

An examination and assessment of mandatory financial instruments disclosures

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Abstract

This study has investigated mandatory disclosure requirements of financial instruments. A first-time adoption compliance review has been undertaken for the FTSE 100 non-financial IFRS 7 compliant firms. In contrast to prior studies, the results reveal that disclosure levels were high, and in some cases firms produce more disclosure than mandatorily required. As recent reviews of disclosure have shown, extant research lacks a coherent definition of quality that links to the original motivations for financial reporting. An argument has been built for adopting compliance levels as an appropriate proxy for the quality of disclosure. This study tests this definition via key stakeholders' views both *ex-ante* and *ex-post*. A combination of content analysis of comment letters, survey data and semi-structured interviews was adopted. Though there is some evidence to the contrary, by and large, it seems that this definition of quality carries a level of integrity. Following this, a determinants study was undertaken investigating what factors drove the quality and quantity of these disclosures. It was found that higher levels of visibility (news stories versus analysts following), a share issue during the year and a higher volume of derivative assets held were statistically significant to quality. Those determinants significant to quantity were lower levels of managerial ownership and higher levels of news stories versus analyst following. However, of greater interest was the finding that the determinants of the quantity of disclosures were different to quality – and often in opposition. Thus, for the first time in a mandatory reporting environment, the findings cast doubt over the appropriateness of researchers adopting quantity as a proxy for quality. Finally, prior literature has shown that accounting standards requirements can be biased towards certain user groups as a result of the lobbying process. If this was the case for IFRS 7 then the compliance results presented could be unfairly skewed as proposals might be adopted to benefit those stronger lobbyists. It is pleasing to note that this study found that the IASB appears to have approached all groups' responses fairly and appropriately. However, it should be noted that the evidence suggests that if the geographical origin of a response was from either the UK or from outside of the remaining countries of Europe and the US there was a significantly lower chance of the proposed amendment(s) being accepted. This study contributes to the literature by presenting results from a first full review of financial instruments reporting under IFRS 7, and by providing evidence that full, partial, non- and over-compliance are most likely explained by legitimacy

theory, impression management and proprietary costs theory. In addition, this is the first study to review key stakeholders' attitudes towards the financial instruments reporting requirements, thus helping to justify using the level of compliance as an appropriate measure of quality, whilst providing a cautionary conclusion about the possible inappropriateness of adopting quantity as a proxy.

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