New Zealand Operating Expense Disclosure:
The Impact of International Financial Reporting Standards on Early Adopters

by

Vanessa Balshaw* **and David Lont****

Comments welcome:

18 August 2009

Keywords: Expense Disclosure, International Financial Reporting Standards, NZ IFRS.

JEL Classification: K22, M41, M42, M48, N27.

* Honours graduate, School of Business, University of Otago, Dunedin.
** Associate Professor, School of Business, University of Otago, Dunedin, (david.lont@otago.ac.nz).

We wish to thank Garry Heaton, Alan MacGregor, Grant Samkin, and Ros Whiting for comments on earlier versions of this paper. The views expressed in this paper are those of the authors and all errors are our responsibility.
Corresponding author, David H. Lont, School of Business, University of Otago, Box 56, Dunedin, New Zealand, 9054. Tel +64 3 479 8119, Fax +64 3 479 8171.

New Zealand Operating Expense Disclosure:

The Impact of International Financial Reporting Standards on Early Adopters

Purpose – This purpose of this paper is to examine compliance with operating expense disclosure provisions contained in New Zealand approved accounting standards before and after the move to New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Prior research [Lont 2002] showed poor disclosure practices and we seek to determine if this has improved under international accounting standards for those who choose to adopt NZ IFRS prior to mandatory adoption.

Design/methodology/approach – We use an empirical archival approach. While our sample size of early adopters is small, it does provide us with the unique ability to control for any temporal effects on disclosure practices.

Findings – We find full compliance with operating expenses that are mandated such as depreciation, directors and auditor fees under both NZ Financial Reporting Standards (NZ FRS) and NZ IFRS. However, unspecified operating expense disclosures are still poor for those using NZ FRS.

We also find a substantial improvement in unspecified disclosure levels for those companies using the New Zealand Equivalent to International Accounting Standard 1 (NZ IAS 1). However, our results also show areas of concern, for example, 14% of listed companies using NZ IAS 1 did not disclose any unspecified expense items and 27% of listed companies disclosed only one item.

Practical Implications – Our results should be of relevance to preparers, analysts and regulators. Our preliminary results were provided to the New Zealand Securities Commission which led it to issuing a statement expressing concern with such behaviour.

Originality/value –Adequate disclosure is considered a crucial element to help ensure efficient capital markets. The paper provides empirical insights into operating expense disclosure based on the requirements and wording contained within NZ FRS and NZ IFRS.

.

1. Introduction

We seek to identify if the move to international accounting standards, which requires more specific expense disclosure, positively impacts on the disclosure levels of New Zealand (NZ) listed companies. Accounting regulation has the potential to reduce processing costs by providing a set of standards accepted by investors (Healey and Palepu, 2001). However accounting standards often permit discretion which creates variation in the observed level of disclosure. While NZ compliance with mandated items is typically good, companies have a poor history of complying with the general requirement to disclose operating expenses under New Zealand's Statement of Standard Accounting Practice 9 (SSAP 9) and its immediate replacement, Financial Reporting Standard 9, Information to be Disclosed in Financial Statements (NZ FRS *9).* [1] For example, 64% of companies ignored operating expense disclosure requirements altogether (Lont, 2002).

On 19 December 2002 the Accounting Standards Review Board (ASRB) announced that NZ international financial reporting standards (NZ IFRS) would apply to public issuers for accounting periods beginning on or after 1 January 2007, with the option of early adoption for accounting periods beginning on or after 1 January 2005. Upon adoption of NZ IFRS, operating expense disclosures are primarily determined by the NZ IAS 1, Presentation of Financial Statements. This supersedes NZ FRS 9, and, while still primarily principles based, states that operating expenses are to be disclosed by either their function or nature, with more specific guidance to comply with each method. While we expected improved disclosure levels, it may be that present practice will still be adversely affected by the poor practice of the past.

The objectives of this study are to (i) document the operating expense disclosure of New Zealand listed companies before and after the adoption of NZ IFRS, (ii) determine whether listed companies comply with the mandated items as outlined by NZ FRS 9 and NZ IAS 1, (iii) detail the nature and level of unspecified operating expense disclosures under NZ FRS 9 and NZ IAS 1 to investigate whether the move to NZ IFRS has increased the disclosure level, and (iv) examine firm characteristics that may influence disclosure levels. Finally, we are interested in whether the wording of NZ IAS 1 influences expense disclosure levels.

