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IFRS 13: exploring decisions to early adopt or refrain from doing so

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IFRS 13: Exploring decisions to early adopt or refrain from doing so

A research report submitted by:

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Declaration

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce by Coursework and Research Report at the University of the Witwatersrand, Johannesburg. It has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other university.



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I: List of abbreviations and acronyms

Table I: List of abbreviations and acronyms with the related descriptions	
Abbreviations and acronyms	**Description**
CFO	Chief Financial Officer
Companies Act	South African Companies Act 71 of 2008
Conceptual Framework	Conceptual Framework for Financial Reporting
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FAS	Financial Accounting Standards
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS 13	International Financial Reporting Standards 13: Fair Value Measurement
IFRS for SME's	International Financial Reporting Standards for small and medium- sized entities
IT	Information Technology
JSE	Johannesburg Stock Exchange
PLC	Public Limited Company
SAICA	South Africa Institute of Chartered Accountants
SEC	United Stated Securities and Exchange Commission
US	United States

II: Abstract

Using an exploratory interpretive research approach and IFRS 13 as a case study, this thesis investigates the factors which affect the decision to adopt International Financial Reporting Standards. Detailed interviews with a sample of some of South Africa's preparers' of financial information and audit managers are used to gain an understanding of what factors influence companies, other than those in the financial services sector, to adopt early IFRS 13.

The research findings are particularly significant as very little interpretive research has been performed on financial reporting from a South African perspective. In addition, the research performed to date has primarily considered the adoption of IFRS as a whole rather than a particular standard within IFRS. In addition, the fact that IFRS 13 has only recently been released offers an invaluable opportunity to study how current international accounting developments are being internalised by South African corporates.

Through the interview process it was determined that the majority of the interviewees did not elect to early adopt IFRS 13. As a result, the rationale of the decision to not early adopt IFRS 13 was discussed and explored. It was found that technical constraints - such as the need to provide staff training and the requirement to provide additional accounting disclosure – discouraged the early adoption of the standard. Factors such as the effect of adoption on earnings, decisions made by competitors as well as the relevance of the standard to business operations were also considered as part of this decision. Overall, the interviewees showed a logic of resistance towards the standard and the standard setters which is manifested, not by misapplication of the standard, but by dismissing its ability to provide more useful information to users of financial statements and delaying its adoption.

Key words: Corporate reporting; early adoption; IFRS 13; logic of resistance; South Africa

1. Introduction

1.1 Purpose of the study

Owing to the controversy surrounding fair value accounting under FAS 115 and IAS 39, the IASB introduced a project to reconsider the definition of "fair value" as well as to reassess the measurement and disclosure criteria relating to fair value accounting (IFRS Foundation, 2013). This fair value project, which later resulted in the introduction of IFRS 13, was not intended to expand the use of fair value but to clarify how to measure fair value consistently across all existing pronouncements (Tran, 2012). The need for a new standard was crucial as some IFRS standards provided little guidance on the measurement of fair value whilst others provided extensive guidance but were not always consistent (Dvorakova, 2013).

In this context, IFRS 13 redefined and reworded numerous definitions relating to fair value accounting (IASB, 2011). Some examples of this include defining an exit price to embody the expectations about future cash flows, the type of market in which a transaction should take place, being the principal market, and the type of participants in the transaction, now being market participants (IASB, 2011).

Although the reasons for the introduction of IFRS 13 and the need for a new standard governing fair value accounting have been noted by the IASB and FASB (IASB, 2011), the new standard does not specifically consider the factors which influence the adoption of IFRS 13 from the perspective of South African preparers of financial information[1]. As a result, this study does not aim to examine the technical functioning of IFRS 13. Rather, this study aims to evaluate the more subtle characteristics of the IFRS standards that result in preparers either electing to adopt the standard early or not.

In performing this analysis, voluntary adoption has specifically been considered and addressed. As discussed in Section 2, benefits to voluntary adoption exist (Daske et al, 2008; Brown and Tarca, 2012; Barth et al, 2013). These benefits are expected to entice preparers of financial information to adopt specific IFRS's early. This is particularly relevant to IFRS 13 as this standard does not aim to change fair value accounting measurement (IASB, 2011).

[1] At the time of this analysis, the IASB had not completed its post- implementation review (Deloitte, 2014)

1.2 Statement of importance

Although scholarly articles consider adoption of IFRS by developing countries such as South Africa (Zeghal and Mhedhbi, 2006; Zehri and Abdelbaki, 2013), these articles consider adoption of IFRS as a whole rather than a specific standard within IFRS. Additionally, these studies are based on available data regarding the year IFRS was adopted. In contrast, this study performs interpretive research, relying on detailed interviews to identify the factors at play when adopting a specific standard. The insights and additions gained through this study are particularly significant as very little interpretive research has been performed on financial reporting from a South African perspective (Brennan and Solomon, 2008). As a result, this study addresses the need for practical fieldwork studies on financial reporting.

IFRS 13 was specifically selected as this standard aims to clarify how to measure fair value (Tran, 2012). As this standard was implemented in January 2013, the factors that affected its adoption were being discussed at the time that this study was performed (IASB, 2011). This, therefore, provided an opportunity to gain a current and detailed understanding of these factors. In addition, as the changes to this standard were not considered to be complex, this afforded the opportunity to identify more subtle factors that affect adoption of specific IFRS's, as opposed to focusing on the technical difficulties of the standard (Tran, 2012).

1.3 Assumptions

This study assumes that modern society is not characterized by a single or unique 'truth' but rather that such 'truth' changes as society changes. This study also assumes that interviewees are honest and forthright (despite the number of safeguards put in place) (Hopwood, 2000; O'Dwyer et al, 2011).

1.4 Delimitations

This study uses an interpretive research approach to explore the adoption of IFRS 13 in a South African setting. Although the reasons for adopting such an approach are discussed in Section 3, this study does not critique the interpretive research approach. Related to this, the aim of this research approach is to gain an understanding of the factors that influence voluntary adoption of IFRS 13. As this study is exploratory in nature, its aim is not to conclude that certain factors categorically affect voluntary adoption.

This study is based solely on IFRS as these standards primarily govern the South African financial statements (SAICA, 2014)[2]. It is imperative to mention, however, that this study does not deal with IFRS for SME's. In addition, it must be stressed that the objective of this study is not to provide a comprehensive history of IFRS. In line with this, this study provides background to fair value accounting and the introduction of IFRS 13 but does not focus on the advantages and disadvantages of fair value accounting or the merits of IFRS 13. These sections provide a background to IFRS 13 to identify the practical issues which affect the voluntary adoption of this standard.

For the purpose of this study, only the views of the preparers, rather than all the users of financial information will be examined as these users make decisions regarding the adoption of standards. Although responses were received from different types of entities, such as manufacturing and retail entities, variations in responses between these types of entities were not considered.

Related to this, entities within the banking, insurance and mining industries were specifically excluded from this study. As this study aims to gain a holistic understanding of factors that influence voluntary adoption of IFRS 13, these industries were deemed inappropriate participants because of the industry- specific reporting requirements in these industries (see IASB, 2010).

Lastly, as this study aims to gain an understanding of the factors that affect voluntary adoption, not all factors within the prior literature are discussed in detail.

1.5 Structure of the study

The remainder of the paper is structured as follows. Section 2.1 briefly discusses fair value accounting and the need for a new standard governing fair value accounting. This is essential to gain an understanding of this study as the issues within the standards that governed the measurement of fair value before IFRS 13 are of utmost importance before it is possible to assess whether IFRS 13 has rectified these problems. If preparers do not find an issue with the preceding standards, they will not be motivated to adopt a new standard as the existing standards will meet their financial information needs. Section 2.2 considers the introduction of IFRS 13, as well as the changes made to fair value measurement, to provide additional

[2] This is a requirement in terms of the South African Companies Act.

context for this study. Section 2.3 briefly discusses voluntary adoption of IFRS to identify the existence of it benefits. Section 2.4 provides a detailed discussion of the factors that influence the early adoption of specific IFRS's. Section 2.5 summarises the literature review and introduces the methodology section.

Through the use of findings from prior researchers and academic literature, Section 3 explains the research methodology to be followed. This study uses detailed interviews with preparers of financial information in JSE listed entities and audit managers and partners in order to gain a well-rounded view of IFRS 13. Section 3.1 expands on the chosen research method whilst Section 3.2 and 3.3 discuss the methodology and sample selection used. The results of the interview process are documented in Section 4 while Section 5 summarises the objectives, key findings and closing remarks.

2. Literature review

This section considers the factors at play when deciding whether to early adopt a particular standard within IFRS. Section 2.1 starts by discussing a brief history and some pros and cons of fair value accounting. The aim of this section is to provide context for the research topic. The need for and introduction of IFRS 13 is discussed in Section 2.2. Reasons for or against the early adoption of accounting standards identified in the prior literature are discussed in in Section 2.3 and Section 2.4. Section 2.5 provides a summary of discussion.

2.1 Fair value accounting

2.1.1 Fair value accounting: A brief history

Fair value accounting[3] was first introduced by the FASB in 1993 and was intended to make financial statements easier to compare and balance sheets more reflective of real values (Wallison, 2008). Fair value accounting marked a major departure from the tradition of keeping records at historical cost (Ramanna, 2013). The primary aim of fair value measurement is to "determine non- historical basis, to minimize risks of manipulation with the current cost measurement and to ensure the comparability and reliability of such

[3] Fair value accounting is the practice of measuring assets and liabilities at estimates of their current value (Ramanna, 2013)

measurement" (Dvorakova, 2013, p. 152). Fair value relevance has been driven by the decision relevance of market-based measures (Hitz, 2007). The introduction of fair value accounting affected business world-wide as fair value accounting affected the investment choices and management decisions, which, consequently, affected economic activity. The rationale for using fair value accounting is that investors are able to develop expectations from the market prices in order to revise and improve their own projections (Hitz, 2007).

Fair value is defined as:

> "…the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." (IASB, 2011, p. A501)

Fair value is not the price that would be obtained in one particular transaction but rather the price determined between parties without coercion between market participants (Dvorakova, 2013).[4] The primary motive of such a transaction is the profit of both parties. The use of market price information is presumed to satisfy the information needs of current and future providers of capital (Dvorakova, 2013) and this contributes to financial reporting's decision usefulness objective.

Fair value accounting is based on two underlying assumptions: first, asset valuations should be applied consistently across industries so that companies can be compared more easily and, second, where there is a market price for an asset, it should under ordinary circumstances be carried on a company's balance sheet at that price (Wallison, 2008). These assumptions resulted in a number of issues for entities as different business models were followed, even within the same industry. These different business models can result in significantly different asset valuations. This decreases the comparability of information over time within the same entity. This made companies, even within the same industry, difficult to compare. The requirement to measure assets at their current fair value resulted in volatility in the balance sheet and reported earnings, depending on the business model used. Where there was no observable market price, other valuation methods had to be used. These valuation methods varied from company to company, calling comparability into question. Fair value measurement and disclosure was previously presented in different accounting standards

[4] The sharp distinction between fair value and value-in-use evidences that fair value measurement is not to include entity- specific competitive advantages such as private skills and private information (Hitz, 2007).

(Pascan and Neag, 2013). Consequently, the requirements for fair value accounting were dispersed throughout the standards, and as a result, the standards did not clearly express the objectives of fair value measurement and the related disclosures (Pascan and Neag, 2013).

IFRS require or allow the use of fair value in 5 different circumstances, namely:

1. For the measurement of assets, liabilities and equity at initial recognition.
2. For the allocation of the total amount to a component part of a whole for a transaction or event

   These are primarily used to determine the historical cost of the transaction as being the fair value of the asset given up (IASB, 2010; Cairns et al, 2011).

3. For the measurement of a deemed cost on the transition from another accounting standard to IFRS;
4. In determining the recoverable amount of an asset when testing an asset for impairment. Determining the fair value of an asset at a point in time ensures that the carrying amount of the asset does not exceed the amount that can be recovered through use, sale or receipt of those assets.
5. For the measurement of assets and liabilities at balance sheet date. This requires the determination of the fair value of the asset and liability at each balance sheet date. This is usually an accounting policy choice and typically affects property, plant and equipment, investment property, intangible assets, and other financial assets and liabilities

(Cairns et al, 2011).

IFRS 13, however, focuses on measurement of assets, liabilities and equity. As such, IFRS 13 focuses on fair value in terms of the fifth point above.

2.1.2. Fair value accounting: Pros and cons

Prior literature on fair value accounting has noted a number of benefits from and shortfalls in fair value accounting. Some of these are discussed below.

One issue noted is fair value accounting for long- term investments. Penman (2007) found that the use of fair value accounting for short- term investments did not pose a problem but, for long- term investments, these prices may give the appearance of satisfactory returns when this may not be the case. Shaffer (2010) iterated this statement and argued that fair value accounting is most appropriate for measuring investments held for trading where active markets exist. Fair value may "distort the true financial picture" and "influence behaviour" when it is applied to investments intended to be held for the long-term (Shaffer 2010, p. 11).

Although these possible shortfalls of fair value accounting for long-term investments have been noted by Shaffer (2010) and Penman (2007), Laux and Leuz (2009) find that managers and investors focus on short- term market reactions rather than on long-term value creation. This provides useful information to investors and managers as fair value accounting provides an adequate time frame for analysis by managers and investors. In support of this, Bushee (2001) reiterates that investors are short-sighted and, for this reason, these investors prefer a firm's value to be realized in the short-term even if this is at the expense of long- term value.

Another issue noted with fair value accounting is that it intensifies movements in the market and may even cause a downward movement in the market (Laux and Leuz, 2009). Arguments exist noting that fair value can create contagion in financial markets. This is created through selling goods below their market value, requiring competitors within the market to do the same (Laux and Leux, 2009). Linsmeier (2011, p. 410), however, states that:

> "Fair value information provides early warnings to investors and regulators of changes in current market expectations when asset prices are declining and risk levels for financial institutions are increasing."

