

Institution: University of Manchester
Unit of Assessment: 19 (Business and Management Studies)
Title of case study: Impact of MBS research on international accounting harmonisation debate
<p>1. Summary of the impact</p> <p>This case study focuses on the impact of research studies and their influence on International Financial Reporting Standards (IFRS) carried out by Manchester Business School (MBS). International accounting harmonisation is currently the most topical issue debated in the accountancy world. These studies have attracted the attention of practitioners, e.g. Association of Chartered Certified Accountants (ACCA), and policy makers, e.g. the UK Accounting Standards Board (ASB). The research has informed the policy debate of whether IFRS should be mandated further, and been taken up in the negotiating position of several key bodies. It has been used to justify the continued application of IFRS among UK quoted companies.</p>
<p>2. Underpinning research</p> <p>The MBS research team was formed in 2005, when Walker and Lee acquired research funding from the ACCA to carry out preliminary studies of the cost of equity capital across EU countries as a staging ground for IFRS impact studies. In addition they took on the supervision of a PhD student Christensen who received the American Accounting Association award for best thesis in 2009. Their first study was published in 2006 as ACCA Research Report 94 [1] following a dissemination event in London. Their second paper was presented at an international conference in Paris in 2006 and published in 2007 in the <i>International Journal of Accounting</i> [2]. In 2008, a third piece of work was published as ACCA Research Report 105 [3]. Following on from this, Christensen completed his PhD and further work was presented at the reputed American Accounting Association (AAA) Financial Accounting and Reporting Section (FARS) mid-year conference. In the same year, the research team published a paper in the <i>Journal of Accounting Research</i>, widely recognised as one of the world's premier accounting journals. Walker has been employed as a Professor at the University of Manchester 1989-date. Lee has been employed as a Lecturer and Senior Lecturer at the University of Manchester 2002-date.</p> <p>There is a real demand and necessity for compelling empirical evidence of the benefit and cost of IFRS adoption, and for such evidence to be used to inform not just academic debate but the decisions of policy makers and practitioners in their promotion of international accounting standards. The distinctive feature of MBS research relative to prior literature, is that it revealed quite early on following UK and European mandatory IFRS adoption that this change does not bring about a uniform set of net benefits (or costs) across all firms as proponents (or critics) expected. The five MBS studies listed in Section 3 examined the economic consequences of mandatory IFRS adoption to the capital market in UK and Europe through stock market reaction, cost of equity capital, and accounting quality. The consistent evidence is that the impact of IFRS varies across firms depending on their disclosure incentives. Therefore, the MBS research attracted attention because it is early in urging caution against simplistic assumptions that IFRS can only be beneficial, or unilaterally enhance corporate transparency.</p>
<p>3. References to the research</p> <p>Study 1: Lee, E., Walker, M. & Christensen, H. 2006, 'The Cost of Capital in Europe: An Empirical Analysis and the Preliminary Impact of International Accounting Harmonisation', <i>ACCA Research Report #94</i>, Certified Accountants Educational Trust – Copy available on request Note: This study was commissioned by the ACCA, which is one of the largest professional accountancy bodies in the world.</p> <p>Study 2: Christensen, H., Lee, E. & Walker, M. 2007, 'Cross-sectional Variation in the Economic Consequences of International Accounting Harmonisation: The Case of Mandatory IFRS Adoption in the UK', <i>International Journal of Accounting</i>, 42, 2, 341-379 DOI: 10.1016/j.intacc.2007.09.007 Note: This study was published in a peer reviewed academic journal, and it has been</p>

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consistently classified as one of the top 10 most cited paper of this journal. 109 Google Scholar citations.

Study 3: Lee, E., Walker, M., & Christensen, H. 2008, 'Mandating IFRS: Its Impact on the Cost of Equity Capital in Europe', *ACCA Research Report #105*, Certified Accountants Educational Trust – Copy available on request

Note: This study is cited in official policy document of the Accounting Standards Board, which is the UK's leading accounting policy maker.

Study 4: Christensen, H., Lee, E., & Walker, M. 2008, 'Incentives or Standards: What Determines Accounting Quality Changes around IFRS adoption?', Working paper, University of Manchester – Copy available on request

Note: This study was disseminated at the prestigious AAA FARS mid-year conference and has been widely cited in official policy documents and academic papers on IFRS in several world leading journals. 155 Google Scholar citations.

Study 5: Christensen, H., Lee, E., & Walker, M. 2009, 'Do IFRS Reconciliations Convey Information? The Effect of Debt Contracting', *Journal of Accounting Research*, 47, 1167–1199
DOI: 10.1111/j.1475-679X.2009.00345.x

Note: This study has been cited by many studies in the area of IFRS including several other leading peer reviewed journals. 62 Google Scholar citations.

4. Details of the impact

Context

The on-going international accounting harmonisation process through IFRS adoption or convergence seeks to improve accounting quality and comparability across the world. Starting from 2005, the European Union (EU) mandated IFRS across all listed firms. This was hailed as a key milestone in international accounting harmonisation process because a large group of western economies made a concerted commitment to IFRS adoption. Since then IFRS has propagated worldwide. IFRS is expected to bring about the benefit of greater corporate transparency and cross-border capital flows, although there have been concerns that the adoption of such standards has served to exacerbate the volatility of reported performance, and varying costs depending on the institutional background of adoption countries.

The debate over IFRS is expected to continue with the USA being indecisive over whether it should converge toward IFRS as Europe did in 2005 and China did in 2007. As the largest economy in the world, the reluctance of the US to endorse IFRS invoked uncertainty and doubts for the international accounting harmonisation effort. Therefore, we expect this debate to persist and as long as it does, the evidence provided by the MBS research in this area will continue to make impact. Evidence that the MBS research informs this aforementioned debate and has been taken up in the negotiating position of several key bodies is as follows.