Consistent with our priors, we find full compliance with mandated items under NZ FRS 9 and NZ IAS 1. While disclosure levels have improved, 14% of listed companies using NZ IFRS still do not provide any disclosure of unspecified expense items and 27% of listed companies disclose only one item.

Our findings should be useful to investors, auditors and regulators as disclosure levels may act as a signal about the willingness of management to keep stakeholders informed. The New Zealand Securities Commission's (NZSC) surveillance programme considers compliance with accounting standards. While the Commission had not previously publicly commented on this specific issue prior to our study, we provided the Commission with our preliminary results. After its own analysis, it expressed public concern in its cycle 7 report (NZSC 2008, para 92-99). One of the objectives of IFRS is to ensure high quality, internationally comparable financial reports, however, inconsistently applied standards threaten this ideal. Our results suggest ongoing monitoring is required to ensure compliance.

We organize the remainder of the paper as follows. The next section provides a brief literature review and outlines relevant sections of applicable accounting standards. Section 3 outlines the data and method. Section 4 provides descriptive analyses of the level and the change in operating expense disclosures, while section 5 discusses the major findings and conclusions.

2. ***Background***

Demand for financial report disclosures arises from a perceived need to reduce information asymmetry between the firm and outside investors [Healy & Palepu, 2001, Jensen & Meckling, 1976, Botosan & Plumlee, 2002] . Although no comprehensive theory of financial disclosure exists[2], increased disclosure is argued to improve the adverse selection problem, market efficiency and achieve a lower cost of capital [Dhaliwai 1979, Verrecchia 2001, Dye 2001, Francis et al 2005]. However, economic incentives also exist to withhold information; for example, companies may wish to protect proprietary costs to exploit economic advantage (Dye 1985).

Gibbins *et al* (1990) finds that while disclosure discretion exists, it is constrained by the firm's dependence on capital and other factor markets, product market opportunities, and disclosure regulations. They argue industry norms and corporate networks may also influence disclosure outputs.

Principles based accounting standards, generally advocated outside of the USA (including in New Zealand), are claimed to be superior due to the undesirability and inappropriateness of the “check-box” mentality of rules based standards [Schipper, 2003, p. 61]. However, principles based disclosures are more subjective and thus harder to regulate and enforce. Different interpretation of “true and fair” [Kirk 2006] and materiality judgements could also lead to variation in disclosure levels.

There are also systematic reasons why companies voluntarily disclose information. For example, to reduce agency costs, larger companies with higher political costs could increase disclosure [Watts and Zimmerman 1978]. Company characteristics that impact on the quantity and quality of information released include size and industry [Buzby 1975, Ahmed & Courtis 1999]. Bradbury (1992) finds that larger NZ companies disclose more unspecified financial information than smaller companies. Industry can also influence disclosure practices due to shared political risks and exposure to industry “herd” behaviour [Dye & Sridhar 1995, p. 157].

The disaggregation of the profit and loss account allows the identification of specific drivers of revenues and expenses. Survey evidence suggests strong demand for such disclosures [Rosenfield 1994, Schipper 2007], however operating expense disclosures still appear inadequate under current global IFRS rules [PwC, 2007a, p. 5]. Prior research suggests NZ unspecified operating expense disclosure levels are low. For example, cost of sales, commonly disclosed in the United Kingdom and the United States, was only disclosed on average by 6.9% of NZ companies under NZ FRS 9 between 1995 and 1999 [Lont 2002]. Lont (2002) also reported that 64% of companies do not disclose any unspecified operating expenses, with a further 18% disclosing only one item, and argued this was inadequate and a violation of NZ FRS 9.

The statutory requirement to comply with IFRS under the Financial Reporting Act 1993 (and Financial Reporting Amendment Act 2006) as well as the move to NZ IFRS is likely to prompt NZ companies to reform their disclosure practices to be more consistent with international practice. For example, for Austrian, German and Swiss companies “disclosure quality has increased significantly under IFRS” [Daske & Gebhardt 2006, p. 461] . However, it is also possible past poor practices will continue to impact on disclosure behaviour. The PwC (2007b) European IFRS study shows that “former national practices for including and presenting information on the face of the income statement – such as using additional columns and boxes – have been retained."