In addition to this argument he adds that historic cost accounting, together with impairment estimates, provides "insufficient warning of these changes" (Linsmeier, 2011, p. 410). In further support of Linsmeier's (2011) argument, Blankespoor et al (2010) and Hodder et al (2006) conclude that fair value accounting better reflects the condition and performance of financial institutions than other reporting models do. Continuing this argument, Blankespoor et al (2010) and Hodder et al (2006) find that fair value accounting may assist users and regulators in understanding an entity's exposure to credit and interest rate risk through its timely and accurate valuation of assets and liabilities. In turn, this allows users to restrain lending and investment activities that have previously led to financial crises.

Owing to the controversy surrounding fair value accounting measurement the IASB and FASB introduced a new standard, namely IFRS 13[5], to clarify the measurement for fair value accounting. This standard is discussed in more depth below.

2.2 Introduction of IFRS 13

This section of the report analyses IFRS 13 and the changes to fair value. This section does not perform a technical debate on the merits of IFRS 13. The aim is to establish a basis on which to assess the reasons for or against the early adoption of IFRS 13. In order to obtain an understanding IFRS 13, a graphic representation of the history of IFRS 13 is provided in Appendix B.

IFRS 13 and FAS 157 were added to the IASB's and FASB's agenda in 2005, with the discussion paper published in 2006 and the first exposure draft published in 2009 (Deloitte, 2014). IFRS 13 was published on 12 May 2011 but the adoption of IFRS 13 only became mandatory on 1 January 2013. This gave preparers of financial information one financial period in which to adopt IFRS 13 early. This project formed part of the Memorandum of Understanding between the IASB and the US national standard-setter, the FASB. The aim of this project was to require both IFRS and US GAAP to have the same definitions of 'fair value' and the same disclosure requirements for fair value measurement (IFRS Foundation, 2013). This fair value project was not formed to expand the use of fair value but rather to clarify how to measure fair value consistently across all existing pronouncements (Tran, 2012). This standard was introduced because, previously, some standards provided little guidance on the measurement of fair value whilst others provided extensive guidance but were not always consistent across standards that refer to fair value (Dvorakova, 2013).

With the introduction of IFRS 13, the definition of "fair value" changed. Previously, in FAS 115 and IAS 39, "fair value" was defined as "the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction" (IASB 2010, p. A981). In terms of IFRS 13, fair value underwent a change and is currently defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date" (IASB 2011, p. A501; Tran, 2012). This revised definition, like the previous definition, assumes a hypothetical and

[5] The objective of IFRS 13 is to define fair value, set out a single standard for measuring fair value and require disclosures about fair value measurement

orderly transaction (IASB, 2011). The previous definition had the following shortcomings: (1) it did not specify whether an entity is buying or selling an asset, (2) it was unclear what was meant by 'settling a liability' as it merely referred to "knowledgeable, willing parties" and (3) it did not state the specific date that the exchange or settlement was deemed to take place (IASB, 2011). As such, the revised definition clarifies that fair value must be market-based rather than an entity-specific measurement (Palea and Maino, 2013). This makes the entity's intention to hold an asset irrelevant. This change in definition allowed financial information relating to fair value measurement and disclosure to be more comparable (IASB, 2011).

The definition of fair value in terms of IFRS 13 now refers to the current exit price of an asset or liability as this embodies the expectations about the future cash inflows and outflows associated with the asset or liability from the perspective of a market participant that holds an asset or liability at measurement date (IASB, 2011; Tran, 2012). The IASB considered whether or not an exit price would be appropriate with every use of fair value. It was concluded that market participants would only pay for the benefits it expects to generate from the use or sale of the asset and exit price is an appropriate term. Similarly, an analysis was performed on whether an exit price is appropriate when settling or transferring a liability. It was found that if an entity intends to fulfil the obligation, an exit price embodies the related cash outflows required to do so. Through this analysis, it was concluded that an exit price is also an appropriate definition for fair value of liabilities, regardless of whether the entity intends to settle or transfer the liability. An exit price retains the notion of an exchange between unrelated, knowledgeable and willing parties in the previous definition of fair value but provides a clearer measurement objective (IASB, 2011). The IASB did find instances where fair value measurement is inconsistent with a current exit price but these measurements are excluded from the scope of IFRS 13. Inclusion of the term "exit price" in the definition of fair value provides more comparable information to users as the fair values have now been clarified (IASB, 2011).

The IASB (2011) also defined the type of market in which a transaction to sell an asset or transfer a liability should take place, this being the principal market. IFRS 13 defines the "principal market" as the "market the entity would normally enter into a transaction to sell the asset or to transfer the liability" and, in the absence of evidence to the contrary, the principal market is the most advantageous market (IASB, 2011, p. A502). The Board further refined this definition of principal market to mean the market that has the greatest volume or

level of activity for the asset or liability. The principal market is the most liquid market that the entity can access on measurement date. This definition works for all assets and liabilities, regardless of the level of activity in the market or whether the market for an asset or liability is observable (IASB, 2011). As entities normally enter into transactions in the principal market for the asset or liability, the Board allows an entity to use the price that the entity would normally receive for such a transaction, unless there is evidence that the principal market and the market in which goods are normally sold are not the same. An entity is not required to perform an exhaustive search for all the markets in which the entity operates. The clarification of the market in which the entity is deemed to operate helps the preparers of financial information provide more comparable information.

The term "market participants" has replaced "knowledgeable, willing parties in an arm's length transaction" under IFRS 13 (IASB, 2011). Although this previous definition conveyed the same notion, it was less clear. Market participants are defined as "buyers and sellers in the principal (or most advantageous) market for the asset or liability who are independent of each other, knowledgeable about the asset or liability, and able and willing to enter into a transaction for the asset or liability" (IASB, 2011, p. B902). This change in terminology aids the preparers of financial information to provide more comparable information to the users of financial information.

It is important to note that IFRS 13 does not determine when an asset, liability or an entity's equity instruments are measured at fair value but rather sets out the measurement and disclosure requirements for fair value when another IFRS requires the use of fair value (Deloitte, 2014; Pascan and Neag, 2013). IFRS 13 does not introduce new fair value measurements, nor does it change the accounting requirements of, and practical expediencies found in, existing standards (Pascan and Neag, 2013). These standards include IAS 41: *Agriculture*, IAS 40: *Investment Property*, IFRS 3: *Business Combinations*, IFRS 9: *Financial Instruments*, IAS 39: *Financial Instruments: Recognition and Measurement* and IAS 16: *Property, Plant and Equipment* read together with IAS 36: *Impairment of Assets* (Deloitte 2014).

IFRS 13 strives to achieve its goal through the use of a fair value hierarchy (Deloitte, 2014). This hierarchy categorizes the inputs used within the valuations methods into three different levels: level 1, level 2 and level 3. Level 1 which has the highest priority, uses inputs that are quoted on an active market for identical assets and liabilities that the entity can access at the

measurement date (IASB, 2011). With Level 1 inputs, information asymmetry between management and investors is very low (Palea and Maino, 2013; IASB, 2011). Level 1 inputs should be used whenever they are available. Level 2 are inputs other than quoted prices in level 1 which can be observed either directly or indirectly (Deloitte, 2014). Level 2 inputs include quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets and liabilities in markets that are not active. Level 2 inputs should have great reliability as they are corroborated by observable market data (Palea and Maino, 2013; IASB, 2011). The lowest priority is given to level 3 which are inputs that are unobservable for an asset or liability (Deloitte, 2014). Unobservable inputs are used to the extent that observable inputs are not available to measure to fair value. An entity develops unobservable inputs using the best available information in the circumstances, which could include an entity's own data and taking into account all available information about market participant assumptions that are reasonably available (Deloitte, 2014). It was decided to include unobservable data in a separate level as unobservable inputs may include entity-specific factors that market participants would not consider. As Level 3 inputs are subject to the highest degree of information asymmetry between preparers and users, minimal use should be made of this level (Palea and Maino, 2013; IASB, 2011).

This hierarchy is necessary as explained by Benston in Dvorkova (2013, p. 156):

> "Enron used, to a large extent, level 3 and level 2 inputs for its external and internal reporting. Level 3 valuation was first used for energy contracts, then for trading activities generally and undertakings designated as "merchant'" investments, these fair values simultaneously being used to evaluate and compensate senior employees. As proven later, Enron's accountants (with Andersen's approval) used accounting devices to report cash flow from operations rather than financing and to otherwise cover up fair-value overstatements and losses on projects undertaken by managers whose compensation was based on fair values".

Fair value measurement for certain assets and liabilities provides useful information for estimating the value of an entity as this allows for the carrying value to be similar to its market value (Pascan and Neag, 2013). This is in line with the objective of financial reporting which requires that financial information about the reporting entity should be useful to current and potential investors, lenders and other creditors in making decisions about the

entity (IASB, 2011). General purpose financial reports provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

As the changes to fair value accounting primarily aimed to clarify how to measure fair value consistently, rather than to expand the use of fair value, the question regarding whether preparers of financial information would elect to early adopt IFRS 13 arises. Before presuming that preparers of financial information would elect to adopt IFRS 13 early, it is necessary to examine the relevance of early adoption. Where no additional benefits exist, it is not expected that preparers of financial information will elect to adopt IFRS 13 early. Where benefits to early adoption exist, it is expected that preparers of financial information will elect to do so. This is particularly relevant to IFRS 13 owing to the aim of the standard being to provide more clarity and consistency. Before analysing specific reasons for or against the early adoption of IFRS 13 (Section 4), a review of the prior literature on the debate is provided.

2.3 Prior research on voluntary adoption of IFRS

This section provides additional context to the research topic at hand. As this research topic specifically considers voluntary adoption of IFRS standards, a brief understanding of the benefits of voluntary adoption is gained through findings in past literature. It is important to note that this section does not provide advantages and disadvantages of voluntary adoption. The aim of this section is to show that benefits of voluntary adoption exist.

Brown and Tarca (2012) conducted a number of interviews with various practioners to explore the extent to which the benefits of IFRS adoption are being achieved. During these interviews it was found that the adoption of IFRS increased the comparability of financial information (Brown and Tarca, 2012). Brown and Tarca (2012, p. 320) also found, based on an early report by the European Commission, that, although there were challenges with the implementation of IFRS, there was a "general perception among preparers, auditors, investors and enforcers that application of IFRS has improved the comparability and quality of financial reporting and has led to greater transparency". Based on their own interview process, Brown and Tarca (2012) found that the IFRS would bring more structure and enhanced disclosure of financial information while reducing comparability issues due to the mixed method approaches.

Barth et al (2013) test whether comparability of accounting amounts between adopting and adopted firms and adopting and non-adopting firms change after the adopting firms adopt IFRS. Barth et al (2013) find comparability between the adopting and adopted firms is greater when the adopting firms apply IFRS than when they applied domestic standards. They find that the comparability between the adopting and non-adopting firms is lower when the adopting firms apply IFRS than when they applied domestic standards. This provides evidence that the voluntary adoption of IFRS increases comparability between firms that adopt IFRS, but decreases comparability between firms that do not adopt IFRS. Barth et al (2013) perform additional tests to assess the value of comparability for entities that voluntarily adopt IFRS. Their findings indicate that adopting firms in countries with a relatively high percentage of firms that apply IFRS enjoy greater capital- market benefits than in countries with a relatively low percentage. This is consistent with the findings of Daske et al (2008). Barth et al's (2013) findings also indicate that adopting firms enjoy significantly greater economic benefits than non-adopting firms in both high and low percentage countries. This provides evidence that although capital-market benefits are more pronounced in countries with a higher percentage of firms applying IFRS, such benefits still exist in low percentage countries. Barth et al (2013) find that comparability is important to capital-market benefits related to IFRS adoption: adopting firms with greater comparability have greater capital market benefits and this signifies the benefits of voluntary adoption.

From this, it is possible to conclude that benefits exist to entice preparers of financial information to voluntarily adopt specific IFRS's, including IFRS 13. As benefits to voluntary adoption of IFRS standards exist, it is possible to assess the factors that influence decisions to adopt IFRS early. This is discussed in detail below.

2.4 Factors influencing the decision for early adoption of specific accounting standards

In order to assess what factors preparers of financial information consider when deciding whether to adopt a standard early, there needs to be an understanding of the typical factors at play. As little research has been conducted on adoption of a particular standard within IFRS, the adoption of IFRS as a whole has been considered to form a basis for further discussion.

2.4.1 Staff training and the role of auditors

In a study performed by Jermakowicz and Gornik-Tomaszewski (2006), respondents stated that a lack of knowledge, education and training on IFRS proved to be a challenge when converting to IFRS. Respondents were of the opinion that, in order to adopt IFRS's, training programs were needed (Capkun et al, 2012). These training programs are necessary on an ongoing basis and audit firms should play a vital role here. The need for auditor assistance was due to many entities lacking the relevant expertise. As staff training proved to be a critical factor to convert to IFRS, interviewees were questioned on whether or not staff training remained relevant for the decision to adopt IFRS 13 early.

2.4.2 IT upgrades

Another important factor is the need for additional IT infrastructure (Jermakowicz and Gornik-Tomaszewski, 2006). This was primarily necessary as the bookkeeping systems accounted for transactions using the local or domestic GAAP. Before being able to convert to IFRS, it was necessary to replace these bookkeeping methods to become IFRS compliant (Capkun et al, 2012). Although it is not expected that an overhaul of the IT infrastructure is necessary before the introduction of IFRS 13, this remains an area for further analysis. The topic is, therefore, presented to interviewees.

