NEW ZEALAND'S SWITCH TO IFRS: BEYOND THE FINANCIAL STATEMENTS - A QUALITATIVE ANALYSIS OF ANNUAL REPORTS

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ABSTRACT

We use content analysis to examine annual reports, excluding financial statements, for IFRS related disclosures. Our sample comprises annual reports of first time adopters of IFRS during 2005 through 2008 and differentiates between early adopters and late adopters.

The switch to IFRS is generally regarded by accountants and accounting researchers as one of the most significant events in world accounting history and one which may have important economic consequences. If this is so, it seems reasonable to expect that the importance of this event would be reflected in the timing choice for adoption and disclosures in the annual report (other than those in the financial statements) which are mandated by IFRS and prepared by accountants. Our study contributes to the decision-usefulness literature by investigating whether there is empirical support for these expectations.

We find mixed evidence – early adopters, large firms and those audited by Big 4 auditors tend to place additional emphasis on IFRS disclosures, the bulk of which relate to an "Informing of Importance" theme. However, industry effects are observed with respect to adoption timing and disclosure levels and, in general, many firms provide negative, little, or no non-financial statement IFRS related disclosures.

Key Words: Early adopters, IFRS, Accountability, Decision-usefulness, Annual report disclosures.

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1. INTRODUCTION

Regulators, researchers and accounting professionals note that various benefits should accrue for New Zealand corporate stakeholders as a result of adopting international accounting standards. These benefits include improved quality and comparability of financial reporting (2002) and clearer identification of risk to guide resource allocation (Texeira & Pickens, 2004). Such improvements should enhance decision-usefulness and discharge of accountability obligations and are therefore important components of the annual report. This study therefore investigates the extent to which governing bodies of corporate entities reflect the importance and effects of switching to IFRS through their annual report disclosures. We examine the nature and extent of disclosures relating to International Financial Reporting Standards (IFRS) in annual reports of first time adopters of IFRS in New Zealand during 2005 through 2008. Our focus is on information outside of the financial statements and on a preparer perspective of accounting information disclosure.

The switch to IFRS is generally regarded by accountants and accounting researchers as one of the most significant events in world accounting history and one which may have important economic consequences (Daske, Hail, Leuz, & Verdi, 2008). A growing body of literature is emerging in this regard, with many researchers focussing on accounting quality and capital market effects such as cost of capital, liquidity and value relevance (e.g. Armstrong, Barth, Jagolinzer, & Riedl, 2010; Barth, Landsman, & Lang, 2008; Daske et al., 2008; Hung & Subramanyam, 2007; Paananen & Lin, 2009). Studies considering perceived usefulness of IFRS from the preparers’ perspective are rarer and tend to be based on survey results (e.g. Jermakowicz, Prather-Kinsey, & Wulf, 2007; Jones & Higgins, 2006).

We are not aware of any prior research which considers the importance and effects of IFRS from a preparer perspective by analysing the non-financial statement sections of the annual report. In addition, our analysis differentiates between early and late adopters of IFRS, hence enriching the study by considering the choice of adoption timing as an additional variable. This paper therefore contributes to the literature by providing evidence from a non-conventional perspective and the opportunity to triangulate these findings with those from more traditional sources and perspectives.

The paper proceeds as follows. Section 2 provides background information on the New Zealand adoption of IFRS. Section 3 briefly reviews recent literature for conclusions and common themes concerning IFRS adoption around the world. Section 4 contains a description of the research method, sample selection and the data. Section 5 describes and discusses the results and Section 6 provides a conclusion.

2. BACKGROUND

Since 1997, accounting standards in New Zealand have been formally based on international or Australian accounting standards. These were, however modified to ensure sector neutrality and consistency with other New Zealand pronouncements (Bradbury & van Zijl, 2006). These arrangements effectively resulted in New Zealand having its own version of generally accepted accounting practice, or "NZ GAAP". In 2002, the Accounting Standards Review Board (ASRB) announced that adoption of IFRS was to be mandatory for reporting entities in New Zealand for periods beginning on or after 1 January 2007. The ASRB also allowed the option of early adoption for periods beginning on or after 1 January 2005 (Bradbury & van Zijl, 2006), an option not common to most other countries which adopted IFRS (e.g. the European Union and Australia).

