – This analysis is useful for companies that have not already adopted IFRS. It explains the differences and similarities of the costs and benefits of IFRS implementation from an Anglo-Saxon and an EU continental perspective.

Keywords IFRS, Costs and benefits, United Kingdom, Ireland, Italy, Stakeholder theory, Costs, Financial reporting

Paper type Research paper

1. Introduction

The application of International Financial Reporting Standards (IFRS) to the consolidated financial statements of publicly traded EU companies in 2005 was followed, in 2007, by companies listed on secondary capital markets (such as the AIM in the UK). The next stage in the IFRS implementation process includes the application of IFRS to small and medium enterprises (SMEs) and the forthcoming issue of four new IFRS relating to hedge accounting, leases, revenue recognition and insurance contracts. With IFRS continually adapting and changing, an analysis of the IFRS implementation experiences of larger listed companies is useful to assess whether stakeholders from different cultures and legal traditions have different experiences of IFRS implementation. This paper considers a country to be a stakeholder in the international standard-setting process; using stakeholder theory, it investigates how the costs and benefits of IFRS implementation have impacted on different national stakeholder

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groups. In particular the research addresses whether stakeholders from the UK and Italy, which have different legal traditions and cultures, have different views on the IFRS implementation process.

Stakeholder theory considers how corporate accountability, such as financial reporting, is discharged to a broad range of stakeholders (Freeman, 1984; Solomon, 2007). At a simplistic level, Clarkson (1994) states that a company:

> [...] is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services (p. 21).

Corporate stakeholders, including shareholders, employees, customers, suppliers, creditors and members of the public, are involved in the operations of firms (Hill and Jones, 1992) but there are likely to be trade-offs between the interests of the company and those of its stakeholders; similarly there is also likely to be trade-offs between the interests of different groups of stakeholders (Hendry, 2004). This study uses stakeholder theory to examine the opinions of different stakeholder interviewees on the costs and benefits of IFRS implementation according to the country in which they practice, either the UK (including Ireland) or Italy.

The EU is a collection of countries that have disparate social, economic and political backgrounds. This, combined with the fact that the objectives of financial reporting vary amongst EU countries, has contributed towards a large variety of European corporate accounting and disclosure practices (Capstaff *et al.*, 2001; Dunne *et al.*, 2008). In 1998, the International Accounting Standards Committee (IASC) claimed that international accounting standards should contribute towards a significant improvement in the quality and comparability of corporate disclosure (IASC, 1998). However, given that all EU countries have different economic and cultural roots, they can be regarded as different stakeholders in the standard-setting process; this means that some EU countries may have had to make a greater conceptual shift, and consequently incur greater costs, than others. Such differences in national economic and cultural backgrounds can be illustrated by reference to: legal systems, corporate ownership and governance mechanisms and fundamental accounting concepts. This paper starts from the premise that the UK (including Ireland) and Italy represent different extremes on these three indicators and that the change to IFRS will be different for stakeholders in each nation.

First, the UK and Irish legal systems are based on common law, while the Italian system is derived from Roman civil law. Under a civil (or code) law system, accounting tends to be heavily regulated and regulations are typically incorporated into national laws (La Porta *et al.*, 1998); these legal provisions govern, to varying degrees, the financial reporting process. In Italy, accounting standards contribute, together with the provisions of the Civil Code, to the preparation of financial statements, but only in a subservient role. In other words, these standards are not compulsory but they have an integrative and interpretative function with respect to the provisions of the law (Marchi, 2000). By contrast, common law develops on a case by case basis and is less prescriptive; statute still exists but it tends to be less detailed and permits the exercise of judgement. This means that financial reporting tends to be less heavily regulated by statute thus the accounting standard-setting process assumes a more prominent role in the UK and Ireland.

Second, the variation in the nature of corporate ownership and governance in each country is also likely to impact on the view of IFRS implementation. For example, in the UK and Ireland there is a reliance on equity finance; thus, the interests of this investor class dominate and financial reporting is typically geared towards meeting the needs of these users. In addition, financial reporting has a role to play in ensuring that transparency and market efficiency exists (Meek and Saudagaran, 1990). In Italy, however, companies are often family owned and finance tends to be sourced primarily from banks. Consequently, creditors, as opposed to investors, are considered to be the main recipients and users of corporate financial statements. In this environment, the primary users are less interested in detailed financial statements (Viganò, 1990) as they have direct access to detailed performance information. This is the case of non-listed companies which are the greater part in Italy.