2.4.3 Implementation guidance and interpretation of the standards

Jermakowicz and Gornik-Tomaszewski (2006) performed a survey on the implementation of IFRS by EU-listed entities. This study finds that the main difficulties in implementing IFRS include the complex nature of IFRS, the lack of IFRS implementation guidance and lack of uniform interpretation based on 112 of the top 500 European firms in 2005. Capkun et al (2012) iterates that the lack of implementation guidance was broadly criticised. In line with this, Schipper (2005) notes that in order to overcome these obstacles in future, a possible increase in demand for additional implementation guidance may be required. Where such implementation guidance is not provided, Schipper (2005) predicts that preparers will look to US GAAP or national GAAP for guidance, resulting in a decrease in comparability of financial information.

As the lack of implementation guidance and a lack of uniform interpretations of standards are found to be inhibitors in adopting IFRS, these factors form part of the interview process to assess whether these remain inhibitors to adopting a particular standard within IFRS.

2.4.4 Cultural, educational and economic factors

The joint efforts of the IASB and FASB to develop high quality common accounting standards during 2006 targeted and mainly focused on developed countries (Zehri and Abdelbaki, 2013). Accordingly, the adoption of IFRS by developing countries, such as South Africa, depends on a number of factors. Zeghal and Mhedhbi (2006) perform a study to address what little research had been conducted relating to these factors. In order to develop hypotheses, Zeghal and Mhedhbi (2006) focused mainly on the research available on the relationship between "the planning and evolution of a country's accounting system and the characteristics of its environment" Zeghal and Mhedhbi (2006, p. 376). The factors selected include: economic growth, level of education of preparers of financial information, the degree of external openness, cultural membership and the existence of a capital market and were selected due to their importance in the decision. Zeghal and Mhedhbi (2006) find that the level of education of preparers of financial information, existence of a financial market and cultural membership are factors that are positively and significantly tied to the adoption of IFRS standards in a sample of 64 countries. They find that no significant relationships exist for economic growth and external economic openness.

Zehri and Abdelbaki (2013) performed a similar study to that of Zeghal and Mhedhbi (2006). In their study, Zehri and Abdelbaki (2013) find that a high level of education and a common law based legal system are significantly tied to the adoption of IFRS standards by developing countries. As for cultural membership, existence of a capital market and the political system, these factors seem to have no significant effect on the decision to adopt IFRS.

As both studies find that the level of education of preparers of financial information has a significant effect on the decision to adopt IFRS, this is included in the interview questions. As the studies contradict one another with regards to culture and the level of economic growth, these are also included in the interview questions.

2.4.5 Accounting disclosure

IFRS applies a principles-based approach and common-law institutional logic to accounting which requires more disclosure of information and restricts accounting choices available to managers using IFRS than most local accounting standards (Ashbaugh, 2001; Guerreiro et al, 2012) IFRS encourages less accounting discretion, higher levels of transparency, higher accounting quality and a loss of private benefits for company insiders (Ashbaugh, 2001; Guerreiro et al, 2012). As there is less discretion allowed in IFRS compared to other local standards, there is less responsiveness to adopt IFRS early (Guerreiro et al, 2012). This is contrary to the findings in Ashbaugh (2001) who assessed the benefits of adopting IFRS as opposed to other accounting standards. Ashbaugh (2001) found that firms were more likely to disclose IAS financial information when required, even though more financial disclosures and restrictions on accounting method choices were imposed. The reason for this is that IAS allows greater flexibility in terms of accounting measurement choices and requires fewer disclosures than US GAAP.

In separate studies performed by Wagenhofer (1990) and Gietzmann and Trombetta (2003), preparers of financial information appear to be particularly concerned about providing additional accounting disclosure. One reason for this is a loss of competitive advantage[6]. In these studies it was found that firms did not provide full accounting disclosure where it was expected that competitors would use the information provided in the financial statements for their own gain (Wagenhofer, 1990; Gietzmann and Trombetta, 2003).

As there appears to be controversy surrounding the costs and benefits of additional accounting disclosure and as IFRS 13 specifically requires additional disclosure interviewees were asked whether this disclosure affected their decision to adopt IFRS13 early or not.

2.4.6 National versus international regulations

As a number of South African listed entities are listed in a foreign country such as the Europe (see JSE, 2013), it is necessary to consider the effects that regulations in these foreign countries have on an entity's ability to adopt a standard early.

[6] This is discussed in Section 2.4.11

Before adopting new standards, the EU follows an endorsement process in order to ensure that the standard will improve financial reporting (Brown and Tarca, 2011; Delvaille et al, 2011; Abela and Mora, 2012). The European Commission continues to pressure the IASB to indicate the expected effects of the standards being set. Regulators are being asked to assess the efficacy of what they do and whether the instruments that they rely on achieve their intended objectives (Abela and Mora, 2012). This is particularly complicated when considering IFRS and in responding to these requests to support the increased integration of the world's capital markets. The IASB has acknowledged that the process of adopting standards is not automatic and usually relies on an endorsement process to include the standards into a legal framework (Brown and Tarca, 2012; Abela and Mora, 2012). Accordingly, it ultimately falls to the local body to make the final assessment in order to determine whether or not to adopt a new or amended standard. This has created inherent tension as capital markets are increasingly becoming more global whilst regulations rely on local processes (Abela and Mora, 2012). The global versus local divide makes consideration of the effects of accounting standards more complex. This states the increasing importance of regional regulatory bodies such as the European Financial Reporting Advisory Group to assist in bridging the gap between the global and local divide (Abela and Mora, 2012). This evidences that before standards can be adopted by entities listed in the EU, these standards need to be endorsed by the European Commission.

The most significant impediments for convergence to IFRS in the EU appear to be the complicated nature of the particular IFRS, such as accounting for financial instruments and the tax-orientation of many national accounting systems (Larson and Street, 2004). Another issue that arises is that listed companies are only required to use IFRS for their consolidated accounts, whilst individual accounts use another basis of accounting (Larson and Street, 2004). Non-listed companies are also only required to use another basis of accounting while listed companies will only be required to use those IFRS standards that have been approved for use in the EU (Larson and Street, 2004). Examples of standards and amendments not yet endorsed by the EU include but are not limited to Annual Improvements to IFRS's 2011 – 2013 Cycle, Annual Improvements to IFRS's 2010 - 2012 Cycle, Defined Benefit Plans: Employee Contributions (Amendments to IAS 19), Amendments to IFRS 11: *Accounting for Acquisitions of Interests in Joint Operations*, Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*, Amendments to IAS 16 and IAS 41: *Bearer Plants*, Amendments to IAS 27: *Equity Method in Separate Financial*

Statements, Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between Investor and its Associate or Joint Venture*, Annual Improvements to IFRS's 2012 - 2014 Cycle, IFRS 15: *Revenue from Contracts with Customers*, IFRS 14: *Regulatory Deferral Accounts* and IFRS 9: *Financial Instruments* (Deloitte, 2014). Each EU country is given the option of whether IFRS will be required or allowed in the preparation of listed companies' individual accounts and non-listed companies consolidated and or individual accounts (Larson and Street, 2004).

This provides evidence that EU regulations may have a significant impact on an entity's decision to adopt a standard early. As the EU are required to endorse the standard before it can be adopted by an entity (Abela and Mora, 2012) this may affect a South African entity with a parent company in the EU from early adopting a standard. This is analysed in more detail through the interview process

2.4.7 Earnings management

Numerous studies have found that earnings management plays a key role in an entity's decision to adopt a standard. In order to obtain a better understanding of earnings management and its effects, earnings management has been discussed in detail (Bartov et al, 2005; Daske et al, 2006; Barth et al, 2008; Christensen et al, 2007; Capkun et al, 2012)

Earnings management is defined as:

> "...reasonable and legal management decision making and reporting intended to achieve stable and predictable financial results" (Thomson, 2013, p. 1).

Earnings management is not an illegal activity. There is, however, a fine line between earnings management and fraudulent misrepresentation of financial information (Thomson, 2013).

Benefits and incentives to manage earnings within financial statements include showing smoothed earnings and stability of financial results over time, positive impacts on the equity value and earnings relationship, maximizing share price, boosting management credibility and avoidance of litigations costs, managing analysts' expectations and management incentives received (Healy 1985 in Degeorge et al, 1999; Hunt, 1997; Degeorge et al, 1999; Rosenfeld, 2000; Bergstresser and Philippon, 2006).

Studies of the effects of accounting quality before and after the introduction of IFRS by firms that voluntarily adopted IFRS have been performed by numerous researchers (Bartov et al, 2005; Daske et al, 2006; Barth et al, 2008; Christensen et al, 2007; Capkun et al, 2012). Barth et al (2008) and Daske et al (2006) find that these firms have lower earnings management, higher value relevance and more timely recognition of losses after the introduction, compared to the firm's local GAAP accounting. Christensen et al (2007) contradict these findings by arguing that a decrease in earnings management is confined to early adopters of IFRS that have an incentive to increase transparency. They continue to argue that the reason for this is the firms' commitment to increase transparency of reported earnings. Christensen et al (2007) find that firms that delay the adoption of IFRS have a lower analyst following, indicating that these firms have less demand for transparent information by capital markets. Capkun et al (2012) argue that the difference in results found by Christensen et al (2007) and Barth et al (2008) arises from changes in IFRS standards during 2005. Bartov et al (2005) add onto these studies by finding that the abovementioned findings only hold true for profit-oriented firms.

Interviewees are further questioned in this regard.

2.4.8 Compliance with IFRS

The South African Company's Act 71 of 2008 (Companies Act, 2008) as well as the Johannesburg Stock Exchange's (JSE) Listing Requirements require listed companies to report in terms of IFRS (South African Companies Act, 2008;JSE, 2013). These prescribe the use of IFRS for all listed entities without exception (South African Companies Act, 2008; JSE, 2013).

In a study performed by Stent et al (2013) in New Zealand, the firms' responses and attitudes to the adoption of IFRS were investigated. Stent et al (2013) found that very little narrative disclosure relating to IFRS in the annual reports is provided in the year in which IFRS is adopted. This suggests that governing executives perceived that IFRS has a relatively low importance to overall business operations. This lack of importance was due to a low level of IFRS disclosure in their form-oriented results. In agreement with these findings, Hopwood (1987) found that many preparers of financial information are of the opinion that accounting is limiting and laborious and is independent of business operations. This study has found that accounting has become disconnected from the context in which it operates. From the above articles, it appears that accounting is increasingly seen by preparers of financial information

to be more compliance-driven rather than a reflection of the "underlying processes and forces at work" (Hopwood, 1987, p.207). A reason for this is "because of the conceptual difficulties of relying on the useful information notion, sound financial reporting is in fact defined as that which complies and comports with procedures and rules" (West, 2003 in Ravenscroft and Williams, 2009, p.771).

Despite the claims that IFRS is principles-based, standards are becoming progressively rules-based in order to limit the amount of professional judgement in preparing financial information (Sunder, 2009; Danjou, 2013). The aim of this is to reduce divergences in interpretations (Sunder, 2009). This has been evidenced through the requirements within IFRS 13 to provide more disclosure in more subjective instances such as where it is concluded that fair value cannot be based on available share prices (see IASB, 2011). As IFRS 13 focusses on disclosure by providing additional requirements, this suggests a preference for rules rather than professional judgement. In consequence, it is assessed through the interview process whether South African preparers of financial information have the same thoughts relating to IFRS disclosure in IFRS 13 and, accordingly, the decision to adopt the standard early.

2.4.9 Standards for different industries

Standards used for different industries are equivalent to a business model approach. This approach to accounting, although not specifically defined by the IASB, has been described by dissenting Board members as:

> "…the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long-term" (IASB, 2013, p. 3).

This approach has increased its presence within IFRS, resulting in changes to the financial instruments, investment property, inventory fixed assets and segmental reporting (Danjou, 2013; IASB, 2013).

In a study performed by Hopwood (1987), it was noted that accounting standards are under significant pressure to change. One of the questions being raised is the effect that accounting standards may have on different organizational forms and processes. There also appears to be increased pressure on standard setters to become more strategy-based in their requirements (Hopwood, 1987; IASB, 2013). Furthermore, this method of accounting would help users to

assess the resources of the entity, claims against the entity, and how management have discharged their responsibilities to use the entity's resources (IASB, 2013).

Additionally, the SEC concept release has also mentioned industry-specific accounting standards (Deloitte, 2014): it was decided to accept "home country" treatment or "host country" treatment, these being the GAAP standards applied in the particular country.

Notable shortfalls of such an accounting method includes the reduction in comparability, less neutral information being conveyed to users as it would encourage preparers to show the most favourable outcome and such a basis would be difficult to define and apply on a consistent basis (IASB, 2013).

As a business model approach to accounting is an area under current debate, interviewees are asked whether the absence of a business model approach in IFRS 13 is an area of concern.

2.4.10 Resistance

Resistance to IFRS is evidenced by an unwillingness to adopt or comply with a standard or accounting system (Saidin et al, 2014). Resistance towards convergence arises because of doubts regarding the "uniform suitability and relevance [of IFRS] in diverse economic, political and institutional settings across the globe" (Saidin et al, 2014, p. 295).

In a survey conducted by Liu et al (2011) on 163 chief financial officers and investors across Europe, America, the Middle East and Asia, it was found that there is less resistance to IFRS by investors and CFO's alike. The reasons provided for this included an increased understanding of the standards, as well as a change in attitude about IFRS.

In a study performed by Gelter and Kavame (2014), the dynamics of resistance towards IFRS are discussed. This study focusses on US resistance towards IFRS while also considering resistance towards IFRS by other countries throughout the world. European countries showed particular resistance towards IFRS adoption. Two such countries were Germany and France. The reasons provided for such resistance stemmed primarily from the institutional differences between German GAAP and French standards. These standards, unlike IFRS, were primarily based on statutes for creditor protection and taxation. The change from local standards to IFRS by these countries caused a considerable amount of resistance which is still being

experienced today. This resistance is seen in the limited use of IFRS – where IFRS is only required for consolidated accounts of publicly traded accounts.