UK Impact

First, the MBS team collaborated with the ACCA, which is one of the largest professional accountancy bodies in the world. The two reports that ACCA commissioned and funded [1, 3] analyses IFRS impact on cost of capital in Europe, and were both presented in front of wide audiences of practitioners, policy makers, media, and academics at two separate dissemination events. Following these successes, the ACCA has since commissioned another funded project for MBS team to study the impact of IFRS adoption in China. This is further recognition by a prominent professional accountancy organisation that our research evidence is relevant to their worldwide members.

Second, one of the MBS studies [3] has been explicitly cited by the official policy document of the ASB [C] in 2010. Since the ASB is the leading accounting standard setter in the UK, this document is highly influential on the future direction of UK accounting. The findings of the MBS study was used to justify continued application of IFRS among UK quoted companies: "*The ACCA Research report 105 'Mandating IFRS: its impact on the cost of equity capital in Europe', put the UK as the*

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only country with a maximum score for its financial reporting environment. At the other end of the scale various other countries scored zero. The conclusion of the ACCA's research is that.....improved cross-border comparability could benefit such companies."

Grant Thornton, one of the largest accountancy firms in the world, issued a response [D] to the ASB document, and cited the same MBS study to support the argument that IFRS in the UK should be further promulgated to unlisted firms: *"We would like to draw the Board's attention to a research report prepared by the Association of Chartered Certified Accountants (ACCA Research Report No. 105: RR105 - Mandating IFRS: Its Impact on the Cost of Equity Capital in Europe) which concluded that in countries with high financial reporting incentives and enforcement, such as the UK, a significant reduction in the cost of equity capital was observed following the implementation of IFRS."* These are factual evidence that the MBS researches have informed the discussion between policy makers and practitioners.

International Impact

Last but not least, the MBS researches have also been considered in policy debate outside the UK. For instance, the Securities and Exchange Commission (SEC), which is the regulator of US stock exchanges, has recently back-tracked from committing to US convergence to IFRS. One piece of research from MBS [4] has been cited in the October 2012 response by the IFRS Foundation [F] to this SEC decision: *"The point has also been taken up by IFRS researchers, notably Christensen et al. (2008) who argue that firm incentives are more important than the accounting standards themselves in understanding IFRS effects."* This response used the MBS research to argue that disclosure incentives are more important than standards in determining IFRS impact. Another MBS research [3] has been cited by a research report issued by ACCA [B] also in October 2012, which surveys US investors' perceptions of IFRS. This report cited the MBS study to back the argument that IFRS benefits capital markets with high institutional quality. Prior to the recent debate on US convergence to IFRS, our research [4] was also cited in the 2009 response [A] of the American Accounting Association (AAA) to the SEC on potential US converge toward IFRS. This response used the MBS research finding to argue that institutional reform is needed along with IFRS to promote corporate transparency. In a report to the European Commission [E], the Institute of Chartered Accountants of England and Wales (ICAEW) also cited two of the MBS studies [2, 5] to support their argument that the financial reporting quality under IFRS is dependent on disclosure incentives and that statements issued under IFRS have incremental information. These provide factual evidence that the MBS studies have provided policy relevant evidence that practitioners and policy makers on an international level find informative.

In conclusion, MBS studies are distinctive relative to prior relevant literature because they demonstrated early on, that IFRS invokes heterogeneous effect. Since the international accounting harmonization is an issue of global instead of local scope, policy makers tend to consider a wide range of evidence to formulate their opinion. Responsible decision-making of important issue as such is expected to be informed not by single but by a collection of evidence. A search of Google Scholar as of 30/10/2012 using the keyword "IFRS" returns 64,900 results of studies on this topic area. Given such a large and competitive pool of researchers worldwide, the fact that this set of MBS researches have been funded by a world leading professional accountancy organization and cited by policy makers and practitioners in the around the world provides factual evidence that these studies are informing a global debate.

5. Sources to corroborate the impact

All sources are cross-referenced in section 4.

A: AAA. 2009, "Response to the SEC release: Roadmap for the potential use of financial statements prepared in accordance with IFRS by US issuers"

Available at <http://www.sec.gov/comments/s7-27-08/s72708-143.pdf>

B: ACCA. 2012, "IFRS in the US: The investor's perspective".

Available at: <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial->

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[reporting/pol-afb-iusip.pdf](#)

C: ASB. 2010, "The future of financial reporting in the UK and Republic of Ireland" Financial Reporting Exposure Draft (43 and 44)

Available at: <http://www.iasplus.com/en/binary/uk/1010fredpart1.pdf>

D: Grant Thornton. 2010, "Request for responses: Assessing the impact of the Accounting Standards Board proposals for the future of UK and Irish Financial Reporting"

Available at: <http://www.frc.org.uk/Our-Work/Publications/ASB/Request-for-Responses-to-Impact-Assessment/Responses-to-Impact-Assessment/CL11-Grant-Thornton-UK-LLP.aspx>

E: ICAEW. 2008, "EU implementation of IFRS and the Fair Value Directive: A report for the European Commission"

Available at: http://ec.europa.eu/internal_market/accounting/docs/studies/2007-eu_implementation_of_ifrs.pdf

F: IFRS Foundation (2012) "Report to the Trustees of the IFRS Foundation: IFRS Foundation staff analysis of the SEC Final Staff Report – Work Plan for the consideration of incorporating IFRS into the financial reporting system for US issuers."

Available at: <http://www.sec.gov/comments/4-600/4600-163.pdf>