Finally, in the UK and Ireland the accruals accounting concept is key while in Italy the concept of prudence dominates. This might suggest that the accruals concept that underpins IFRS might be more problematic for Italian firms to implement; these stakeholders are used to conservatism as opposed to matching, in terms of recognition and measurement of accounting items. Indeed there is evidence to suggest that pre-IFRS practices continue to be applied where they are a permitted option in the international standard (Kvaal and Nobes, 2010). Thus, countries might be seen as distinct stakeholders in the IFRS implementation process and consequently, this paper examines the costs and the benefits of IFRS implementation from a stakeholder perspective between stakeholders from two different countries.

The remainder of this paper is structured as follows: Section 2 reviews the prior research relating to IFRS implementation from a cost and benefit perspective. The third section considers the research method and the results are subsequently reported in Section 4. Section 5 concludes.

2. Literature review

The costs and benefits of IFRS adoption may vary from firm to firm and some may be prevalent to all firms across many countries. For example, the Institute of Chartered Accountants in England and Wales (ICAEW, 2007) suggests that the costs associated with the IFRS implementation process comprises of: establishing an IFRS project team, training other staff such as IT staff, internal audit and management, training staff, obtaining external technical advice, taking tax advice, changing software and systems, communicating with third parties, incurring additional external audit costs, renegotiating debt covenants and obtaining other external data requirements. It also suggests that, depending on the size of the company, recurring IFRS costs can represent up to 24 per cent of turnover. Further, a survey of the FTSE 350 by PriceWaterhouse Coopers (PWC) finds that most companies hire extra staff or use subcontractors for IFRS implementation, as a lack of IFRS trained staff is a problem (PWC, 2006). Darenidou *et al.* (2006), Jermakowicz and Gornik-Tomaszewski (2006) and Ernst & Young (2006) also find that the costs of the additional resources needed by companies are significant.

Some costs of IFRS disclosure are obvious such as those identified above and those relating to collating, interpreting and imparting information (Meek *et al.*, 1995). Conversely, other costs are far more opaque, such as information disclosure that may lead market investors to call into question the abilities or reputations of managers (DeMarzo and Duffie, 1995; Marshall and Weetman, 2002), or that which may supply other firms with a competitive advantage (Edwards and Smith, 1996; Marshall and Weetman, 2002). Similarly, political and agency costs might vary according to the personal interest and wealth that managers have invested in their own companies and so may significantly affect the extent of compliance with an accounting standard (Aggarwal and Simkins, 2004; Tsakumis *et al.*, 2006). Haverals (2007) suggests that one of the biggest impediments to a fully integrated capital market in the EU is the fragmentation of the 25 different tax regimes and consequently the EU intends to harmonise the EU corporate tax regime once IFRS has been fully implemented; this is also likely to incur significant costs.

However, IFRS implementation also has some benefits. For example, O'Connell and Sullivan (2008) demonstrate that the implementation of IFRS is likely to have a favourable impact on the net income of companies. Other authors suggest that the increase in disclosure associated with IFRS implementation results in a lower cost of capital, a higher share value and a higher market-to-book ratio; (Verrecchia, 1999; Aggarwal and Simkins, 2004; Darenidou *et al.*, 2006) although other researchers demonstrate that this may not always be the case (Daske and Gebhardt, 2006; Jermakowicz and Gornik-Tomaszewski, 2006).

Other benefits of increased IFRS disclosure are less tangible. For example, some companies disclose certain information to maintain their reputation and credibility with their institutional investors (Chalmers and Godfrey, 2004). It could be that, if a firm has a reputation for financial probity, it can charge higher prices for its products, employ more experienced staff and there is evidence to show it can access the capital markets more easily (Meek *et al.*, 1995). Companies with a good financial reporting reputation are likely to suffer most if they adopt a non-disclosure policy and begin to withhold information (Chalmers and Godfrey, 2004).

Jermakowicz and Gornik-Tomaszewski (2006) suggest that IFRS adoption might enhance cross-border listings, provide better investment opportunities, and increase transparency and comparability of reported information and consequently perhaps the benefits of IFRS implementation are more apparent to corporate shareholders. Cairns *et al.* (2011) provide some evidence that such comparability is improving under IFRS. Likewise, Cornell and Sirri (1992) argue that increased IFRS disclosure is likely to result in a reduction in information asymmetry among shareholders which might in turn lead to an improvement in the market liquidity of a company's shares, the lowering of bid-ask spreads and an increase in the volume of share transactions that take place. Conversely, Darenidou *et al.* (2006) offer mixed and inconclusive evidence that improved IFRS disclosure helps reduce information asymmetry and consequently the risk of expropriation. Durocher and Gendron (2011) argue that financial statements prepared under IFRS are unlikely to ever be comparable unless sophisticated users take a less docile attitude in the standard-setting process. Despite these mixed results, Jones and Finley (2011) provide tentative evidence to suggest that the implementation of IFRS has reduced financial reporting diversity between countries.