We also expect unspecified operating expense disclosure to be higher under NZ IAS 1 because of the increased guidance provided. For example, while NZ FRS 9 section 6.10 requires the separate disclosure of items of operating expense "if separate disclosure is necessary to achieve the objectives of general purpose financial reporting", NZ IAS 1 paragraph 88[3] states that "an entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity…". NZ IAS 1 paragraph 83 further requires that "additional line items, headings and subtotals shall be presented…when such presentation is relevant to an understanding of the entity's financial performance". Furthermore, "when items of income and expense are material, their nature and amount shall be disclosed separately". Fair presentation requires the additional disclosure of items when NZ IFRS compliance alone is "insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance" [NZ IAS 1 paragraph 17(c)].

NZ IAS 1 paragraph 93 requires that "entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense". Whereas NZ IAS 16 paragraph 73(vii) and NZ IAS 38 paragraph 118(d) mandate depreciation and amortisation expense respectively, NZ IAS 1 paragraph 93 technically only mandates employee benefits expense for those choosing to adopt the function method. Despite this, NZ IAS 19 paragraph 23 states that "NZ IAS 1… requires disclosure of employee benefits expense", implying the mandatory disclosure for all listed companies. Regardless of discrepancies in NZ IAS 1, the model NZ IFRS financial statements produced by both KPMG and Deloitte include this item.

NZ IAS 1 paragraph 93 is also unclear if the "additional information" requirement is satisfied by (i.e limited to) other mandated expenses under the nature method, for example interest expense (NZ IAS 23) or tax expense (NZ IAS 12), or whether further items are needed.

NZ IAS 1 paragraph 91 details disclosures under the nature of expense method. Initially, a number of unspecified expense examples are given: 'purchases of materials', 'transport costs' and 'advertising costs'. The example template includes 'changes in inventories of finished goods and WIP', and 'raw materials and consumables used' and is reproduced in figure 1.

Figure 1: NZ IAS paragraph 91, Example classification for Nature method

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		X
Profit		X

NZ IAS 1 paragraph 92 outlines the function of expense or cost of sales method of expense and states that at a minimum cost of sales is separated from other expenses. Example expenses include 'distribution costs' and 'administrative expenses' with the suggested template shown in figure 2.

Figure 2: NZ IAS 1 paragraph 92, Example classification for Function method

Revenue	X
Cost of sales	X
Gross profit	X
Other income	X
Distribution costs	X
Administrative expenses	X
Other expenses	X
Profit	X

NZ IAS 2 paragraph 36(d) requires "the amount of inventories recognised as an expense during the period", which may interact with the disclosure of cost of sales.

In summary, the operating expense provisions in NZ IAS 1 are more prescriptive than those under NZ FRS 9 but still allow scope for judgement. While we also highlight some interpretation issues, on balance we believe greater disclosure will occur. Furthermore, the influence of the Australian, UK and European company disclosures, that also use IFRS, is likely to encourage NZ companies and auditors to follow international practice more closely.

3. Sample, Data Collection and Method

We collected operating expense information from annual reports for fiscal years ended from 2002 to June 2007.

From an initial sample of 153 listed companies, we excluded 12 companies because they were either trusts or funds. We excluded five companies that concurrently comply with overseas reporting requirements and five companies due to data unavailability. Our final sample of 131 companies consisted of a maximum of 94 companies reporting under NZ FRS 9 and 37 companies that adopted NZ IFRS.

We collected the following mandated and unspecified items:

NZ FRS and NZ IFRS Mandated Items

(1) depreciation (FRS 3, IAS 1 paragraph 73(vii))

(2) audit fees (Companies Act (1993) s211(1)(j), FRS 9 section 6(13), NZ IAS 1 paragraph 94(1)(a)(i))

(3) directors' fees (Companies Act (1993) s211(1)(f): requires the total of directors remuneration and other benefits, FRS 9 section 6(13), NZ IAS 24 paragraph 16)

NZ IFRS mandated or suggested:

(4) employee benefits,

Function method:

(5) cost of sales (mandated),

(6) distribution,

(7) administration,

Nature method:

(8) purchases of materials

(9) transport costs

(10) advertising costs

(11) changes in inventories of finished goods and WIP (or similar)

(12) raw materials & consumables used

and

(13) the count for any other unspecified expense disclosures not specified in other IAS.

We also collected total assets (2005 only), auditor, and industry sector information.

We coded each expense item as one, if they were either in the statement of financial performance or in the notes to the financial statements, otherwise zero. Total unspecified expense disclosures are the sum of item (4) through to (13), excluding mandated items: e.g. (4) and (5) under the NZ IAS 1 function method.