A study performed by Tremblay and Gendron (2011) considered the logic of resistance towards rules incorporated within corporate governance by audit committees. These rules were incorporated as a result of the Enron debacle. In this study, it was found that, although committee members adhered to the new obligations, these members conveyed confidence in their abilities to oversee the reliability of financial information, irrespective of these new rules. In other words, resistance manifests itself in the decision to delay the introduction of new prescriptions because of a belief that management's existing practices are adequate. Although corporate governance is not directly related to this study, the general principle is that governance-related prescriptions (of which IFRS can be seen as an example) can be met with a logic of resistance. Consider, for instance, the following comment:

> "Financial statements are now a hodgepodge of rules and valuations justified on the dubious argument that the resulting statements are useful because they are being produced in accordance with principles of financial economics" (Ravenscroft and Williams, 2009, p 784).

If this is indeed the case, it is possible that preparers of financial statements respond to new accounting standards more as an exercise in compliance with the rules (Section 2.4.8) than as a means of improving the quality of the reporting process. Similar to the findings of Tremblay and Gendron (2011) and Gelter and Kavame (2014), the adoption of the standards becomes an exercise in paying lip service to accounting regulation because the accounting developments are not seen as directly relevant to the organisation or its stakeholders. Due to the fact that many jurisdictions, including South Africa, mandate compliance with IFRS it is also possible that resistance manifests itself in a decision to delay the early adoption of IFRS. As such, the possibility of resistance influencing the decision to adopt IFRS 13 early is discussed with interviewees.

2.4.11 Competitors

Another factor when electing whether or not to adopt a standard early is competitors within the industry (Holthausen and Leftwich, 1983; Wagenhofer, 1990; Gietzmann and Trombetta,

2003). Decisions of competitors may impact decisions of others, as identified in the literature below.

Holthausen and Leftwich (1983) studied the economic consequences of voluntary and mandatory adoption of standards. They found that where there are no significant changes to the accounting standard, preparers of financial information can minimize decision-making costs by copying the competitors' accounting methods. Entities following the decisions of competitors do not have to spend resources explaining their choice as this is the tendency within the industry (Collin et al, 2009). Another reason provided for following industry reporting trends is that deviations from these trends could be interpreted as a negative signal to suppliers and labourers (Inhausti, 1997 in Collin et al, 2009). This brings into question whether preparers of financial information follow adoption patterns of competitors in order to avoid unintentional signals to suppliers and labourers or not.

Another notable reason for following the industry is to sustain a competitive advantage (Fields et al, 2001; Ball, 2006; Collin et al, 2009). This can be obtained through the use of similar accounting choices, so creating an ambiguity between performance and the resources and routines that produce this performance. This it inhibits competitors from identifying the cause of the advantage.

In a study performed by Wagenhofer (1990), a model was developed to determine a firm's disclosure policy. Wagenhofer (1990) found that there is full disclosure equilibrium but there is also partial disclosure equilibrium based on the information to be disclosed, the level of potential political costs and the likelihood of the competitor's entry. Where it can reasonably be expected that competitors will use the information disclosed in financial statements, the partial disclosure equilibrium is used to maintain a competitive advantage. A similar study was performed by Gietzmann and Trombetta (2003) with similar results. As competitive advantages are perceived to decrease with additional disclosure of financial information and as IFRS 13 specifically requires additional disclosure[7], the role of disclosure and competitors in an entities decision to adopt IFRS 13 early is brought into question.

[7] This has been discussed in Section 2.2 and Section 2.4.5

2.5 Summarising remarks

Section 2.4 has discussed various factors which may influence an entity's decision to adopt IFRS or early adopt particular accounting standards. The table below provides a summary of the factors influencing early adoption and the primary academic references relating to these factors. The table also provides references to questions included in the interview agenda. These are cross-referenced to the results (Section 4).

Table 1: Summary of factors that influence voluntary adoption as evidenced through prior literature			
Factor influencing the decision to adopt early	**Primary academic references**	**Questions on interview agenda[8]**	**Reference to Results**
Implementation guidance and interpretation of standards (Section 2.4.3)	Jermakowicz and Gornik-Tomaszewski (2006) Schipper (2005)	Question 1.1 Question 1. 2 Question 1.3	Section 4.2
Staff training (Section 2.4.1)	Capkun et al (2012)	Question 1.4	Section 4.2
Role of the auditor (Section 2.4.1)	Capkun et al (2012)	Question 4	Section 4.2
IT upgrades (Section 2.4.2)	Capkun et al (2012)	Question 2.1	Section 4.2
Accounting disclosure (Section 2.4.5)	Guerreiro et al (2012)	Question 5.2	Section 4.2
Cultural, educational and economic factors (Section 2.4.4)	Zeghal and Mhedhbi (2006)	Question 2.2	Section 4.3

[8] The interview agenda can be found in Appendix A

Table 1: Summary of factors that influence voluntary adoption as evidenced through prior literature			
Factor influencing the decision to adopt early	**Primary academic references**	**Questions on interview agenda[8]**	**Reference to Results**
National vs international regulations (Section 2.4.6)	Abela and Mora (2012) Brown and Tarca (2011)	Question 8	Section 4.4
Compliance (Section 2.4.8)	Stent et al (2012) Hopwood (1987)	Question 3.3	Section 4.5
Competitors (Section 2.4.11)	Wagenhofer (1990) Gietzmann and Trombetta (2003) Collin et al (2009)	Question 6 Question 8	Section 4.6
Standards for different industries (Section 2.4.9)	Danjou (2013) Hopwood (1987)	Question 3 Question 7 Question 8	Section 4.7
Earnings management (Section 2.4.7)	Barth et al (2008)	Question 2.3	Section 4. 8

Table 1: Summary of factors that influence voluntary adoption as evidenced through prior literature			
Factor influencing the decision to adopt early	**Primary academic references**	**Questions on interview agenda[8]**	**Reference to Results**
Resistance (Section 2.4.10)	Saidin et al (2014) Gelter and Kavame (2014) Liu et al (2011)	Question 1 Question 5.1	Section 4.9

Table 1 summarises the major factors that are expected to influence the adoption of IFRS 13 as discussed in Section 2. The above table identifies the primary academic literature used to support these major themes as well as identifying where these themes are discussed within the Section 4. Lastly, the table identifies how the questions posed to interviewees relate to the major themes. Following on from this, the next section discusses the research approach followed and is explains what is meant by interpretive research.

3. Data and method

This section of the report provides an explanation of the chosen research method. Section 3.1 discusses the difference between positivist and interpretive research as well as qualitative research. Section 3.1 concludes that interpretive research is the preferred research method for this report. Section 3.2 discusses the chosen research methodology, semi-structured interviews, as well as the reasons for selecting the specific participants. Section 3.3 discusses the sample selection while Sections 3.4 – 3.6 discuss the data collection, analysis and limitations respectively. Lastly, Section 3.7 summarises the research approach.

3.1 Research paradigm

A positivist approach to research recognizes that there is no absolute truth when studying human behaviour and actions (Creswell, 2009). A positivist approach to research examines the causes that affect the outcome of a particular issue. The knowledge developed through this approach involves the "careful observation and measurement of the objective reality that exists" (Creswell, 2009, p. 7). In addition, a positivist approach ignores the respondents "ability to reflect on problem situations, and to act on this" (Robson, 1993 in Christie et al, 2000, p. 5). This approach to research aims to develop numeric measures for the observation of the individuals being studied thus providing a quantitative analysis to the issue at hand (Creswell, 2009; Maroun, 2012). Positivist approaches establishes a theory, collects data to either support or refute this theory, and then revises the theory before conducting additional testing (Creswell, 2009). In addition, data collection techniques mainly centre on experiments and surveys that are outcome oriented (Christie et al, 2000).

In contrast to the positivist approach, exploratory and interpretive research involves the exploration of new phenomena which may aid the researcher's understanding of the topic at hand and may also assess the feasibility of future research (Maroun, 2012; Harvard, 2014). In addition, and in contrast to the positivist approach, exploratory research has a broad focus and rarely "provides definite answers to specific research issues" (Harvard, 2014, p. 1). The aim or objective of an exploratory analysis is to identify key issues or variables on the topic at hand rather than supporting or refuting a theory.

Owing to the recent implementation of IFRS 13, and the fact that little research has been done on voluntary adoption of IFRS standards, an interpretive research approach is

considered to be most suitable (O'Dwyer et al, 2011). Another reason for this is that the methodology recognizes the "social and cultural variables that impact on the subject matter" (Maroun, 2012, p. 2). In addition, no attempts are made to quantify the effects of voluntary adoption of IFRS standards. In light of this, an in-depth understanding of the interpretive approach, which is also referred to as qualitative research, should be obtained (Leedy and Ormrod, 2001; Creswell, 2003; Williams, 2007).

A definition of qualitative research provided by Hakim (1987, p. 26) states that:

> "…offers richly descriptive reports of individuals' perceptions, attitudes, beliefs, views and feelings, the meanings and interpretations given to events and things, as well as their behaviour; displays how these are put together, more or less coherently and consciously, into frameworks which make sense of their experiences; and illuminates the motivations which connect attitudes and behaviour, the discontinuities, or even contradictions between attitudes and behaviour, or how conflicting attitudes and motivations are resolved in particular choices made."

The term 'qualitative research' encompasses a number of different approaches (Leedy and Ormrod, 2001). Nonetheless, all qualitative approaches involve the studying of phenomena in all of their complexities. This enables the researcher to gain an in-depth understanding of the topic at hand from high involvement in the actual experiences (Creswell, 2003; Williams, 2007). Qualitative research is also a holistic approach that allows discovery of the research topic at hand (Williams, 2007). The purpose of qualitative research is usually to discover and encapsulate meanings once the researcher thoroughly considered the data (Harvard, 2014). Shortfalls noted in this type of research include a high degree of subjectivity (Creswell 2009; Maroun 2012). In spite of this, Maroun (2012, p. 1) points out that "there is nothing wrong with subjectivity" and "with expressing one's opinion." In order to make sense of information gathered, it is critical to interpret this information as there is not necessarily a "single ultimate truth" to be discovered (Leedy and Ormrod, 2001, p. 135).

Although there are weaknesses in a qualitative research approach, this approach is still considered the most appropriate method for this research topic as it allows the researcher to understand the research topic in all its complexities (Leedy and Ormrod, 2010; Maroun, 2012; Harvard, 2014). As this research topic delves into areas of little research, a full understanding of the research topic is therefore desirable.

3.2 Method: Detailed interviews

The interviewing process is primarily aimed at gathering facts and insights or opinions of the interviewee (Qu and Dumay, 2011; Rowley, 2012). Other data collecting techniques such as questionnaires were also considered as a research method. Although the benefits of using a questionnaire include an increase in sample size and decreased time constraints, this method fails to explore areas not initially apparent to the researcher (Rowley, 2012). On the other hand, the use of interviews results in a higher degree of subjectivity within the research (Maroun, 2012). Despite this, the selected approach does not result in a lack of clarity or a failure to make a meaningful contribution to research (Creswell and Clark, 2007; Maroun, 2012) but rather seeks a realistic, although shared[9], understanding of the phenomena (Qu and Dumay, 2011). Moreover, the interview process provides the opportunity to obtain more meaningful insight into the topic whilst elaborating on more stimulating or surprising responses from those who use this standard on a daily basis (Qu and Dumay, 2011; Maroun, 2012; Rowley, 2012). As this study aims to explore voluntary adoption in more depth, the interview process was the most appropriate method.

Another consideration was the type of interview method. As many key themes, but not all, were known in advance (see Section 2.5), it was resolved that a semi-structured interview process should be followed (Qu and Dumay, 2011). This involved the preparation of questions based on a number of central themes identified within the prior research conducted whilst simultaneously allowing more probing questions to be asked in order to elaborate on the responses received. This method allows the interviewees to provide responses in their own terms and using their own thought process. As such, it provides the researcher with a detailed understanding of the way the interviewee interprets the research topic at hand (adapted from Qu and Dumay, 2011; Maroun, 2012; Rowley, 2012).

Although the time-consuming process of preparing, interviewing, transcribing, following up and analysing the interviews which creates a degree of subjectivity in the research as a result of familiarity with the topic, safeguards are available to ensure validity of the data (Creswell, 2009; Rowley, 2012). These safeguards include using interviewees with experience in the accounting field and those members who are best suited to answering the questions at hand, ensuring that the interview questions are appropriately designed and tested, providing the

[9] This understanding will be shared between the researcher performing the interview and the interviewee answering the research questions

interviewees with the transcribed interview thus allowing the interviewee to confirm the credibility of the information, analysing the data received from the interview and disclosing the various identified limitations within the study (Creswell and Miller, 2000; Creswell, 2009; Rowley, 2012).

3.3 Sample selection

3.3.1 The industry and companies selected

The participants are from the consumer and industrial products and services industries. It is important to note that only people working for publicly listed companies were considered in the selection of these participants. Variations in responses between types of entities, for example, manufacturing and retail entities, are not considered. This is an area for future research (Section 5.3). This is due to a JSE requirement that all publicly listed companies use IFRS as opposed to SA GAAP[10] as from 1 January 2005 (IFRS Foundation, 2013). Moreover, South African entities whose securities are publicly traded are required by the Companies Act of 2008 to use IFRS[11] in their consolidated financial statements. As such, individuals working for listed entities will have first-hand experience with these standards and the voluntary adoption. Another contributing factor to using individuals working within publicly listed companies is that these entities are required to make their financial statements available to the public. Accordingly, there is an added ease in obtaining the required information from the financial statements such as whether the entity early adopted standards previously and the reasons for doing so (see JSE, 2013). In addition, contact details of individuals working for publicly listed entities are also available to the public and enable the researcher to contact these individuals.

As this study focusses on the general perceptions surrounding voluntary adoption of IFRS 13 by preparers of financial information, it was concluded that certain industries should be excluded. The industries specifically excluded from this study are the banking, insurance and mining industries. This is because these industries require additional industry-specific reporting requirements (see IASB, 2011). Hence, the views and findings within these industries cannot be generalised to the remainder of the industries.