The impact that IFRS may have on the capital structure of a company, is explored by De Jong *et al.* (2006) who found that the debt ratio of companies with preference shares rose by 35 per cent when International Accounting Standard (IAS) 32 was adopted; over two-thirds of those companies affected either chose to buy back the shares or alter the specifications of the shares to allow them to qualify as equity. Thus, the implementation of IAS 32 Financial Instruments might motivate companies to reorganise their capital structure in a way that better suits them.

To date, much of the existing IFRS research has been based on: simulations of what might happen to company financial statements (Kasanen *et al.*, 1992; Teodori and Veneziani, 2005), anecdotal evidence from the experiences of a few early UK adopters (Accountancy Age, 2004; Financial Times, 2005), consultancy reports by firms advising companies on preparation for the change (PriceWaterhouseCoopers, 2004), empirical surveys of the practices or experiences of early adopters in other European countries (Larson and Street, 2004; Ortiz, 2005) and the empirical findings of studies prior to the adoption of IFRS that predict the possible changes that might take place (Fearnley *et al.*, 2007). Callao *et al.* (2009) provide a succinct summary of the extant literature that considers IFRS adoption from both a quantitative and qualitative point of view. This research extends the extant literature by examining the costs and benefits of IFRS adoption from the perceptions of two key stakeholder groups, first, an Anglo-Saxon group as represented by the UK and Ireland and second, continental Europe as represented by Italy.

3. Research method

A variety of corporate stakeholders from the UK, Ireland and Italy were interviewed in a series of 32 semi-structured interviews between January 2006 and May 2007. Table I summarises the 32 interviewees that participated in this study. Panel A describes the UK and Irish interviewees and Panel B the Italian participants. Each interviewee was given a code and these codes are used extensively in the results section of this paper

The topics selected for discussion during the interviews were informed by a review of the literature and related to the interviewees' perceptions of: the IFRS implementation process, the costs of IFRS implementation and any associated benefits. The interviews lasted for about one hour and were semi-structured; thus there was some flexibility for the interviewees to explore topics of interest. The UK and Ireland interviews were digitally recorded and fully transcribed. The Italian interviews were carried out in Italian by an Italian academic researcher. They were also digitally recorded, fully transcribed and translated into English. The results of the interviews were then analysed manually on a grid where each question was allocated its own row and each interviewee his/her own column. The interviewee's answer to each question was summarised and noted in the relevant cell and interesting quotations were also noted at that point. This process facilitated an overall impression of the views of the interviewees and also the two national stakeholders on a variety of issues. During the analysis, the interviewees from the UK and Ireland were categorised as one stakeholder group in the international standard-setting process because, as Section 1 discusses, the social, economic and political backgrounds of these two countries are very similar; the interviewees associated with both of these countries are hereafter referred to as the UK stakeholders. Section 1 also demonstrates that the Italian culture is very different from that of the UK and Ireland, and consequently, the Italian interviewees were treated as a separate stakeholder group, thus the analysis seeks to understand the points of view of the national stakeholders who were directly involved in the IFRS implementation process.

4. Results

4.1 The perceived costs of IFRS implementation – UK vs Italy

The interviewees considered that the IFRS implementation process was costly in both the UK and Italy, although there was considerable variation across companies. For example, in one Irish company, no changes at all had resulted from IFRS implementation and so no IFRS transition costs were incurred. However, in other firms, IFRS necessitated alterations to many systems and processes resulting in significant IFRS transition costs. These costs depended on the nationality of the company, its size and its sector; for example, in the UK interviewees quoted IFRS costs of