We counted as one item employee benefits and employee wage and salary expenses when determining item 4 (NZ IAS 1 paragraph.93, NZ IAS 19 paragraph 10b and NZ IAS 24).

We deemed the disclosure of cost of sales to indicate the use of the function of expense method because this is the only clear indicator of the use of this method, however items such as distribution and administration fell within either method (the lack of cost of sales disclosure would mean they were in breach of the function of expense method requirements if we deemed them to be using that method).

When an administration expense (item 7) was reported in the financial statements as administration, administration and other, administration and general, or such like, then an administration expense disclosure was recognised. We excluded this recognition when the field acted as a catch-all category.

Operating lease expense classification, mandated under both NZ FRS and NZ IFRS, were often classified as either occupancy costs or rent, and therefore we count this item as an unspecified expense only when it is not an operating lease.

We relied on descriptive statistics and univariate analysis to answer our research questions as our sample size of IFRS adopters is insufficient to specify a linear model.

4. *Results and Analyses*

Table 1 reports descriptive statistics and shows that 94 listed companies reported under NZ FRS and 37 listed companies adopted NZ IFRS. Our results show larger listed companies were more likely to adopt NZ IFRS early. It is possible that some external factor, perhaps unrelated to IFRS adoption, causes all listed companies to improve disclosure levels. It is also possible that listed companies improve disclosure levels prior to their NZ IFRS adoption. If this was so, we would expect to find an increase in the level of disclosure over time for those still using NZ FRS. However, table 1 shows little change in disclosure levels for those companies that continued with NZ FRS. For example, the median number of unspecified operating items disclosed remains zero for all three years (2004-2006).[4] An ANOVA confirms no significant differences between years. This gives us confidence that there is no general temporal effect that could affect our NZ FRS results.

Disclosure levels prior to NZ IFRS adoption are found to be similar to those reported by those companies that continue to use NZ FRS. However, a significant increase in the number of items disclosed is observed for the first year of adoption, with a median of three items disclosed, compared to none prior to NZ IFRS adoption. A paired sample t-test confirms the result at the 0.1% level of significance and we conclude that the introduction of NZ IFRS, on average, has improved unspecified operating expense disclosure levels. Note also that the mean disclosure for those using the nature method is higher than the function method. Recall, that more expense were outlined in IAS under the nature method compared to the function method.

Table 1: Unspecified Operating Expenses Disclosed under NZ FRS and NZ IFRS

	Total Assets ($NZ 000) 2005		NZ FRS (non adopters)			NZ FRS	NZ FRS	NZ IAS 1	NZ IAS 1	NZ IAS 1
	NZ FRS	NZ IFRS	2004	2005	2006	Two years prior to adoption	One year prior to adoption	Year of adoption	Year of adoption by function	Year of adoption by nature
N	94	37	86	94	92	37	37	37	21	16
Mean	376,986	848,884	0.51	0.48	0.73	0.68	0.84	2.97	2.57	3.50
Std Deviation	933,196	1,636,452	1.08	1.03	1.74	1.40	1.92	2.32	2.20	2.42
25th Quartile	12,970	22,834	0	0	0	0	0	1	1	1
Median	49,127	172,391	0	0	0	0	0	3	2	4
75th Quartile	254,194	678,569	1	1	1	1	1	4.5	4	5

Table 2 shows full compliance with the two newly mandated items under NZ IAS 1 (employee benefits and cost of sales). Earlier, we raised doubt as to whether employee benefits required disclosure for those applying the nature method. Under NZ FRS 9, only four companies voluntarily disclosed employee expenses however we find all 37 companies disclose this item which suggests this was deemed a mandated item (as implied in NZ IAS 19 paragraph 23). Of the 21 listed companies we deemed to be using the cost of sales method (or function of expense method), only four had previously disclosed this item under NZ FRS 9. We also find that all listed companies disclose depreciation, audit fees, and directors' fees, mandatory under both NZ FRS and NZ IFRS.