[10] After the introduction of IFRS, SA GAAP has subsequently been withdrawn

[11] These entities are also precluded from using IFRS for SME's

3.3.2 The participants selected

The participants, being those members primarily involved in the preparation of financial information[12], have been purposefully selected in order to seek a 'richness of data about a particular phenomenon' (Tuckett, 2004, p. 49).[13] This is consistent with the approach of understanding the perspectives of those preparers specifically involved in shaping the practice of voluntarily adopting standards (O'Dwyer et al, 2011; Williams, 2007). These preparers are the most influential members in developing the practice of voluntary adoption of IFRS in a South African context, and their perspectives contribute significantly to the quality and relevance of the data collected.

Audit managers and partners of the "Big Four"[14] audit firms have also been selected. These participants are actively involved in the audit function of JSE listed entities. Furthermore, these individuals are involved in reviewing the decision-making process of these JSE listed entities and making recommendations regarding the adoption and application of IFRS (Section 2.4.1). As a result, these participants have first-hand knowledge of how companies are internalising the requirements of IFRS and can provide significant insights for the purpose of this study. In order to avoid these audit managers from speculating about decisions made by financial managers of listed entities, these audit managers were asked to refer to their listed clients and draw on their first-hand experiences with clients deciding whether or not to early adopt IFRS 13. As such significant differences in opinion between audit managers and preparers' of financial information were not noted during the course of the study (Refer to Section 4).

At this point, it is important to note that differences in views among classes of participants are not considered. It is important to note that although a range of participants has been selected for this process, the focus of the interviews is on specific factors that affect voluntary adoption. As such, where audit managers have been interviewed, these managers focussed on specific client knowledge. It is necessary to interview a range of participants owing to a limitation of access to personnel working in listed entities. As a result, secondary information

[12] These were mainly Chief Financial Officers and Financial Managers

[13] While the risk of purposeful selection of interviewees introduces the risk of bias, this selection enabled the participants to provide detailed and informed accounts of their experiences

[14] PricewaterhouseCoopers, Deloitte, EY and KPMG

received from audit managers is relied upon. Table 2 below provides a graphical depiction of the segregation between audit managers and financial managers interviewed.

Table 2: Interview candidates segregated between audit managers and preparers' of financial information	
Audit managers	**Preparers' of financial information**
A1	A2
A3	A5
A4	A6
A9	A7
A10	A8

Relatively small sample sizes are inherent to qualitative research (Rowley, 2012). Owing to this, it is not possible, to generalize the results of these findings (Creswell and Clark, 2007). Rather, detailed accounts of the participants' experiences are explored resulting in the data obtained being more extensive and insightful than positive research (Leedy and Ormrod, 2010; Maroun 2012). As recommended by Rowley (2012), ten interviews were performed ranging from 45 to 90 minutes in length. Once ten interviews were performed a level of saturation was reached. This was evidenced through the repetition of responses received. As such, no further interviews were necessary.

3.4 The data collection

In order to set up these interviews, the interviewee was contacted telephonically or via e-mail (Rowley, 2012; Leedy and Ormrod, 2010). As employees from publicly listed companies were used in the interview process, the contact details of the relevant Financial Director were publicly available. The interviewees were provided with an overview of the nature and purpose of the research and were asked to participate in the study. The anonymity of the company, as well as the interviewee, was ensured.

Once interviewees agreed to be interviewed, a copy of the interview agenda was made available. In addition, a research information sheet was e-mailed to the interviewee. This included a summary of the research objective, assurance that the company and interviewee will remain anonymous, and the fact that information provided is strictly for academic purposes. In addition, a consent form was signed by each interviewee granting the researcher permission to record the interview for these purposes (Rowley, 2012). If the first attempt to contact the interviewee was unsuccessful, a follow-up occurred (Rowley, 2012; Leedy and Ormrod, 2010).

In performing the interviews it was necessary to obtain some sort of data saturation (Tuckett, 2004). This saturation was obtained through the quality of information received from the interviews performed rather than the number of interviews performed as is evidenced through quantitative research (Carey, 1995 in Tuckett, 2004). Accordingly, the number of interviews performed was primarily based on evidence of data saturation. Data saturation was reached when no new findings were obtained in the interview process (Higginbotham et al 2001, in Tuckett, 2004). Consequently, data saturation was assessed through a comparison of the data obtained from the interviews conducted (Glaser, 1999).

Throughout the interview process, it was necessary to reconsider all the data received from the interviews in order to ensure that all themes were identified and correctly interpreted (Tuckett, 2004). Through this process it was possible to identify similarities and/ or differences between the interviewees and their respective opinions and where differences arose, it facilitated further discussion in later interviews with other interviewees.

3.5 Data analysis

Once the interviews were conducted, the recordings were transcribed by the researcher. In order to ensure the validity of the results, the interviews were documented in detail to provide an in-depth account (Maroun 2012). Data analysis followed a three-step approach: data reduction, data display and verification (O'Dwyer et al 2011). Individuals were assigned an interview code to keep track of each interview and to ensure confidentiality when the interview material was referred to in the results (Rowley, 2012). The transcribed interviews were then analysed in-depth to identify key themes (Rowley, 2012, Leedy and Ormrod, 2010). These key themes were developed from prior literature and updated as additional information emerged from the interview process. Key themes identified through prior

research included the objectives of financial reporting, technical issues and compliance issues. In performing this analysis, however, key themes were not limited to themes already identified.

A summary table of the key themes was prepared, identifying the nature of the theme and the location of these themes within the interview (O'Dwyer et al, 2011). A coding system was developed for each theme and specific attention was given to contradictions within the interviews and among interviewees (O'Dwyer et al, 2011; Rowley, 2012). The key themes were derived from the literature and are consistent with those found in Table 1.

An important aspect with qualitative research is interpretation (Rowley, 2012). In order to make sense of the data and to avoid any bias in interpretation, two researchers were actively involved in the interview and interpretation process. Where differences existed within interviews and between interviewees, follow-up interviews via email were performed for clarity purpose (Rowley, 2012; O'Dwyer et al, 2011). The aim of this phase is to ensure saturation of the issues has been obtained rather than to reach a definitive reason for or against the voluntary adoption of IFRS 13 (O'Dwyer et al, 2011).

3.6 Limitations

Although every effort has been made to ensure validity and reliability of the research information, the following inherent limitations must be noted:

- Owing to the fact that an experience is not directly observable, a participant's experience is limited to his/ her ability to reflect accurately the experience (Polkinghorne, 2005). The risk to research quality is, however, mitigated by the fact that probing questions were asked, allowing for an in-depth understanding of the experience to be obtained.

- There is a risk that the interviewees rehearsed responses to questions from the interview agenda that do not reflect their points of view. This may be due to pressures from employers or where they feel compelled to give a politically correct response (Holland, 2005; Creswell, 2009). This has been addressed by ensuring the anonymity of the participant, as well as the entity but complete assurance cannot be provided.

- As the interviewees were specifically selected, there is a possibility that participants have a particular bias towards a specific response (Tuckett, 2004)
- Although the interviewee responses have been analysed in-depth, it is possible that there are multiple aspects of the situation discussed within the interview (Silverman, 2013). Attempts to mitigate this included follow-up e-mails with the participants to ensure that the response was understood accurately by the interviewer.

3.7 Summary

In summary, the aim of this research is not to find a definitive reason for or against the voluntary adoption of IFRS: it is to explore the possible reasons for such a decision, specifically in South Africa. Detailed semi-structured interviews allowed respondents to express their views. This was an iterative process in order to ensure that the interviewees' views were correctly interpreted and to ensure saturation of information. The views of the interviewees were assessed and all views were analysed in line with prior literature. The findings of the interviews are presented in Section 4 below.

4. Results

This section of the research report documents the findings from the detailed interviews. The interview agenda has been included in Appendix 1. Section 4.1 – 4.9 examines the interviewees' views and considerations when determining whether or not to adopt IFRS 13 early. The order in which the findings are presented is not significant. The findings are presented in the order in which the questions were posed and in line with Section 2. In addition, the majority of the interviewees did not adopt IFRS 13 early. This section provides explanations for why this standard was not adopted early.

4.1 IFRS 13 and comparability[15]

As noted in Section 2.1 and Section 2.3, prior research on fair value accounting and voluntary adoption primarily focuses on comparability of financial information. Interestingly, the common theme emerging in the interviews was that comparability was the most crucial consideration when deciding whether or not to adopt IFRS 13 early. Interviewees felt that an entity's performance can only be accurately assessed if the figures presented are comparable against both current year entity figures and competitors in the market (A1; A2; A5; A7; A10):

> "If you lose comparability, people lose faith in [financial statements]." (A5)

> "Interpretation and the amount of work is difficult to assess unless **you see what the changes [to the standards] are** so you will see what your competitors are doing and the impact on their numbers before we early adopt." (A1, emphasis added) [16]

Many interviewees were of the opinion that comparability did not increase with the introduction of IFRS 13 (A1; A3; A4; A5; A7; A9). This mainly arose due to the standards affecting different entities in different ways[17], as well as the inherent differences within the entities. This provided a possible reason for entities not early adopting IFRS 13:

> "Take 100 complex items and measure them at fair value and chuck them together into the disclosure and I am not sure what I know about your fair value that you have told me." (A3)

These views were iterated by interviewee A4:

[15] Comparability is the only qualitative characteristic discussed within this study as this was the only characteristic that was mentioned by interviewees. Supplementary to this, comparability was the primary characteristic mentioned in studies regarding voluntary adoption as well as fair value accounting (Section 2.1 and Section 2.3)

[16] Consideration of competitors' actions is considered in more detail in Section 4.6 below

[17] Consideration of IFRS 13 on different entities is briefly discussed in Section 4.7 below

> "I think that the problem is that the beasts that we are talking about are very different. So the big banks have different markets and different books. So there is a level of inherent incomparability in them."[18]

As noted by Tran (2012), the aim of implementing a standard governing fair value is to clarify and provide consistency across all pronouncements. An increase in clarity and consistency implies an increase in comparability of the financial information within the financial statements (IASB, 2011). As users do not feel that comparability of fair value information increased with the introduction of IFRS 13, this questions whether the objective of implementing the standard has been reached[19]. This study does not specifically consider whether or not IFRS 13 ensures the provision of relevant and reliable information. Similarly, the extent to which the provisions of IFRS 13 are in line with the qualitative characteristics could not be discerned from the interviews. This will need to be examined by future researchers (Section 5.3). What is clear is that at least some respondents are of the view that IFRS 13 – despite being introduced to provide guidance on fair value measurement to bolster comparability (Tran, 2012) – is not necessarily achieving this objective. Not all interviewees agreed. For many, there were a number of technical considerations which hampered the early adoption of IFRS 13.

4.2 Technical constraints

Interviewees highlighted four constraints they felt hampered the early adoption of IFRS 13. These included implementation guidance and interpretations, staff training, IT upgrades and accounting disclosure. Each of these are discussed in more detail below.

4.2.1 Implementation guidance and interpretation of the standard

Interviewees were unanimous that the implementation guidance, specifically with regards to IFRS 13, did not play a role in the decision to adopt (A1; A2; A3; A4; A5; A6; A7; A8; A9; A10). Interviewees were of the opinion that the "implementation guidance was sufficient" (A3) and no additional guidance was needed to implement IFRS 13 (A7; A9). One

[18] This statement shows the interviewees' reluctance to adopt IFRS 13. Resistance towards IFRS 13 is discussed in Section 4.9 below

[19] This study does not assess whether IFRS 13 meets the objective of financial reporting. This is an area for future research (Section 5.3)

interviewee appeared to be against additional implementation guidance[20] provided to users of financial information that is over and above that information included in the standards (A4):

> "Guidance material typically doesn't go through the same process; it doesn't get the same attention from the Board, if the Board even looks at it. So it might be a staff member's view on how to adopt a certain standard which is a very challenging place to be. I think where guidance is necessary there is enough."

Interpretation of standards refers to a preparer's ability to read and apply these standards (Jermakowics and Gornik-Tomaszewski, 2006). Differences in interpretation between preparers in determining the effect IFRS 13 would have on the entity were considered. Most interviewees found that in applying IFRS 13, no differences in interpretation were noted and this was not a factor considered when deciding whether or not to adopt (A1; A2; A4; A7; A9).

These findings are contrary to those of Jermakowics and Gornik-Tomaszewski (2006) who performed a study on the IFRS adoption process during 2004 (as discussed in Section 2.2). It was found that the key challenges of converging to IFRS was its complexity, the lack of implementation guidance and the lack of uniform interpretation. Their study considered the adoption of IFRS as a whole, whereas this study considers the voluntary adoption of a particular standard within IFRS, providing a potential reason for the differences in findings. In addition, since the adoption of IFRS by the EU, there has been an increased movement to improve the information reported to users in terms of IFRS through clear definitions and the use of the basis of conclusion for the standards (Capkun et al, 2012). As mentioned in Section 2.2, the aim of IFRS 13 was to clarify fair value measurement and did not change the specific accounting treatment of fair value accounting (Tran, 2012). For this reason, the changes to IFRS 13 were not profound and did not require additional implementation guidance (A4; A7) possibly resulting in uniform interpretations of the standard (A3; A7). Where more complex standards are implemented, guidance is provided (A3; A9; A10). In addition, users of this information are afforded the opportunity to comment on these standards (A3). In this way, it is expected that numerous differences in interpretation are resolved and clarified. All the factors noted above could provide reasons for the differences in findings although this has not been investigated further (Section 5.3).

[20] This additional implementation guidance is provided when standard setters expect difficulties in applying a new standard. This implementation guidance does not form part of the standard itself and is usually issued as an entirely separate document.

An additional factor that could result in uniform interpretation of IFRS 13 could be the training of staff members before the adoption of IFRS 13 as discussed below.