Code	Role	Sector	Firm listing/other
Panel A			
UK- and Ireland-based interviewees			
UK1P	Accounts preparer	Consumer goods	FTSE 100
UK2P	Accounts preparer	Industrials	FTSE 100
UK3P	Accounts preparer	Technology	FTSE 250
UK4P	Accounts preparer	Financials	FTSE 100
UK5P	Accounts preparer	Financials	FTSE 100
UK6P	Accounts preparer	Financials	FTSE 100
UK7P	Accounts preparer	Utilities	FTSE 100
UK8P	Accounts preparer	Consumer goods	FTSE 250
UK9P	Accounts preparer	Financials	FTSE 100
UK1R	Regulator	n/a	n/a
UK2R	Regulator	n/a	n/a
UK3R	Regulator	n/a	n/a
UK1U	Accounts user	n/a	n/a
UK2U	Accounts user	n/a	n/a
UK3U	Accounts user	n/a	n/a
UK1A	Auditor	n/a	Big 4
UK2A	Auditor	n/a	Big 4
UK3A	Auditor	n/a	Big 4
UK4A	Auditor	n/a	Group A (medium sized)
IR1P	Accounts preparer	Financials	Irish stock exchange
IR2P	Accounts preparer	Technology	NASDAQ
IR3P	Accounts preparer	Construction	Irish stock exchange
IR4P	Accounts preparer	Consumer goods	Irish stock exchange
IR5A	Auditor	n/a	Big 4
Panel B			
Italian-based interviewees			
IT1P	Accounts preparer	Media	Italian stock exchange (MIB30)
IT2P	Accounts preparer	Financials	Italian stock exchange (MIB30)
IT3P	Accounts preparer	Industrials	Italian stock exchange (MIB30)
IT4P	Accounts preparer	Financials	Italian stock exchange (MIB30)
IT5A	Auditor	n/a	Big 4
IT6U	Accounts user	n/a	n/a
IT7U	Accounts user	n/a	n/a
IT8R	Regulator	n/a	n/a

Notes: This table provides a description of the 32 interviewees for this study. n/a means not applicable because the interviewee was either a regulator or user; Monica Veneziani contributed to this paper with particular reference to Italy

Table I. Summary of interviewees

between £1 million and £50 million, in Ireland the cost varied from nil to €100 million, whereas in Italy the costs appeared to centre around €1 million/€1.4 million. Thus, the variation in cost was far more marked in the Anglo-Saxon domain than in Italy. This was somewhat surprising as Italian companies were expected to incur greater costs than in the UK, but the size and complexity of some of the companies may explain this finding as it was the banks that had by far the largest implementation costs. For example, interviewee IT4P affirmed:

> I don't know exactly how much we've spent but I'm sure that in terms of both external costs and costs for internal resources the overall figures are very high.

The interviewee IT1P commented:

> I estimate that the cost is below 1 million Euro and is attributable to: consulting of audit companies and other companies, implementation of the models connected with the IAS 39, auditing activity on first-time adoption, appraisals connected with application of the IAS 16 and the actuarial study for the IAS 19.

During the interviews, a common approach to IFRS implementation emerged amongst the interviewees in both countries. For example, many of the interviewees in both Italy and Ireland started their IFRS preparation in 2003. First, project managers or working groups developed a strategy paper outlining recommendations on IT, management systems, general ledger systems, group reporting systems, charts of accounts, bookkeeping and policies. For example, interviewee IT4P explained:

> The process began 3 years ago [2003] when a specific team was created for adoption of the IAS, consisting also of external consultants […] Gradually all the actions necessary for preparing the staff, revolutionising the organisational and administrative processes and the information system in all areas – Accounting, Finance, Planning and Credits – were put in place.

Next, all of the IAS, IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations were read in detail. The third stage in the process was dependent upon whether or not a standard was considered important to the company. If so, a document was often produced highlighting: the differences between the national GAAP and IFRS, the way to implement the necessary changes and the likely effect of IFRS on the financial statements and disclosures.

For example, interviewee IT1P affirmed:

> [We did the] study of all the IAS and the diagnosis of specific company problems. Different work teams were set up, comprising a representative of the consolidated financial statement function; these teams had the job of identifying the specific problems connected with the various corporate functions (finance, management accounting, personnel management). At the end of the diagnosis phase the documents were collected with explanation of all the problems tackled […] Solutions to problems connected with adoption of the IAS were then carried out.

The fourth stage involved internal meetings to inform accountants in the group, regardless of their location around the world, about the new standards and policies and to involve the audit committee. In particular, it was necessary to identify the information that would now require to be gathered in order to produce consolidated IFRS reports. The increased data collection requirements meant the re-design of some systems and the creation of spreadsheets to analyse the vast quantity of information being received at head office. For example, interviewee IR1P commented:

> […] some of it will be systems replacement which were eventually going to be replaced at some stage […] It caused an awful lot of grief, in terms of a lot of hard work and hours to effect a full consolidation. A lot of work with the audit committee in terms of bringing them through the accounting policies, the changes in accounting policies, being happy that they understood what the differences were and things like that.