Table 2: Employee Benefits and Cost of Sales Disclosure

	Employee Benefits		Cost of Sales	Cost of Sales[5] NZ IFRS 1
	NZ FRS 9	NZ IAS 1	NZ FRS 9	Function
N	37	37	37	21
Disclosed	4	37	4	21
Undisclosed	33	0	33	NA

Table 3 provides a frequency distribution for unspecified operating expense disclosures under NZ FRS 9 and NZ IAS 1. First, our NZ FRS 9 results are show slightly lower disclosure levels than Lont (2002). For example, we find that between 69% to 73% of listed companies do not disclose any unspecified expenses under NZ FRS 9, compared to 64% reported by Lont (2002). While disclosure levels have substantially improved under NZ IAS 1, the median number of items disclosed is only three. Of more concern is that five listed companies (14% of our sample) did not disclose any unspecified operating expenses[5] and a further 10 companies disclosed only one items (27% of our sample).

Table 3: Unspecified Operating Expense Disclosure Count for NZ FRS and NZ IFRS

		Late adopters			IFRS Adopters							
		NZ FRS 9			NZ FRS 9		NZ FRS 9		NZ IAS 1		NZ IAS 1	
		Year			Two years prior to adoption		One year prior to Adoption		Year of Adoption		Year of Adoption By Function	Year of Adoption By Nature
	Count	2004	2005	2006								
N		86	94	92	37		37		37		21	16
Number of Unspecified Operating Expenses Disclosed	0	63	69	64	26	70.3%	26	70.3%	5	13.5%	4	1
	1	11	14	15	6	16.2%	6	16.2%	10	27.0%	5	5
	2	8	7	5	1	2.7%	1	2.7%	2	5.4%	2	0
	3	2	2	4	1	2.7%	0	0.0%	3	8.1%	2	1
	4	1	1	0	2	5.4%	2	5.4%	8	21.6%	5	3
	5	1	1	1	0	0.0%	0	0.0%	4	10.8%	1	3
	6	0	0	1	1	2.7%	1	2.7%	1	2.7%	1	0
	7	0	0	1	0	0.0%	0	0.0%	3	8.1%	0	3
	8				0	0.0%	0	0.0%	1	2.7%	1	0
	9				0	0.0%	1	2.7%	0	0.0%		
	12	0	0	1								
Median		0	0	0		0		0		3	2	4
Mean		0.51	0.48	0.73		0.68		0.84		2.97	2.57	3.50

Our sample limits our ability to consider the effects of listed company characteristics such as size, auditors or industry effects on disclosure levels. Furthermore, we acknowledge that we only analysed those listed companies that have adopted NZ IFRS prior to mandatory adoption, which on average were larger listed companies. Nevertheless we report descriptive results in Table 4. Panel A of Table 4 suggests that the smallest and the largest listed companies disclose the most unspecified operating expenses. Variation is also found between auditors (panel B), however we note the lack of observation for of unspecified disclosures all but KMPG and PricewaterhouseCoopers. Panel C shows that the choice of the function of expense or nature of expense method appears influenced by industry. For example, all six listed companies in the investment industry elected to use the function of expenses method. Size, auditor or industry were not significant in any general linear models we specified to explain differences in disclosure levels. Finally, panel D shows larger listed companies were more likely to use the nature of expense method.

Table 4: Unspecified Disclosure Count and Listed Company Characteristics, n=37

Panel A: Total Assets		NZ FRS 9				NZ IAS 1			
			25th		75th		25th		75th
	Count	Mean	Quartile	Median	Quartile	Mean	Quartile	Median	Quartile
Quartiles 1 (smallest)	9	1.22	0	0	1	3.33	1	3	5
2	9	0.22	0	0	0.5	2.11	0.5	1	4
3	10	0.20	0	0	0.25	1.90	1	1	4
4 (largest)	9	1.78	0	1	4	4.67	3	5	7
Panel B: Auditor									
Ernst Young	2	0.00	0	0	0	3.00	1	3	.
KPMG	13	1.31	0	0	1	3.46	1	4	5
PricewaterhouseCoopers	15	0.80	0	0	1	2.67	1	2	4
Deloitte	3	0.00	0	0	0	1.67	0	1	.
Other	4	0.50	0	0	1.5	3.50	1.5	3.5	5.5
						NZ IAS 1			
Panel C: Industry						Function of Expense			Nature of Expense
Finance & Other Services						1			4
Ports						0			3
Investment						6			0
Consumer						5			1
Media & Communications						1			3
Building						3			0
Other						5			5
Panel D: Assets ($000)									
Mean		361,870				1,488,091			
Median		134,735				961,111			

Table 5 details the disclosure levels of operating expense items examples specifically noted within NZ IAS 1. Administration and distribution expenses were the most commonly disclosed categories with much higher disclosure levels than those reported under NZ FRS 9. Note, several companies also disclosed these items under the nature method, which suggests greater clarification of the conceptual basis for each category may be beneficial.