4.2.2 Staff training and the role of the auditor

Staff training seems to have played a role in the decision to adopt IFRS 13 early for some preparers of financial information (A1; A2; A3; A4; A6; A7; A8; A9; A10). This training was necessary to ensure that staff members were up-to-date with the technical aspects and accounting requirements of IFRS 13 (A1; A2; A3; A4; A6; A7; A8; A9; A10). Preparers of financial information look to auditors for this guidance and technical training (A1; A2; A3; A4; A6; A7; A9; A10):

> "When we became aware of [IFRS 13], we actually scheduled a meeting with our auditors because our accounting is not the straightforward manufacturing; our accounting is a bit more complex. We actually scheduled specific training for our entity just to make it more specific to us and our entity." (A2)

> "Management look to the auditors for [guidance on new standards]… [so] we do liaise with management to inform them of the new accounting standards which they should look out for and start planning for." (A10)

This technical training provided by the auditors does not suggest that auditors advise whether or not a standard should be adopted early (A1; A2; A4; A6; A7; A9; A10). To the contrary, this training provides assistance to the preparers of financial information so that they can make their own decision (A1; A4; A9; A10). Moreover, it appears that the auditors play an informative rather than prescriptive role to ensure that preparers are aware of possible effects on the entity (A6; A7; A9; A10). Owing to these considerations, the roles of the auditors appear to be more supportive in nature (A1; A7; A9; A10).

Only one interviewee felt that staff training was not a consideration when deciding whether or not to adopt IFRS 13 early (A5). This interviewee stated that "ongoing training" was provided to staff members and this was sufficient for them to be capable of applying the changes in standards to the financial reports (A5). This appears to be the exception rather than the rule as it appears that preparers do not have technical staff readily available to provide such training (A2; A7; A9; A10). Consequently, preparers of financial information rely on the auditors (A1; A2; A3; A4; A6).

Although interviewees admitted to bearing the need for staff training in mind when deciding whether or not to adopt a standard early, interviewees did not feel that this was a dominant factor in this decision (A6; A7; A8; A9; A10). This appears to be inconsistent with Jermakowics and Gornik- Tomaszewski (2006) who found that staff training was one of the main difficulties when adopting IFRS. These differences may arise due to the training auditors provide to clients (Jermakowics and Gornik- Tomaszewski, 2006; A1; A2; A3; A4; A6, A7; A8; A9; A10).

A potentially significant constraint in adopting IFRS standards is the availability of IT infrastructure and the need to upgrade this infrastructure before a standard can be adopted. Owing to the current technological age, this could result in a compelling rationale to resist the voluntary adoption of IFRS 13 (Capkun et al, 2012). This is considered in-depth below.

4.2.3 IT upgrades

IT upgrades were considered of extreme importance by the IASB in deciding whether a firm early adopts a standard (Section 2.4.2). Interviewees were of the opinion that this did not play a pertinent role in the decision to voluntarily adopt IFRS 13 (A1; A2; A3; A4; A5; A6; A7; A9; A10). Rather, preparers of financial information considered their reliance on IT and the need to upgrade their systems in order to convey their financial statements in a true and fair manner as separate from adoption (A1; A2; A3; A4; A5; A6; A7; A9; A10):

> "Where we are now, in my view, we would have spent the money [on IT upgrades] to make better sense of our accounts [regardless of the early adoption decision]." (A5)

In addition, it was noted that, with the introduction of a new standard, IT structures were merely realigned in order to be consistent with the requirements of the new standard (A6; A9; A10).

Another point raised by interviewees is that some preparers of financial information still use a manual system and so do not require IT upgrades for new standards:

> "No there was no IT involved. Everything was very manual and put into the system. The clients system is AccPac, so they don't rely on the systems to

> produce the information for IFRS 13. A lot of this was done manually and so there was very much manual input into these valuations." (A1)
>
> "… entities that are more manual in nature [will not] require a lot of system intervention." (A9)
>
> "[The accounting system] is more manual." (A10)

Despite the findings, further analysis on the effects of IT infrastructure in an entity's role to early adopt need to be considered because the interviewees are Financial Managers, Chief Financial Managers and Audit Managers of these entities. These personnel may not have an appropriate understanding of the IT requirements involved in the adoption of new standards. Moreover, the interviewees were solely from listed entities. It is presumed that these entities have a more advanced IT infrastructure.[21] Consequently, this is an area for future research (Section 5.3).

Although IT infrastructure is not perceived to be a constraint in early adopting IFRS 13, the additional accounting disclosure that is required by IFRS 13 could reasonably be expected to hamper the adoption of this standard (Wagenhofer, 1990; Tran, 2012).

4.2.4 Accounting disclosure

Preparers of financial information found that the additional accounting disclosures played an important role in deciding whether or not to adopt IFRS 13 early.

> "And if you can achieve some of the benefits without early adopting. I think the other reason is that you trigger the disclosure once you early adopt. People were still getting systems together to find all of that disclosure." (A3)
>
> "To have early adopted, you have to have provided that disclosure and that would be seen as a barrier to early adoption." (A3)

These statements are important because the introduction of IFRS 13 has brought about an increase in disclosure (Tran, 2012; IFRS Foundation, 2013). The views expressed indicate that there is a perceived administrative burden associated with the early adoption (A3; A7; A9). This is iterated by Wagenhofer (1990) and Gietzmann and Trombetta (2003). As

[21] This has not been explored in depth as this is not the objective of this study

mentioned above, IFRS 13 did not change the accounting treatment for fair value measurement (Tran, 2012). This provides corroborating evidence which suggests that the administrative burden referred to by the interviewees relates to the additional disclosure requirements of IFRS 13. It is imperative to note that preparers of financial information had one financial period in which to adopt IFRS 13 early which could have been a contributing factor in delaying the adoption of IFRS 13 (Appendix B). Another consideration is the additional questions that may be posed by regulators, auditors and investors, as a result of the additional disclosure provided (see Guerreiro et al, 2012). This study did not specifically probe interviewees in this regard. This will need to be considered by future researchers (Section 5.3).

These technical matters formed only part of factors considered by preparers of financial information when resolving whether or not to early adopt IFRS 13. More subtle factors such as the corporate culture, accounting education and economic factors also had an effect on the ability of the entity to adopt IFRS 13 early.

4.3 Cultural, Educational and economic factors

As discussed in Section 2.2.1, Zeghal and Mhedhbi (2006) found that the level of education, existence of an established financial market and cultural membership are factors that were positively and significantly tied to the adoption of IFRS standards for developing countries. In order to understand the reasons for and against voluntary adoption this research explored whether these factors affect an entity's decision to adopt a particular standard within IFRS.

All interviewees were unanimous in stating that cultural[22], educational and economic factors did not play a role in the entities' decision (A1; A2; A3; A4; A5; A6; A7; A8; A9; A10). One particular interviewee felt the financial reporting was in a very mature phase, not allowing other factors to contribute to such a decision:

> "I think our financial reporting environment is very mature. So we have been on IFRS for many years and the first guys to take the leap on SME's, [we are also] one of the only countries that has a really good integrated reporting framework.

[22] It is noteworthy that interviewees referred to a corporate culture rather than African culture. The extent to which cultural backgrounds influence the decision to early adopt IFRS 13 is not specifically within the scope of this research and will need to be dealt with by future researchers (Section 5.3).

> So I think that we are very mature from a financial reporting perspective. So I don't think that it is about an education issue and maturity issue at all." (A4).

An analysis performed by Marais (2008) assessed whether the South African market has made progress towards a developed market. Marais (2008, p.103) concluded that the "South African market has made significant progress towards a developed country market behaviour and that by some of the measures used … the South African market is now better characterised as a developed [rather] than emerging." The findings in Marais (2008) could provide evidence that economic factors such as the existence of a financial market did not play a pivotal role in an entity's decision to adopt a standard.

As further support relating to the development of the South African financial market, South African companies listed on the JSE were required to adopt IFRS by 2005 (IFRS Foundation, 2013). This decision resulted in South Africa being the first country in the world to "adopt IFRS as official reporting standards" (Verhoef, 2012, p. 20). According to the Executive President of SAICA, South Africa's early adoption of IFRS enhanced the country's role as a global player in the accounting field (SAICA, 2007). South Africa's Integrated Reporting Committee also issued a discussion paper on a framework for integrated reporting (SAICA, 2014). This discussion paper was the first of its kind.. Today, the South African capital market is widely accepted as a semi-strong form efficient market that serves both the domestic economy and the African continent (JSE, 2013). The JSE is also the largest exchange market on the African continent. This provides further evidence that South Africa has an established financial reporting culture, is aware of the relevance of the market and has been exposed to the rationale for using and determining fair value for many years.

To date, the South African Accounting profession is recognised internationally for its strength in reporting standards (Verhoef, 2012). In addition, the accounting profession took control of the accounting education and training in practice from the formative years. When international accounting knowledge developed, South Africa was not merely involved but led the interpretation of international standards for local markets. As a result of South Africa's high standards of accounting education and training, the country secured a place on the IASB and various other standard setting committees. This allowed South Africa to become a leader in the implementation of IFRS (Verhoef, 2012). As a result of South Africa's involvement with the IASB, the education and training programmes relating to the accounting profession

have become leaders internationally. It is not surprising that educational factors did not play a role in the entities' decision to adopt IFRS 13 early.

These findings, together with the findings by Marais (2008) and Verhoef (2012), indicate that the South African financial market has developed and has the traits of a developed, rather than an emerging, market. Together with this, South Africa's proactive approach to corporate reporting, as evidenced above, further indicates an established financial reporting culture and dedication to accounting education and advancements (Verhoef 2012; JSE, 2013). As such, although the research itself found no evidence of cultural, educational or economic influences, these factors may play a contributing role. Owing to the small sample size, these findings cannot be generalised. This is an area for future research (Section 5.3).

As cultural, educational and economic factors did not constrain the preparers of financial information from early adopting IFRS 13, regulations by national and international regulators were considered. Where regulators specify the application of IFRS, this can inhibit an entity's ability to adopt IFRS 13 (see Abela and Mora, 2012).

4.4 National versus international regulations

International as well as national regulators can play an extremely important role in an entity's decision to adopt accounting standards early:

> "One of the other things on early adoption that I was thinking about is that one of the other inhibitors is Europe. So European companies can only adopt once endorsed by the European regulator so it is not automatic like it is here. A lot of our clients filter up into a PLC or have some sort of pull up into a European entity or they have European investors, maybe not a subsidiary, which is not keen on seeing 2 sets of accounts. Unless the EFRAG has endorsed, you actually cannot early adopt. So you are stuck between a rock and a hard place because you are stuck in this limbo position where you can't early adopt, particularly if you have European shareholders. So I think that is one of the other issues around early adoption." (A4)[23]

[23] This is relevant for both listed and unlisted entities within South Africa

> "But I know in the UK the regulators have a lot of information coming out of IFRS 13 so we have heard that through the UK holding companies what their South African entities get asked for from the UK who is heavily involved." (A3)

This provides evidence that preparers of financial information are restricted from early adopting new standards depending on the requirements of their ultimate holding company and international regulatory requirements.[24] Contrary to international regulations, it is interesting to note that South African regulators do not play a pertinent role in the decision to early adopt:

> "You will see in other jurisdictions that they are a lot more involved in that process. I don't know that in South Africa they haven't been very interested in the fair value models." (A3)

Other interviewees reiterated these views when deciding whether or not to adopt early:

> "So there were no regulators at all in my view. And like I said earlier, this is a client that has early adopted standards before." (A1)

> "No, so if you look at South African regulators from a financial statement perspective they do not interfere in financial reporting. They don't believe it is their place. They will ask questions around information coming out of financial reporting but much more from a regulatory perspective." (A3)

Although regulatory effects did not play a significant role due to the regulators not playing an active role in adoption of IFRS standards (A3), it does appear that regulatory impact was considered before deciding whether or not to early adopt a standard:

> "The only other thing that was considered was the regulatory impact and the knock-on effect of that and by reporting the regulatory returns. Tax didn't come [in]. I am not aware of anything there." (A3)

Only in one instance did it appear that South African regulators were actively involved in the adoption of IFRS standards. It was noted that this did not impact an entity's decision:

[24] The effects of imperialism and colonialism have not been considered in this study.

> "It isn't directly related to IFRS 13 but the regulators did start when own credit risk adjustments came in because of IFRS 13, they started to say that they don't want you to take that benefit in your regulatory capital because there is that liability as your liabilities go down, you create more reserve. And they said we want you to back those out. So yes to that extent there has been an inter-play between the accounting and the regulators. But whether that would affect someone's early adoption decisions? No. It is more that the regulators have to play catch up to understand what the accounting changes meant." (A3)

The next three sections, namely compliance, competitors and standards for different entities, evidence major reasons why these preparers are willing or unwilling to adopt IFRS 13 early.

4.5 Compliance with IFRS

As discussed in Section 2.4, accounting is considered by many to be a compliance exercise that is independent of the business operations. Interviewees had mixed views on this point. Most believed that some aspects within IFRS had a clear link to business operations (A1; A3; A4; A5; A6; A9; A10). Consider, for instance, the following comment:

> "There is definitely a link to business operations. For example, for the defined benefit plans I mentioned earlier, this standard gave us information about a liability within our business that we were not aware of. So this information can tell us things about our business that we didn't know and provide us with guidance on how to account for this." (A6)

This statement highlights the "active role" which financial reporting and IFRS can play in an entity's operations "actively shaping organisational affairs" (Hopwood, 1987, p. 212). This view was iterated by the following interviewee specifically with regards to IFRS 13 and its effects on business operations:

> "Yes, I think in this case it is very relevant because management then knows how to run the operations. So they can see for example where the value is, where the volatility is etc. and then direct more resources in managing those resources of the business." (A1)

All interviewees felt that many standards were not particularly relevant to their financial statements (A1; A2; A3; A4; A5; A6; A7; A8; A9; A10). This arose due to the particular standard having little relevance within the entity (A9; A10). As such, many of the IFRS statements were merely a compliance exercise:

> "But I also think some of the things [are] just compliance. Like IFRS 13 for example- it has a minimal effect on our business but we still have to apply." (A6)

> "Then there is the bit on disclosed fair values which are really disclosed fair values which people will say that this stuff is just pure compliance." (A3)

> "…it doesn't always make practical business sense." (A8)

> "I think for us the standard was more fluff than price sensitive or measurement issues and [this standard] was not on top [in terms of] importance as we are a manufacturing entity." (A7)

As interviewees find that some standards provide business relevant information whilst others do not, this reflects Hopwood's (1987, p212) "different accountings are seen as reflecting different circumstances…" statement. This also suggests that IFRS standards are seen in isolation rather than a "practice [that is] orientated towards particular goals…" (Hopwood, 1987, p.211).