The huge increase of information to be gathered and to be managed was noted by interviewee IT4P:

> […] our company chose to maintain an IAS/Italy "two-tier system" for the whole of 2005 because the budget was based on the old [national] standards.

The use of the two-tier system for the transition period was confirmed by IT2P also.

The fifth, and final, stage of the implementation process was to re-state the opening IFRS accounting position and to quantify the changes from national GAAP. Interviewee UK6P recalled that her organisation had a "conversion" weekend when adjustments, in excess of ł6 trillion, were posted over a two-day period.

In analysing the IFRS conversion costs, some of the interviewees conceded that a proportion of the expense was likely to be one-off and would not recur, but also maintained that there were additional unquantifiable costs. One national difference that emerged from the interview process was the consultation that occurred between internal and external corporate stakeholders (for example, management and regulators); in the Anglo-Saxon domain this was a time consuming activity, but in Italy it rarely happened. For example, a UK interviewee (IR1P) explained how his staff had:

> [...] spent a lot of time with the regulators as well, particularly around trying to explain the impact of the new accounting so we would have spent quite detailed sessions with IFSRA [Irish Financial Services Regulatory Authority] [...] [We had] the same approach with the Revenue. We wanted to make sure that they understood fully what was actually happening from an IFRS perspective, so that they didn't just take a perspective and say – there's income, let's tax it. [A similar strategy was taken] [...] with the regulator.

The Italian interviewees, with the exception of the banks, appeared to have consulted only with their auditors:

> We consulted with our auditing company, above all in the phase of introduction of the IAS into the company [...] (IT1P).

> Of course, we consulted with the auditing company [...] which agreed with all the decisions taken [...] (IT3P).

However, one Italian banking interviewee, IT4P, also described how his company had consulted more widely by noting he had:

> [...] meetings with the IR [Investor Relator], [...] with rating companies, [...] with the Bank of Italy and with ABI [Italian Banking Association]. We also met with CONSOB [Commissione Nazionale Società e Borsa – Italian Security Exchange Commission] [...] to discuss the various solutions to be adopted to apply IAS correctly. We also consulted constantly with the auditing company to seek approval.

In consulting with external parties, some UK companies approached IFRIC for guidance and appealed to the IASB to clarify the treatment of certain transactions or to change current standards, and trade bodies were particularly involved in certain sectors. For example, the banking industry notably lobbied the standard setters over IAS 39 Financial Instruments but the interviewees usually referred to the French as being the most active in this area, reflecting a national bias in addition to the scope of this paper. The banking industry was involved to a great extent with the International Securities Dealers Association (ISDA), the British Bankers Association (BBA), Irish Financial Services Regulatory Authority (IFRSA), HM Revenue & Customs (HMRC), the Financial Services Authority (FSA) and the London Bankers Association (LBA) all taking part in the implementation process. In the UK the Central Bank was also involved (UK5P). Intensive consultation was required because these accounting changes also often affected the regulatory capital reserves requirements for some banks and required large changes to systems and processes. Interviewee IT4P highlighted the wider consultation associated with the Italian banks:

> […] We consulted with the ABI (Italian Banking Association) to be sure we were interpreting the standards univocally […] We also consulted the guides published by the ABI, our trade association.

Interviewee UK1R noted that the IASB itself had consulted widely with organisations including the European round table, the 100 group in the UK, the 100 group in Australia, groups of analysts and the International Organization of Securities Commissions (IOSCO). Interviewee UK2R focused more on consulting with local constituencies, such as the Confederation of British Industry (CBI) and some utility companies experienced regulatory problems as ratios of reserves to cash are monitored in the UK (UK5P). In addition, some of the UK interviewees had consulted trade unions, especially regarding matters such as pensions and stock options. In one Italian case, the credit rating agencies were contacted about the approach to various transactions (IT4P). Thus, from a country perspective, it appeared from the interview sample that the Italians consulted and discussed IFRS far less; the Anglo-Saxon market approach brought out the need to consult widely, especially with investors, whilst Italians worried about audit certification and debt issues and thus referred to auditors and credit agencies. Consequently, there were some cultural differences in the consultation and implementation process.