In September 2007, the ASRB announced that it had decided to delay mandatory adoption of NZ IFRS for small firms that met specified criteria, pending a government review of financial reporting requirements for small and medium-sized firms (Sealy-Fisher, 2007). The outcome of the review is a proposed new statutory framework for financial reporting in New Zealand, which was released in September 2009 by the Ministry of Economic Development (2009) with an accompanying document issued by the Accounting Standards Review Board (2009). In terms of these proposals, many small firms will be relieved of statutory financial reporting requirements, but some larger entities (e.g. partnerships and not-for-profit entities) may be brought within the financial reporting regime for the first time. The proposals therefore have major implications for New Zealand businesses. The findings of the research reported in this paper may be informative to those who are considering the discussion documents relating to the proposed new statutory framework for financial reporting.

3. LITERATURE

Accounting is described as "a process of identifying, classifying, and measuring, and *then reporting the effects of economic events upon a specific economic unit*" (Staubus, 2000, p119, emphasis added). This description is incorporated in the objective of financial statements which is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions (IASB, 2008, para. 12-14 of 1989 Framework). Thus the purpose of financial statements includes a decision making role. The decision usefulness paradigm has dominated accounting theory related to financial reporting since around 1970 (Coy, Fischer, & Gordon, 2001). Miller (1990) states that the idea that accounting information should be useful made "decision usefulness the primary test for determining which of several competing practices should be generally acceptable" (p.24). However, financial statement preparers also acknowledge the accountability role of financial information and that financial information is used for political and social decisions in addition to economic decisions (Hooks, Coy, & Davey, 2004). Accountability encompasses a responsibility to give an account to those to whom one is accountable and stems from the stewardship responsibilities of company managers. In particular, there is a conceptual relationship between corporate governance and accountability.

Accountability and decision usefulness are inter-related as “those users who wish to assess … the accountability of management do so in order that they may make economic decisions” (IASB, 2008, para. 14 of 1989 Framework). Economic decision making is grounded in an assessment of the firm’s ability to generate cash, its profitability and its financial position. In this respect, the financial statements inter-relate to provide information on transactions and events that is useful in making judgements about the ability of the entity “to pay its employees and suppliers, meet interest payments, repay loans and make distributions to its owners” (IASB, 2008, para. 15 of 1989 Framework). A focus on economic decision making leads to a technical approach to reporting. To facilitate this IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. The aim is to achieve consistency and comparability in the reporting of transactions and events. Within the framework of IFRS, preparers provide information to assist various parties (e.g. shareholders, employees, creditors and the public in general) in making decisions about the future.

Decision usefulness is affected by relevance and reliability. Relevance exists where the information provided is capable of making a difference to a decision. Reliability of information means that users can depend upon it to represent economic conditions or events (IASB, 2008, para. 31-32 of 1989 Framework). Both accountability and decision usefulness perspectives are contingent upon the quality of the information being reported.

In this research we acknowledge the need to describe both the qualitative and the quantitative aspects of the effects of economic events and our focus is on qualitative information that describes the effect of a significant event - the adoption of IFRS. We expect firms to highlight the reasons for their adoption timing choices, particularly early adoption of IFRS where this is relevant, to discuss what changed and the effects of the change. We believe that in preparing this information, managers are concerned with the effect the reports will have on others. Therefore, there is likely to be a link between good corporate governance and disclosures in annual reports to draw attention of users to IFRS information/effects. Accordingly, our focus is on IFRS reporting from a preparers’ perspective.

In this respect Jermakowicz, Prather-Kinsey & Wulf (2007) survey company executives of DAX-30 firms in Germany and find that most agree that IFRS should improve comparability of financial statements, but that complexity, cost, lack of guidance and increased volatility of earnings are important “challenges”. Jones and Higgins (2006) report, on the basis of a telephone survey, that account preparers in Australia are generally very sceptical about the claimed benefits of IFRS as enunciated in their government’s Corporate

Law Economic Reform Program. Botosan and Stanford (2005) provide another possible preparer perspective, although their study concerned certain U.S. standards, rather than IFRS. They conclude that the decision by their sample firms to withhold segment disclosures appears to be motivated by a desire to protect profits in less competitive industries, rather than to mask poor performance. Wu and Zhang (2009) also focus on the stewardship perspective, finding that voluntary adoption of international accounting standards is associated with changes in the firm's internal performance evaluation process. Our research is qualitative (rather than quantitative) but we consider these perspectives as possible themes in assessing the nature and extent of IFRS disclosures in our sample.