There appears to be differences in disclosure levels for those reporting under the function or nature method, however we have insufficient observations to formally test this. It also appears expenses suggested in the standard did not necessarily prompt disclosure. For example, despite the specific mention of transport costs in NZ IAS 1 paragraph 91, no company disclosed this item. However, distribution and administration costs, suggested disclosures under the function method, were more commonly reported (33 percent and 44 percent of firms respectively).

Table 5: Unspecified Operating Expense Disclosures by Type, n=37

	NZ FRS 9		NZ IAS 1			
	Count	%	Function	Nature	Total	%
Distribution	0	0.0	9	1	10	27.0
Administration	2	5.4	12	4	16	43.2
Purchases of materials	1	2.7	0	2	2	5.4
Transport costs	0	0.0	0	0	0	0.0
Advertising costs	1	2.7	0	2	3	8.1
Changes in Inventories of Finished goods & WIP	0	0.0	0	2	2	5.4
Raw materials & Consumables used	0	0.0	0	2	2	5.4

5. *Discussion and Concluding Comments*

We find low levels of operating expense disclosure for those listed companies that continue to use NZ FRS. Overall, the introduction of NZ IFRS raised the level of operating expense disclosures through an increase in both mandated and unspecified items. However, disclosure for several companies still appear inadequate and this raises regulatory concerns.

We were also interested to see if the wording used in the standard influences disclosure levels. We find mixed evidence, with a number of listed companies reporting distribution and administrative costs as suggested in NZ IAS 1 paragraph 92, however no company disclosed transport costs suggested in NZ IAS 1 paragraph 91.

The New Zealand Securities Commission surveillance programme considers compliance by issuers with approved accounting standards. We shared our preliminary results with the Commissions. The Commission subsequently performed further numeric analysis for all of the issuers that it had reviewed, and noted concerns with its finding in its cycle 7 public report (New Zealand Securities Commission, 2008, paragraph 92-99) as follows.

> *The Commission is concerned to find in some financial statements an item "other expenses" (or similar) that represented a significant percentage of total expenses and "adjusted expenses" (total expenses excluding cost of sales), with no further information in the notes to explain the composition of the item. In many cases the amount of other expenses exceeded the amounts of other separately disclosed expense items [paragraph 92]*

Ball (2006, p.5) suggests that "the notion that uniform standards alone will produce uniform financial reporting seems naïve". The inconsistency in disclosure levels between NZ IFRS compliant financial statements shows how difficult it can be to meet the espoused goal of creating consistency between financial statements.

We acknowledge an increase in the quantity of disclosure does not necessarily represent an increase in the quality of disclosures. Future research could, for example, consider compliance with expense (or other item) disclosures required under NZ IFRS 8, Operating Segments, particularly for larger, more complex listed companies where discretion as to what constitutes a segment may systematically vary. Researchers could also consider the differential market response to such disclosures.

Although NZ IAS 1 is not significantly different from IAS 1, our results suggest prior compliance and enforcement regimes influence disclosure levels. However, to confirm this, future research that examines operating expense disclosure practices between countries would be of interest.

We also acknowledge our sample is too small to develop formal disclosure models, which provides another avenue for future research. However, our ability to observe concurrently the disclosure levels of companies reporting under NZ FRS and NZ IFRS provides us with a unique opportunity to control for possible temporal effects. This natural control would not have been possible if we had conducted our study once all companies had adopted NZ IFRS.

Finally, we believe ongoing surveillance of disclosure practices, ideally by the NZSC, is necessary to ensure better compliance.

References

Ahmed, K., & Courtis, J. K. (1999). Associations between corporate characteristics and disclosure levels in annual reports: A meta-analysis. *The British Accounting Review, 31*(1), 35-62.

Ball, R. (2006). International Financial Reporting Standards (IFRS): pros and cons for investors. *Accounting and Business Research,* 5-27.

Botosan, C. A., & Plumlee, M. A. (2002). A re-examination of disclosure level and expected cost of capital. *Journal of Accounting Research, 40*, 21-40.

Buzby S. (1975). Company Size, Listed Versus Unlisted Stocks and the Extent of Financial Disclosure. *Journal of Accounting Research*, 13, 1, 16-37.

Bradbury, M. E. (1992). Voluntary Disclosure of Financial Segment Data: New Zealand Evidence. *Accounting and Finance, 32*(1), 15-26.