Further analysis of this point is beyond the scope of this research. What is relevant is the attitude of some interviewees to new accounting standards. When IFRS 13 was not seen as directly relevant due to the limited number of fair value measures currently in use, the decision to early adopt was not justified on the ground of the business operations or the information needs of the users. As suggested in Section 4.2, the importance of providing added information by means of additional disclosure was not a primary consideration. Instead, early adoption was justified on the grounds that the standard was not expected to have a significant effect. More broadly, this also suggests that the respondents did not have a generally applied conceptual approach for adopting new standards early. Similarly, when IFRS 13 was seen as directly relevant due to more frequent use of fair value measurements, interviewees appear to have merely applied the 'rules' of IFRS 13 rather than using professional judgement when assessing the impact that this standard may have on their particular entity and how users would benefit from the decision to adopt or not.

Another factor that was considered by interviewees when deciding whether or not to adopt IFRS 13 is the actions of competitors within the industry.

4.6 Competitors

During the interview process it was found that all of the interviewees considered the actions of competitors before deciding whether or not to adopt IFRS 13 early (A1; A2; A3; A4; A5; A6; A7; A8; A9; A10). For some interviewees the actions of competitors appeared to be a dominant consideration whilst for others this appeared superficial. Some of the reasons provided for considering the decisions of competitors included comparability of information between entities within the same industry (A2; A5; A7; A9; A10), delaying the process for additional guidance to be received (A4; A7; A9, A10) and an unwillingness to take the lead (A3; A7).[25]

With regards to early adopting IFRS 13, interviewees said:

> "…it is also an unwillingness to be the trail blazer - the one going through all of that and making those decisions on untested accounting literature. Rather everyone just go ahead together." (A3)

> "Interpretation and the amount of work is difficult to assess unless you see what the changes [to the standards] are; so you will see what your competitors are doing and the impact on their numbers before we early adopt." (A1)

> "We are not the first [to adopt] as we are a December year end entity so we would like to see what other entities do before we take a call on our approach." (A7)

These statements appear to be in line with Fields et al (2001) and Collins et al (2009) who showed that a competitive advantage can be sustained when all competitors provide similar information. In addition, this information deters new entrants to the market as stipulated in Wagenhofer (1990). Another reason is the additional disclosure required by IFRS 13 (Section 2.2.2) (A4; A7; A9). Although such additional disclosure for fair value information does not reflect entity specific information (Hitz, 2007), such additional disclosure would not only reduce competitive advantage as mentioned in Fields et al (2001) and Collins et al (2009) but would also create a threat of new entrants through competitive reactions in the market

[25] This is discussed in Section 4.9 above

(Wagenhofer, 1990; Gietzmann and Trombetta, 2003). A threat to new entrants would primarily occur where the information disclosed by potential competitors indicates a sufficiently favourable market where the new entrant will at least be able to recover start-up costs (Wagenhofer, 1990). Although this was not explicitly mentioned by interviewees this is another possible reason for not electing early adopting IFRS 13.

Interviewees also mentioned that both global and local competitors would be considered, although the actions of the local competitors would take preference (A4; A7). This appears to be consistent with the findings in Fields et al (2001) and Collins et al (2009) where a competitive advantage can be sustained when similar accounting choices are made as local competitors are more likely to mimic such practices and so reduce the firms' advantage. This is primarily the case when similar products and services are offered to customers (Collins et al, 2009).

One particular interviewee, who did not elect to adopt IFRS 13 early, stated that the main consideration was the shareholders, although competitors' actions were also relevant:

> "But we will consider what our competitors will do. We will also consider [what] the party that we are transacting with do. It won't be a dominant consideration but we will consider that. We will consider what the industry is doing, what the suppliers are doing. But that won't be our overriding decision. The needs of the stakeholders will be overriding." (A6)

In addition, when asked why the entity did not early adopt IFRS 13, the interviewee stated:

> "I don't think that there is any benefit for our users in early adopting [as this does not] influence their decisions regarding the company." (A6)[26]

This statement also appears to be consistent with Holthausen and Leftwich (1983) who found that where no significant changes to the accounting standards occurred, entities would mimic the decisions of competitors. This is particularly relevant as IFRS 13 did not change the accounting for transaction and balances but merely clarified how to account for such transactions and balances (IASB, 2011). As this is the view of only one interviewee, insufficient support is available to conclude on these findings. This is an area for future research (Section 5.3).

[26] Also see Section 4.9 above

4.7 Standards for different industries

A number of the interviewees referred to the concept of different reporting standards for different entities. As discussed in Section 4.4, there is an element of compliance driving the application of IFRS. Respondents questioned whether it would be more suitable to amend standard requirements to allow leeway for the different industries. Although the practical issues of such standards were considered and debated, interviewees unanimously agreed that this would be an ideal option (A1; A2; A3; A4; A5; A6; A7; A8; A9; A10). This is consistent with the study performed by Hopwood (1987), where the effect of accounting standards on different organizations was questioned.

In one particular instance an interviewee who worked in a manufacturing firm questioned whether it was necessary for them to disclose the same information as a consulting firm (A6) discloses. As the manufacturing entity relied heavily on property, plant and equipment, the interviewee considered it necessary to disclose additional information relating to these assets. On the other hand, the interviewee stated that a consulting firm should not need to provide this additional detail as such assets were not the focus of the business. In agreement with this, other interviewees stated that disclosure of additional information added copious amounts of unnecessary work to be performed that did not reflect the operations of the business[27] (A2; A7; A9; A10). These interviewees were of the opinion that industry-specific standards would reduce this compliance burden. This is evidenced through the following statements:

> "IFRS needs to be tailored to the business and if [the standard] is not applicable and it doesn't affect the users' judgment [it should not be required to be disclosed]." (A7)

> "… [industry specific standards] would provide more relevant information to users in general. I think that is the way forward if IFRS wants to remain relevant." (A9)

These views point to the benefits of a business model approach. Benefits emphasized include assessing the resources of the business, as well as assessing how management has discharged its responsibilities to use these resources. Together with this, interviewees felt that they may be more inclined to voluntarily adopt standards that were more relevant to their industry.

[27] The issue of IFRS as merely a compliance exercise is discussed in more detail in Section 2.4.8 of the literature review

Another interviewee reiterated the need for more industry- and entity-specific financial information to be disclosed by using an example of UK GAAP:

> "In the UK they have changed their national GAAP and brought in a new UK GAAP. And what they did is they based it on IFRS for SME's. And now that has no disclosure for financial standards - nothing like IFRS 13. So it has all the principles of IFRS 13 from a measurement side but then none of the disclosure. Then they said that they were not happy with that and then they put in additional disclosure for financial institutions. So there you have it two-tiered. And I think that there is a lot of merit in that. The thing we can't forget is that we have these big accounting teams at the big institutions who can churn out these disclosures. What about the next tier down - The subsidiary of a big international corporation? What about big privately held companies? IFRS for SME's is not for everyone so you either have no disclosure or all this disclosure." (A3)

This statement considers not only the effects on different industries but also different types of entities[28]. This interviewee noted that difference standards are more relevant to some industries than to others, through specific reference to financial institutions. Although merits to this argument exist, a counter argument could include the need for fair value accounting in other instances such as a business combination. The validity of these arguments is not discussed in detail and is an area for future research (Section 5.3). This interviewee indicated a preference for industry specific standards, or at least industry specific disclosure. His opinion was that additional disclosure should only be required for entities directly affected by fair value, such as financial institutions. As the interviewee found that IFRS 13 was not particularly relevant for entities other than financial institutions, early adoption was not considered necessary. Interestingly, this also provides corroborating evidence to suggest that additional disclosure requirements are considered to be onerous and, therefore, are a disincentive to early adopt IFRS 13, as discussed in Section 4.2.

The next sections discuss the attitudes of preparers of financial information that additionally affects their decision regarding the adoption of IFRS 13.

[28] Standards for different types of entities fall outside the scope of this study.

4.8 Earnings management

Earnings management is a controversial topic which is often viewed in a negative light due to its ability to mislead stakeholders about the underlying economic performance of the entity (Healy and Wahlen, 1999). It is expected that when interviewees were asked whether any earnings management was at play, preparers of financial information responded in the negative (A2; A5). It is interesting to note that interviewees showed an inclination to adopt standards that have a positive effect on earnings. (A1; A2; A3; A4; A5; A6; A7, A9; A10). It appears that preparer's place importance on reported earnings within the financial statements consistent with the literature (Section 2.3):

> "But like I said it depends on the nature of the client and [whether] it bring[s] about volatility in earnings. I think where you have [volatility in earnings] the clients will take a **different approach on whether to early adopt or not."** (A1, emphasis added)

> "We need to assess what the impact [of the new standard] is [on our financial statements]." (A7)

> "…if [a new standard] is going to have an impact on profit and loss and earnings per share and the competitors are not disclosing the same information… that is where comparability will be influenced." (A9)

These interviewees have indicated two important points. Firstly, that the approach taken with regards to early adoption is dependent on the effect such adoption will have on the reported earnings for the entity. Secondly, management prefers earnings to be stable. This finding is in line with Hunt (1997) who found that lower earnings volatility resulted in higher earnings persistence. This shows managements' preference for smooth earnings consistent with Rosenfeld (2000). Further evidence of an inclination to smooth earnings is provided by the following comment:

> "But if it has a massive financial impact then you have to go and assess between years. Maybe it will have a profit effect in the one year and you know that you have had a good year this year but you are not anticipating a good year next year. **Then you kind of want to even it out.** Those will all be factors to consider." (A2, emphasis added)

A possible reason for wanting to smooth earnings is the desire to meet or beat market expectations as discussed by Bartov et al (2005). This is particularly relevant for listed entities whose share prices are directly affected by these expectations. The desire to meet expectations in order to maximize share price is evident through the interviewee's reference to being a listed entity as is evidenced in the statement below.

> "I think you need to consider that because we are a listed entity you always need to look at the market and **what does the market expect**. If I have a bad year this year and I can early adopt a standard that can tank [the earnings within the entity], for example [by] R50 million profits, I would be stupid to do it because then I would end up with nothing on my income statement. Even if it something that [is] include[d] and exclude[d] for HEPS. I think we would always look at what the financial position of the company and look at the financial effect of that specific standard or interpretation is going to be on the financial statements. **And then we still try and see when to do it."** (A2, emphasis added)

After taking into account market expectations and the importance placed on these expectations (as discussed in Section 2.3) it appears that this plays a vital contributing factor in an entity's decision to early adopt a particular standard (A6; A10). Where competitors have not early adopted a particular standard, entities are reluctant to be the first to take the "plunge" for fears of market reactions (A4; A7; A9). Although one interviewee considers himself a market leader within the industry and was inclined to early adopt a standard if it portrayed more useful information to the users, this interviewee acknowledged that early adoption would not be done if the market was expected to misread this information (A6).

Another attitude identified that resulted in interviewees postponing the adoption of IFRS 13 related to the resistance of the standard.

4.9 Resistance

One way to show dissatisfaction with a particular accounting standard is not to adopt early, showing logic of resistance towards the standard and standard setters (see Section 2.6). Although interviewees did not explicitly state that this logic was being applied, this was referred to.

Fair value accounting and the requirements to reflect the fair value of balance sheet items has been a requirement within reporting standards for a number of years (Section 2.2). Nevertheless, interviewees showed some resistance towards fair value accounting. Interviewees did not explicitly state this resistance to fair value accounting but rather implied this through their annoyance with the 'short-term mentality' of the 'investment community' (A3; A5):

> "I think it has more to do with the investment community, the short-term mentality is the problem here and I think in a way fair value does that and it caters for that because it is for a moment in time. Even if I look at the impairment test and those sorts of things, it is at that moment in time. Is it a fair presentation? At that moment in time; possibly, but that is a short-term view. I don't know if there is a better way of doing it. The further out you look, the less meaning it has anyways, it's hard to balance." (A5)

This appears to be consistent with the findings in Shaffer (2010). This article states that assets that were held for short-term profit-making, fair value accounting was the most appropriate method. Where assets were intended to be held for long-term investments, however, fair value accounting "distort[ed] the true financial picture of the investment" (Shaffer, 2010, p. 11). As the interviewee mentioned above does not operate within the banking section and many of the assets within the entity are held for long-term investment rather than for short- term profit making, this appears to be in line with the views held by Shaffer (2010).

Laux and Leuz (2009) find that managers and investors focus on short-term market reactions rather than long-term value creation. Furthermore, a study performed by Bushee (2001) evidences that investors are short-sighted and these investors prefer a firm's value to be realized in the short-term even if this is at the expense of long-term value. This iterates the views of interviewee A5, stating that investors are focused on the short-term profits of the entity rather than long-term value creation. The information provided to the investors is accurate for a moment in time. This information may not be useful to users in the long-term. This is vitally important as entities with a focus on long-term value creation may have their financial information distorted during the short-term through the use of fair value accounting and may not provide useful information to users (Shaffer, 2010). As a result of this perceived distortion, interviewees resisted the adoption of IFRS 13.

