IASB Research Forum 2021

Discussion: Is IFRS a "trusted" language for private firm credit decisions? An analysis of country differences in users' perspective?

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Outline

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- Suggestions
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  - Research Design
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- Conclusion

Overview

- **Research question:** Is IFRS financial information prepared by private firms trusted and used by bankers and do levels of trust and use vary with the country's context in which the information is produced?
- **Motivation:** There is limited evidence on the usefulness of IFRS for debt contracting in private firms, even less in developing economies.
- **Sample:** 108 obs (106/109obs?)/69 interviews from Asia, Africa and Latin America
- **Method:** Interviews + Quantitative approach (Probit)
- **Key finding:** That financial information prepared under IFRS is trusted for lending decisions.
- **Contribution:** Provide evidence on the role of IFRS in debt contracting.

Research Propositions

- **I found myself in trouble with some of the RPs:**
  - *RP1: financial statement information (especially when prepared using high quality acc standards) will be more trusted and used in a local context characterized by strong formal institutions*
  - *RP2: financial statement information(especially when prepared using high quality acc standards) will be less trusted and used in a local context characterized by competing and conflicting informal institutions*
  - **Is it not RP1 written otherwise?**
  - *RP5 In countries in which both public financing and private financing are present, the compliance of listed companies with IFRS can lead to mimetic pressures for private firms to comply with IFRS and this can positively influence the trust and use of IFRS accounting numbers for credit decisions.*
  - **How to test mimetism?**

Research Design

- "We noticed from the analysis of the interview data that after 8 interviews conducted in each country no additional insights were generated"
  - 10 countries at 8 each implies 80, but authors did 69 – Need to rewrite
- Authors do not regress all variables at once due to multicollinearity concerns.
  - Which variables are those?
  - What was the criteria to delete them?
  - Have you considered running PCA ?
- Why authors use a standard likert scale (7 points), for the majority of measures and use a 4 point based for only two measures?
- Definitions need improvement:
  - Logged (Listed Firms)? – Is that the log of the number of listed firms in a country?

Research Design

- *RP5 In countries in which both public financing and private financing are present, the compliance of listed companies with IFRS can lead to mimetic pressures for private firms to comply with IFRS and this can positively influence the trust and use of IFRS accounting numbers for credit decisions.*
  - I am not so sure this mimetism exists in this context.
  - Prior literature shows that private firms are more independently run and only provide information when they need financing, therefore are not as succeptible to peer pressures as listed firms (e.g., Ball et al. 2003).
  - How the authors tested such claim?
  - It will be hard to isolate the cause-effect relation (if any) to mimetism rather than other competing factors.

Results

- Table 4 has not been discussed or mentioned in the text.
- It puzzles me why the number of observations drop, if the respondents are the same. From what I understood, the respondents answer whether they trust/use large/medium/small companies financial data. So, why is there a reduction in sample size?

Table 4. Descriptive Statistics

Variable	Obs	Mean	Median	Std. Dev.	Min	Max
IFRS SME Country Adoption Large F	109	0.908	1	0.290	0	1
IFRS SME Country Adoption Medium F	109	0.633	1	0.484	0	1
IFRS SME Country Adoption Small F	109	0.385	0	0.489	0	1
Corruption	109	-0.020	-0,071	0.858	-1.239	1.672
Legal Rights	109	4.651	5	2.619	1	9
Listed Firms	109	418	5.580	601.702	16	2272
Log Listed Firms	109	5.318	265	1.230	2.773	7.728
Income	109	1.853	2	0.718	1	3
Trust Large IFRS Full	100	6.25	6	0.903	3	7
Use Large IFRS Full	105	3.543	4	0.651	1	4
Trust Medium IFRS Full	98	5.622	6	1.031	2	7
Use Medium IFRS Full	101	3.416	4	0.738	1	4
Trust Small IFRS Full	97	4.887	5	1.421	1	7
Use Small IFRS Full	98	3.122	3	0.900	1	4
Trust Large IFRS SMEs	90	5.833	6	1.019	3	7
Use Large IFRS SMEs	96	3.427	4	0.707	1	4
Trust Medium IFRS SMEs	92	5.446	5	1.062	2	7
Use Medium IFRS SMEs	95	3.305	3	0.745	1	4
Trust Small IFRS SMEs	91	4.813	5	1.406	1	7
Use Small IFRS SMEs	95	3.053	3	0.927	1	4
Trust Medium Local GAAP	71	5.423	6	1.142	2	7
Use Medium Local GAAP	73	3.055	3	0.880	1	4
Trust Small Local GAAP	71	4.761	5	1.553	1	7
Use Small Local GAAP	72	2.847	3	0.914	1	4