Daske, H., & Gebhardt, G. (2006). International Financial Reporting Standards and Experts' Perceptions of Disclosure Quality. *Abacus, 42*(3/4), 461-498.

Dhaliwal, D. S. (1979). Disclosure Regulations and the Cost of Capital. *Southern Economic* Journal, 45(3), 785-794.

Dye, R. A. 1985. Disclosure of Nonproprietary Information." *Journal of Accounting Research* (Spring): 123-45.

Dye, R. (2001). An evaluation of "essays on disclosure" and the disclosure literature in accounting. *Journal of Accounting and Economics 32*, 181-235.

Dye, R., & Sridhar, S. (1995). Industry-Wide Disclosure Dynamics. *Journal of Accounting Research, 33*(1), 157-174.

Gibbins, M., Richardson, A., & J Waterhouse (1990). The Management of Corporate Financial Disclosure: Opportunism, Ritualism, Policies, and Processes - *Journal of Accounting Research,* 28(1), 121-143.

Francis, J. R., Khurana, I. K., & Pereira, R. (2005). Disclosure Incentives and Effects on Cost of Capital around the World. *The Accounting Review, 80*(4), 1125-1162.

Healy, P. M., & Palepu, K. G. (2001). Information, asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics, 31*, 405-440.

Institute of Chartered Accountants of New Zealand SSAP 9 (1978). Information to be Disclosed in Company Balance Sheets and Profit and Loss Accounts.

Institute of Chartered Accountants of New Zealand FRS 9 (1995). Information to be Disclosed in Financial Statements

Jensen, M. C., & Meckling, W. (1976). Theory of the firm: Managerial behavior, costs and ownership structure. *Journal of Financial Economics, 3*, 305-360.

Kirk, N. (2006). Perceptions of the True and Fair View Concept: An Empirical Investigation. *Abacus*, *42*(2), 205-235.

Lont, D. (2002). Unspecified operating expense disclosure requirements in New Zealand. *Pacific Accounting Review*, *14*(2), 57-95.

New Zealand Equivalent to International Accounting Standards, New Zealand Institute of Chartered Accountants.
All standards are available at www.nzica.com/AM/Template.cfm?Section=NZ_IAS

New Zealand Securities Commission (2008). *Review Of Financial Reporting by Issuers - Cycle 7: Financial Reporting Surveillance Programme*.
Available at www.sec-com.govt.nz/publications/list.shtml

PwC. (2007a). Corporate reporting, Is it what investment professionals expect?, available at www.pwc.com/extweb/ncsurvres.nsf/docid/43024445978294418025738B0058AD1B

PwC. (2007b). Presentation of income under IFRS: flexibility and consistency explored, available at http://download.pwc.com/ie/pubs/presentation_of_income_under_ifrs.pdf

Rosenfield, P. H. (1994). AICPA issues report on information needs of investors and creditors. *Journal of Accountancy, 177*(1), 21.

Schipper, K. (2003). Principles Based Accounting Standards. *Accounting Horizons, 17*(1), 61-72.

Schipper, K. (2007). Required Disclosures in Financial Reports. *The Accounting Review, 82*(2), 301-326.

Verrecchia, R. E. (2001). Essays on disclosure. *Journal of Accounting & Economics, 32*(1-3), 97-181.

Watts, R. L., & Zimmerman, J. L. (1978). Towards a Positive Theory of the Determination of Accounting Standards. *The Accounting Review, 53*(1), 112-134.

[1] All New Zealand accounting standard cited in this paper are available from http://www.nzica.com/AM/Template.cfm?Section=Financial_Reporting_Standards&Template=/CM/HTMLDisplay.cfm&ContentID=13101.

[2] For example, the optimal disclosure level or the value relevance of particular disclosure items is unknown.

[3] Our references are to NZ IAS 1, amendment up to January 2000. NZ IAS 1 was revised in November 2007 and paragraph heading were renumbered. For example, NZ IAS 1 paragraph 88 became NZ IAS 1 paragraph 99, and NZ IAS 1 paragraph 93 became NZ IAS 1 paragraph 104. The discrepancy relating to employee benefits expense was not amended in this revised version of NZ IAS 1.

[4] The increase in the mean disclosure level prior to IFRS adoption is driven by an outlier (nine disclosure items reported by one company).

[5] No additional expense disclosures were found in other sections of the annual report.