From a proprietary information perspective, a UK regulator (UK3R) thought that proprietary information was perhaps of more concern to individual companies rather than groups:

> You can lose things quite cheerfully in a consolidated account […]. like provisioning […] you can say we have had legal cases and we made a provision to deal with n of X. If you are a small company and you've just got one case, your opposition says goody that's us, they are providing a million, so let's go for a million. Whereas, it's a big company, it's just lost.

However, the UK interviewees (such as IR4P, UK1P, UK2P and UK2A) were only concerned that certain standards might disclose more proprietary information than others; for example, IFRS 3 Business Combinations; IAS 36 Impairment of Assets, particularly in relation to goodwill impairments; IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and IAS 14 Segmental Information (now IFRS 8 Operating Segments). As expected, since prior to IFRS implementation UK GAAP was already closer to IFRS GAAP, the UK companies were far less likely to worry about disclosing additional proprietary information than Italian companies; Italian companies appeared worried more generally as interviewee IT1P, for example noted:

> IFRS exposes the company more than previously because there is more information, also very confidential information […] this favours the market and the analysts but puts the company at a disadvantage vis-à-vis competitors who do not apply the IAS […].

He (IT1P) also affirmed:

> We have also to consider the fact that the IAS are very invasive in the sense that they clearly impose the requirement to communicate more information of a more specific nature than previously, therefore disclosure is already clearly established by the standards. In other words I believe that the most important aspect connected with the IAS is not the numerical part; the real change lies in disclosure.

This is confirmed by interviewee IT4P:

> With the IAS it can be said that information on risk control has increased – this is a big change for many companies.

Most of the UK interviewees were used to looking for proprietary information in the accounts of their competitors; interviewee IR1P explained:

> Now you look at someone's annual report and say – oh – they've treated it that way. I hadn't read that into the standard. Now which of us is right? Which of us is wrong? (IR1P).

The Italian auditor (IT5A), however, described how preparers used high-profile companies, such as Unilever or Glaxo in the UK, for guidance on how to prepare IFRS reports rather than the annual reports of their competitors:

> [. . .] some of the first IAS-compliant documents published by the biggest Italian companies contained errors and these were repeated in the financial statements of the other smaller companies (IT5A).

The Italian participants were therefore concerned both about how to prepare market-based IFRS annual reports which was new to them and about any new proprietary information that they might give away.

The Italian interviewees also attributed more importance to IFRS disclosure than their UK counter-parts, for example:

> A good reputation at the level of disclosure undoubtedly benefits the company [. . .]. Our intention is to continuously improve our communication and transparency towards the outside (IT4P).

> [. . .] the aim [of our company] is to communicate a limited amount of information but information that is well-coordinated and of high quality. In addition, a type of communication has recently been developed which can be defined as second level, relating to the accounting data and more specifically concerning the management decisions and the creation of value. This information is aimed at the needs of the analysts and it is on this type of disclosure that our company is focusing; in fact, past experience has shown that communication of this information is beneficial (IT2P).

> Our aim is therefore to improve also the level of disclosure considering the requirements imposed by the new standards (IT1P).

The UK interviewees appeared to be more relaxed about the issue of IFRS disclosure. For example, interviewee UK2P suggested that good communication between a company and its analysts, using means other than the annual report, is often more important:

> [Our company] has a very good reputation within the investor and analyst community for being open and reporting things clearly [. . .] [and] I guess, they see [how] management are performing [. . .] there's less likely to be surprises (UK2P).

Further, UK1P explained that the reputation associated with good financial reporting was much more important when brands became associated with a company's name. When a company has many brands that differ from the company's name, there is less risk of reputational damage affecting the business, but when stakeholders associate a brand name with the name of the company, the risk to reputation is much greater.

All of the Italian interviewees agreed that poor IFRS disclosure sent a bad signal to the market, and that good IFRS disclosure enhanced a company's reputation. Thus, market-based financial statements, prepared primarily for decision usefulness and shareholders, became the priority for these Italian companies, both for market signalling and reputation purposes; the Italian interviewees seemed far more concerned about the signalling potential of the information contained in their annual reports and how this would be affected by IFRS. As they became concerned about maintaining their reputation through good disclosure they began to spend a lot of time analysing the disclosures of other companies (not necessarily competitors) and consulting with their auditors over IFRS disclosures. For example, interviewee IT3P affirmed:

> With the auditors we tried to ensure agreement on all aspects (IT3P).

Interviewee IT1P commented about competitors:

> Comparing the consolidated financial statements of other European competitors, we also noted that not all of the information we considered to be required by IFRS on strategic issues was communicated; for example, it is not always specified to which CGU the goodwill had been allocated.