Results

- Authors conclude RP1 and RP2 with the same evidence
  - This provides support for my claim these two RPs are similar
- Authors provide inconclusive results regarding RP5.
  - In general, private firms care less than listed firms because of no scrutiny, or only provide information "on demand" to satisfy funding requirements.
  - I do not see how can authors find evidence for RP5 based on this
  - I suggest to drop (leave the idea of mimetism) or rewrite such hypothesis

Results

- It puzzles me that authors found weak significance for trust of Small companies but not large, contradicting the univariate results where large are more trusted than smaller companies.

Table 6: IFRS for SMEs

Dependent Variable	Trust Large ($N = 90$) (1)	Trust Medium ($N = 92$) (2)	Trust Small ($N = 91$) (3)	Use Large ($N = 96$) (4)	Use Medium ($N = 95$) (5)	Use Small ($N = 95$) (6)
IFRS SME Country Adoption Large F	-1.074			-0.013		
	(0.648)			(0.643)		
IFRS SME Country Adoption Medium F		0.180			0.115	
		(0.270)			(0.290)	
IFRS SME Country Adoption Small F			0.716*			0.266
			(0.286)			(0.293)

- Table 6 – Assymptotic Z in parentheses, but it is not (it seems standard error)

Results

- Legal rights is negative, suggesting more legal rights lead to less trust.
- Country Effects are not defined in the paper
- If that is a dummy it will control for all fixed factors at a country level (corruption, legal rights) – assuming they are constant over time.

Table 6: IFRS for SMEs

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	(0.648)			(0.643)		
IFRS SME Country Adoption Medium F		0.180			0.115	
		(0.270)			(0.290)	
IFRS SME Country Adoption Small F			0.716*			0.266
			(0.286)			(0.293)
Legal Rights	-0.123*	-0.080	-0.094*	-0.106*	-0.071	-0.124*
	(0.050)	(0.052)	(0.048)	(0.049)	(0.054)	(0.048)
Corruption	0.226	0.134	-0.158	0.292	0.312	0.185
	(0.167)	(0.163)	(0.174)	(0.179)	(0.174)	(0.184)
Log Listed	0.017	0.055	0.255*	-0.204	-0.319**	-0.165
	(0.101)	(0.098)	(0.117)	(0.117)	(0.116)	(0.130)
Country Effects	0.124*	0.052	0.011	-0.011	0.030	-0.021
	(0.055)	(0.049)	(0.049)	(0.059)	(0.053)	(0.052)
Constant	-3.252***	-2.062**	-0.837	-4.228***	-4.048***	-3.432***
	(0.831)	(0.787)	(0.707)	(0.877)	(0.818)	(0.778)
LR chi2	10.362	4.797	8.825	12.633	13.918	15.916
Prob>chi2	0.066	0.441	0.116	0.027	0.016	0.007
Log likelihood	-116.055	-128.936	-147.780	-86.725	-91.960	-106.815

Conclusion

- Some RPs need to be rewritten
- More discussion on the quantitative part of the study is needed
- Results from the multivariate part are counterintuitive and conflict with those from the univariate part
- Relevant to the literature
- There is a clear contribution with a clear implication for the standard setter (IASB)
- I hope the review help the authors refining their paper.

THANK YOU!

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