> "So in general, **my entity does not early adopt** any new [standards] or anything like that." (A2, emphasis added)

> "I guess the critical thing is [that] I am not sure **why anyone would elect to early adopt.**" (A4, emphasis added)

> "…we **don't think it adds value** and it more **likely confuses the uses of financial information.**" (A8, emphasis added)

> "**It is not in our nature to adopt.** We will adopt when the standard comes into effect." (A7, emphasis added)

These interviewees express reluctance as well as doubt about whether IFRS 13 provides benefit to the users of financial information. In addition, an interviewee also used words such as "had to" (A6), "force to" (A6), "onerous" (A8) and "burdensome" (A7) when referring to the adoption of IFRS 13, indicating that the interviewee felt restricted in his choice to adopt this standard. This restriction owed to the fact that this standard became effective on 1 January 2013 and the interviewee enjoyed the force of law as a result of the Companies Act (2008). The interviewee was only able to resist this standard by not early adopting.

Another statement made by an interviewee stated:

> "…no one wants to take the first leap. No one wants to be the first guy to do it and potentially get it wrong." (A4)

This suggests that early adoption of IFRS standards requires an in-depth understanding of the standard and a willingness to adopt the standard (Liu et al 2011). This resistance could arise as preparers of financial information are of the opinion that current standards and practices are adequate (Tremblay and Gendron, 2011). This view was iterated by A3 who stated that IFRS 13 is applied to existing transactions without explicitly stating that IFRS 13 was voluntarily adopted. One reason for this could include the limited time period to adopt IFRS 13 early. As evidenced in the timeline in Section 2.2, preparers of financial information had a one financial reporting period in which to early adopt. The reasons provided by the interviewee included:

> "I think that there was a concern around whether everything within the organisation was in line with the standard. So from a governance perspective, the entities want to make sure that they have been through all the business units and

> checked all of the areas that the new standard might impact - and if you can achieve some of the benefits without early adopting. I think the other reason is that you trigger the disclosure once you early adopt. People were still getting systems together to find all of that disclosure." (A3)

There is some evidence to suggest that the additional disclosure required by IFRS 13 provides more information to third parties which can be used to hold management accountable for their financial reporting practices. This attitude was reiterated by interviewee A7. In this face of additional scrutiny, there is an element of resistance which is manifested by the decision to delay the adoption. These sentiments seem to reiterate those found in Liu et al (2011), Tremblay and Gendron (2011), Saidin et al (2014) and Gelter and Kavame (2014) in Section 2.6 and Wagenhofer (1990) and Gietzmann and Trombetta (2003) in Section 4.2.

5. Conclusion

This Section summarises the key findings from the interviews and provides closing remarks (Section 5.1). The contribution that the study has added to professional and current literature is highlighted (Section 5.2) and the limitations and areas for future research are discussed (Section 5.3).

5.1 Summarising comments

The IASB and FASB have introduced new standards to measure and disclose fair value, namely IFRS 13. The reasons for the introduction of IFRS 13 have been noted by the IASB and FASB (IASB, 2011). The factors that influence the early adoption of IFRS 13, however, have not explicitly been considered (see IASB, 2011).[29] It is imperative to note that preparers of financial information had one financial period in which to early adopt IFRS 13. Although the standard does not change the measurement for fair value accounting (Tran, 2012), the introduction of this new standard highlights the factors that influence adoption of specific IFRS's.

Factors that preparers of financial information considered when adopting IFRS 13 were the requirements regarding IFRS adoption by international regulators. As the majority of interviewees did not early adopt IFRS 13, these factors explained why. Where international

[29] Refer to Appendix B for a table depicting of the history of IFRS 13

regulators affected the decisions of the entities, entities were unable to early adopt the standards until these were endorsed by the regulators. This resulted in the entities' decision relating to early adoption being revoked. Interviewees also felt that staff training was a necessary consideration before the early adoption of IFRS 13 could be considered. Although this was a consideration by interviewees, this training was available and therefore did not inhibit the entity's decision to early adopt. Other factors that preparers of financial information did not feel inhibited the entity's ability to early adopt IFRS 13 included implementation guidance available, interpretations of the standard, the need for additional IT infrastructure and cultural membership, level of educational and economic markets. These factors did not appear to play a role in the entity's decision to early adopt IFRS 13 as the relevant guidance and infrastructure were already present both within the entity and South Africa. (These views were confirmed by audit managers and partners).

Preparers of financial information appeared to be unwilling to adopt IFRS 13 early as they felt that this standard was not particularly relevant to their business operations. Although the rationale behind this decision is warranted, the attitudes of preparers of financial information are noteworthy as their reluctance to early adopt IFRS 13 shows logic of resistance. This logic of resistance seemed to be present throughout the interview process and although this was not explicitly stated, the words used clearly implied this dissatisfaction. The evidence of this resistance, however, means that this study may not show a complete account of the factors the influence early adoption of IFRS 13.

Preparers of financial information also appeared to be unwilling to early adopt IFRS 13 due to the potential effects on earnings, as well as the additional information disclosed to competitors. Although interviewees (both preparers and auditors) categorically denied managing their earnings, they stated that volatility in earnings was a definite consideration when determining whether or not to early adopt. This shows the existence of earnings management in the decision process for IFRS. Together with this, interviewees also appeared to delay the adoption of IFRS 13 owing to the additional disclosure requirements. These disclosures were perceived by interviewees as an erosion of their competitive advantage.

The table below provides a summary of the factors considered to influence the early adoption decision of preparers of financial information. This table indicates the factors that participants in this study found relevant to their early adoption decision. It is imperative to note, however,

that these findings are biased based on a small sample size. In order to generalise these findings further research and analysis should be performed.

Table 3: Factors that influence early adoption decision in the interviewees opinions		
Major themes identified through the prior literature	**Did the interviewees find that these factors influenced their decision?**	**Differences in opinions noted between preparers and auditors**
Staff training	Yes	No
IT upgrades	No	No
Implementation guidance and interpretation of the standard	No	No
Cultural, educational and economic factors	No	No
Accounting disclosure	Yes	No
Earnings management	Yes	No
Compliance with IFRS	Yes	No
Standards for different industries	Yes	No
Resistance	Yes	No
Competitors	Yes	No

5.2 Contribution of the study

This study adds to the existing scholarly articles dealing with the adoption of IFRS as a basis for preparing financial statements (see Pascan and Neag, 2013). Much of this prior research discusses the factors which influence the early adoption of IFRS, rather than a specific IFRS (Daske et al, 2008; Brown and Tarca, 2012; Barth et al, 2013). This study confirms the significance of these factors when determining whether a standard should be early adopted or not.

This study is among the first to provide detailed interpretive research of financial reporting in a South Africa context (Maroun and Jonker, 2014). It also adds to the existing literature that has traditionally been based in the U.S.A and Europe (Brennan and Solomon, 2008). This study addresses the need for practical fieldwork studies on financial reporting and is also possibly the first to examine early adoption and the effects IFRS 13 in South Africa. This study, however, is not without limitations.

5.3 Limitations and areas for future research

Firstly, the exploratory nature of this study, based on a small group of informed respondents, means that the findings cannot necessarily be generalized. As a result, future researchers should examine whether or not the factors identified in this study are applicable to other developing countries and whether or not early adoption of IFRS 13 varies among preparers of financial information. Related to this, the research has not considered the viewpoints of other stakeholders. Future research will be needed to gain a more comprehensive understanding by considering how the decision to adopt an IFRS early is interpreted by different users of annual/integrated reports.

Secondly, this study questions neither the objective of IFRS 13, nor its ability to provide relevant and reliable information to users. Preparers of financial information, however, felt that comparability of financial information did not increase with the introduction of IFRS 13. This brings into question whether the objective of this standard, being to provide more consistent and comparable information, is met. This should be examined by future researchers.

Thirdly, it was found that preparers of financial information were reluctant to early adopt this standard owing to the additional disclosure requirements. Future researchers should assess whether additional questions posed by regulators, auditors and investors disincentivise preparers of financial information from providing these additional disclosures.

Fourthly, future researchers should examine whether IT infrastructure plays a role in adoption of specific IFRS's. Although respondents felt that IT infrastructure did not play a pertinent role in the entities' decision to early adopt IFRS 13, IT upgrades are potentially significant to the adoption of specific IFRS's (Jermakowicz and Gornik-Tomaszewski, 2006). One possible reason for IT infrastructure not playing a role in the decision to early adopt IFRS 13, could be

that the additional disclosures required are prepared manually and are, as a result, not reliant on this infrastructure. This assessment should be performed by respondents with an appropriate understanding of the IT requirements within the entity. Future researchers should also consider whether IT infrastructure differs between listed and non-listed entities and the effect this has on adoption of specific IFRS's.

Fifthly, variations in the responses received from different types of entities such as manufacturing and retail entities were not considered. Future researchers can investigate whether entity types were more inclined to early voluntary adoption of IFRS 13 or not.

Sixthly, and in line with the above, the validity and possibility of industry specific standards should be considered in more depth. Although many interviewees considered this to be a preferred method for financial reporting, counter arguments need to be considered and discussed. Future researchers should also consider the need for fair value measurements for entities other than financial institutions.

Lastly, and related to the above, is the need to consider whether cultural, educational and economic factors play a contributing role in an entity's decision. Although these factors were not evident in this study, this cannot be generalized owing to the small sample size. In addition, future researchers should assess whether differences in cultural backgrounds, gender and race of preparers of financial information play a role in the entities' decision to early adopt specific IFRS's. Through the interview process it was also found that where changes to standards were not significant, as is the case in IFRS 13, preparers of financial information mimic the decisions of competitors. Future researchers should examine whether this can be generalized, and whether this is predominant in certain industries, cultures, genders or races.

In conclusion, this study has identified a number of factors that influence the adoption of IFRS 13 for South African preparers of financial information. Although the study does not and cannot categorically conclude that these factors influence the early adoption decision exclusively, it does identify factors that South African preparers of financial information believe have influenced their decision in the voluntary adoption of IFRS 13.

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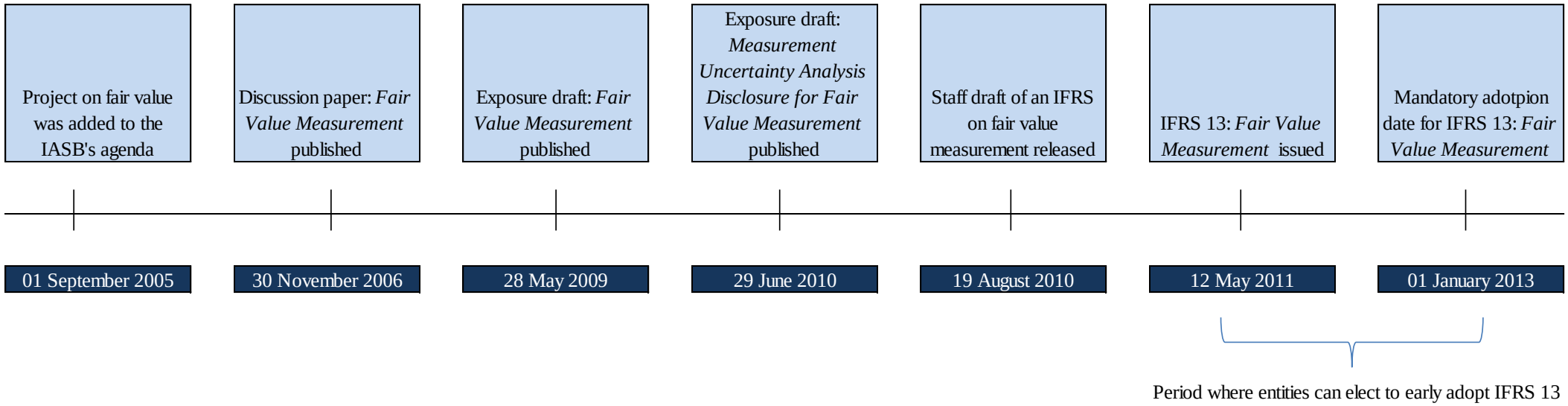
Appendix A: Interview Agenda

Question:

1. Did your firm early adopt IFRS 13 and what influenced this decision?
   1.1. Did the complex nature of IFRS 13 play a role in your decision of early adoption?
   1.2. Did a lack of implementation guidance play a role in your decision of early adoption?
   1.3. Was there a difference in interpretation with regards to IFRS 13?
   1.4. Did technical training of accounting staff play a role in your decision?
   1.5. Do you have a company policy that specifies when a standard is adopted?
2. What resources are needed to early adopt IFRS 13? Was this a consideration when developing your accounting policies?
   2.1. Were any IT upgrades which played a role in your decision necessary to implement IFRS 13?
   2.2. What cultural, educational or economic reasons were considered in making your decision, if any?
   2.3. Did cost of early adoption and volatility of earnings play a role in your decision?
3. Do you think that IFRS 13 will make financial statements more useful?
   3.1. Is IFRS 13 perceived to have little relevance to business operations?
4. Did auditors or other regulators play a role in your decision to early adopt or not?
   4.1. Did your auditors advise on the voluntary adoption of IFRS 13?
5. What is your opinion of IFRS 13?
   5.1. Did you find that the differences between the old standards governing fair value measurement and IFRS 13 were significant thus warranting a change in standards?
   5.2. Did decrease in discretion on fair value measurement and the increased disclosure play a role in your decision to early adopt IFRS 13?
6. Did competitors play a role in your decision to early adopt IFRS?
7. Would you be more inclined to early adopt IFRS standards if they were industry-specific?
8. Are there any other reasons that affected your decision?

Appendix B: History of IFRS 13

The timeline below represents the history of IFRS 13. This timeline begins when a project for fair value measurement was added to the IASB's agenda and concludes with the mandatory adoption of IFRS 13, being 1 January 2013. This timeline also evidences the period for voluntary adoption of IFRS 13 (between 12 May 2011 and 1 January 2013).



Appendix C: Ethics Clearance

Ethics clearance was granted by the University of the Witwatersrand. The following is the Ethics Clearance reference: CACCN/1043