When considering whether any of the costs of IFRS implementation had been passed on to shareholders, several Italian interviewees did not believe this to be the case; this view contrasts with that of the UK interviewees, who acknowledged that these costs had been expensed in the income statement, ultimately reducing cash flows and consequently the distributable reserves available to shareholders. Interviewee UK3P argued that, although the transfer of IFRS costs had not been explicit, his company had not paid a dividend in the year of conversion, inferring that IFRS conversion costs had contributed towards that decision. Some UK interviewees also described some hidden costs of IFRS implementation; for example, the extra time and effort that they had personally expended had not been remunerated *per se* by their employers and that they had personally borne the additional costs of IFRS implementation, not the shareholders. Nevertheless, the shareholder focus of the UK interviewees dominated and the Italian interviewees did not consider who had borne the IFRS implementation costs at the end of the day.

4.2 The perceived benefits of IFRS implementation – UK vs Italy

When examining the benefits of IFRS implementation, the views of the UK and Italian interviewees were much more aligned with a broad cross-section of views concerning the usefulness of using IFRS reports. Most of the interviewees agreed that the benefits of IFRS implementation were nebulous and that greater transparency, comparability and uniformity, would only materialise in the medium to long-term future. For example, UK2A noted that there was too much choice available to preparers in international standards and that such choice hampered comparisons:

> The problem is that IFRS doesn't tell you what you can't do and therefore you can pretty much do anything […] the problem is consistency […] even within industry it's all over the place […] so we no longer [even] have a lot of the strictures and rigours around presentation of the profit and loss account and balance sheet.

A UK auditor (UK1A) agreed, stating:

> We've analysed the FTSE 100 income statements and broadly could barely find two that looked the same.

Interviewee UK1P suggested that any immediate opportunity to achieve these benefits was at present "thwarted" by the number of options contained in IFRS. Indeed, preparer UK6P asserted that comparability would never be achieved while globally operating companies were required to satisfy the demands of both the IASB and Financial Accounting Standards Board (FASB) in the USA.

One of the pro-IFRS adoption arguments made by the regulators who participated in the interviews, was that it would reduce the cost of capital for a company; whilst some of the UK interviewees were unsure if the cost of capital had been lowered as a result of the implementation of IFRS, other UK interviewees and most of the Italian interviewees did not believe this to be the case. Interviewee UK1P explained:

> [...] the economics of the business do not change one iota if the accounting standards change and therefore our ability to raise debt or anything else should not change. So long as people understand what the numbers are and what's happening in the accounts; even if they don't [understand] [...] they ask, you know, [if] the banker wants to know something [...] [we] tell him. [Disclosure] should make no difference.

Similarly, interviewees IT3P and IT4P explained how new disclosures made under IFRS should make no difference to the cost of capital because they did not think that the cost of capital depended on disclosure.

In contrast, interviewee UK3P explained that some credit rating agencies had made adjustments to their grading formulae and interviewee UK5P commented that, if a company's credit rating was altered as a result of revised accounting policies, then there was bound to be some impact on its cost of capital. This sentiment was echoed by UK5P who commented on credit rating agencies such as Moodys and Standard and Poors as follows:

> Their rating criteria is dependent on your market discipline and they define market discipline just like how transparent are you, how good is the perception on your financial statements, how good is your corporate governance, so it will affect your rating, it will affect your stock price, it will affect the interest rate that you can get if you want to go and borrow in the market.

The Italian interviewee (IT4P) affirmed that:

> I don't believe [the cost of the capital] depends on disclosure but on the communication of positive performances.

Interestingly, all of the UK and Italian regulator interviewees believed that IFRS had reduced the cost of capital for companies; this is perhaps not surprising given that IFRS was sold by regulators on that basis. Thus, national stakeholder differences over this particular issue were not apparent and the interviewees who were not regulators appeared not to have bought in to the argument for IFRS – a reduction in the cost of capital.

If a company's cost of capital changes, companies may seek to change their capital structure, especially if the impact of IFRS is not spread evenly between the cost of debt and equity. However, none of the Italian interviewees believed that IFRS had impacted on the capital structure of companies. Only one of the UK interviewees (UK8P) believed this to be the case and provided an interesting example, where the implementation of IAS 19 Employee Benefits, had adversely impacted on distributable profits; this in turn had prompted the company to initiate a capital reduction scheme and hence alter its capital structure. Interviewee UK8P commented:

> So that I guess [IFRS] has a knock on effect, we've had those reserves forever and a day and we couldn't distribute them, we then find ourselves in a position of, having brought the pension deficit onto the balance sheet, that we were about that away from having undistributable reserves and therefore it was an appropriate thing to do [...] The thought of not being able to pay a dividend and the impact that would have on share price was quite significant.

Many of the UK interviewees believed that tax had been unaffected by IFRS implementation and the opinion of the Italian interviewees was more evenly split. This situation was due to the Italian government's intention to introduce a new tax regime considering the effects of IFRS. Thus, this situation caused uncertainty among Italian companies at that time. In this regard IT3P affirmed:

> As regards the parent company's financial statement required to be IFRS-compliant in 2006, we will have to wait and see, as the tax laws in Italy have not yet been updated.

The same was confirmed by IT2P and IT4P.

With respect to any impact on the share price of IFRS adopting companies, none of the Italian interviewees, and only two of the UK interviewees, believed that there had been any increase in share prices as a result of IFRS implementation. For example, interviewee UK2P commented:

> […] I can't say that [IFRS disclosure] directly relates to a higher share price but, indirectly, it must help (UK2P).

The majority of UK interviewees believed that investment, dividend and finance decisions had not been affected by the implementation of IFRS, however, those that did believe this to be the case provided interesting examples. For instance, interviewee IR1P's company had been considering the purchase of a small business but, on the implementation of IFRS, the accounting numbers did not look nearly as positive as they had done under national GAAP and so the deal did not go through – this was despite the fact that the underlying economics of that particular business deal had not changed. A slightly higher proportion of the Italian interviewees believed that business decisions had been affected by IFRS implementation; for example, IT2P explained how his company's investment in financial instruments had been affected by the implementation of IFRS:

> […] because IAS disclosure in financial instruments is much more stringent […] in order to avoid problems, we have invested only in financial instruments for which we are able to be compliant with the IAS requirements.

Similarly, interviewee IT4P suggested that there had been an impact on dividend policy because Italian law "[…] imposed new limits on the distribution of profits due to the introduction of fair value". However, interviewee IT3P explained that:

> With the lack of amortisation on goodwill, net income has grown and this would have involved payment of a higher dividend. However, we decided to calculate the dividend as if the goodwill were still amortised.

Further, the Italian interviewees felt that the increased comparability of annual reports would also change and allow better informed investment decisions to be made. Interviewee IT4P thought that reporting under IFRS would enhance the value-creation disclosures in comparison to those that were previously required in Italy and interviewee IT3P referred to specific standards, such as IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IAS 14 Segmental Reporting, as improving a user's ability to assess a company's performance because they reduced accounting subjectivity. Another Italian (IT1P) claimed that IAS 36 Impairment of Assets and IFRS 3 Business Combinations, provided users with more information that was previously only made available to analysts during company presentations. Overall, however, the benefits of adopting IFRS seemed to be similar in both Italy and the UK.

5. Conclusion

These results provide evidence that the experiences of the UK and Italian national stakeholders in the IFRS implementation process differed. Although the IFRS implementation processes adopted by many of the UK and Italian companies appeared to be quite similar, the costs of implementation were not equal. The UK interviewees had incurred far more costs in consulting widely and engaging with the IASB, IFRIC and various trade associations. This may be because the UK and Irish were far more familiar with the conceptual framework of IFRS and therefore felt confident in arguing with standard setters and in making representations to trade associations, such as the banking fraternity, about controversial standards that may have put them at a disadvantage. Alternatively, it would appear that the Italians spent more time and money on understanding the principles of IFRS and assessing how it would affect them. They often looked to their auditors, mainly the Big 4, for advice assuming that the Big 4 already understood the IFRS intricacies because of their regular communication with their international technical offices.

The UK and Irish interviewees were also less worried than their Italian counterparts about the disclosure of proprietary information. Although the Italian interviewees believed that Italian companies had to make a greater conceptual shift in the implementation of IFRS than the UK stakeholders, they believed that the reputation and signalling effects of IFRS were worth it.

Overall, this research finds evidence that the implementation of international standards varies from country to country which impacts directly on the political process of standard-setting making it more cumbersome and onerous than at a national level. The IASB has to recognise that individual countries have a unique stakeholder perspective which may make standards more difficult to understand or to adjust to than in other countries. Thus, standard setters need to be aware of the costs and benefits of the standards that they set (and support) from a country by country perspective.

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