The Amir & Ziv (1997) model provides an overview of different perspectives in some of the earlier US studies. The model predicts that firms with "good news" in relation to new standards will early adopt new standards, while those for whom the impact of new standards will be neutral will tend to delay adoption but offer disclosure and those with "bad news" will delay adoption until it becomes mandatory. We consider these influencing factors in relation to the nature and extent of preparers' annual report disclosures, as well as timing of their adoption decisions, in our investigation of IFRS disclosures in annual reports of first-time adopters of IFRS in New Zealand.

4. RESEARCH METHOD, SAMPLE SELECTION, AND DATA

The importance of evaluating narrative data to extend research concerned with the information content of accounting information is widely acknowledged (Frazier, Ingram, & Tennyson, 1984). Creswell (2003) notes that an advantage of analysing documents (as opposed to performing interviews or other methods of data collection) is that documents represent data that participants have taken care and thought to compile. Our document for analysis is the corporate annual report. A number of researchers (e.g. Coy et al., 2001; de Villiers & van Staden, 2006; Mack & Ryan, 2007) note that previous research indicates that the annual report is the most important document in terms of an organisation conveying information on its operations to the public. Analysis of non-mandatory IFRS disclosures in annual reports is an appropriate means of extending and triangulating research carried out to date regarding the impact and importance of IFRS. Such analysis should provide a governance perspective, which may reduce the potential bias (intentional or unintentional) which an interviewer or questionnaire may introduce. Similar to Niskala & Pretes (1995), we base our study on the assumption that the annual report may be considered as representing governance decisions about what kind and amount of information to disclose and that these decisions reflect the importance of such information.

Our sample consists of 80[1] firms, drawn from a population of 161 firms listed on the New Zealand Stock Exchange (NZX) on 1 March 2007. We initially

[1] Boesso & Kumar (2007) confirm that a relatively small sample size is fairly common in studies using content analysis and refer to a number of studies with samples of 33 and fewer subjects..

select 40 Early Adopters ("EA") who voluntarily chose to implement IFRS before adoption became mandatory in 2007[2]. We then select, as a control group, a random sample of 40 Late Adopters ("LA") who chose to delay adoption of IFRS until it became mandatory. Support for our focus on early adopters comes from Daske *et al* (2008) and Hickey, Spencer, van Zijl, & Perry (2003). Daske *et al.* (2008) note that capital market effects are most pronounced for firms that voluntarily switch to IFRS before it becomes mandatory. Hickey *et al.* (2003, p.4) comment (emphasis added): "It is likely that many of the early adopters will be cross-listed, have significant subsidiaries in Australia or Europe, or themselves be subsidiaries of a parent based in Australia or Europe. **But some other entities may elect to adopt early as a means of demonstrating commitment to high-quality financial reporting."**

Data is hand collected from the annual reports for the year in which first full-year IFRS financial statements are issued by our sample firms. We extract all non-financial statement disclosures relating to IFRS. We begin by searching for the terms "IFRS" or "International Financial Reporting Standards". Where either of these terms are included in a sentence, we extract the entire sentence to ensure that we analyse the reference to IFRS in its correct context (Steenkamp & Northcott (2007) and Holsti (1969)). We also read sentences before and after those in which these two terms are found. All sentences or paragraphs which are related to the references to "IFRS" or "International Financial Reporting Standards" are extracted and exported to NVivo (content analysis software) for performance of the procedures which follow. We use the NVivo software to assist us in reducing the reliability and validity issues which arise because of the subjectivity involved in applying content analysis methodology (see Boesso & Kumar (2007) and Krippendorff (2004) for more detail on these issues). We record, as attributes of these extracts, their placement in the annual report: (a) highlights sections (e.g. 5 year summaries, financial statistics), (b) chairpersons' reports, (c) directors reports and (d) "other" sections of the annual report (excluding the financial statements). We analyse these extracts to identify the frequency (number of IFRS mentions) and extent (number of words used related to each IFRS mention). We then analyse the content and placing of each IFRS related disclosure to identify themes within the information being communicated to users of the annual reports.

Prior literature suggests that frequency provides a measure of the importance of, or attention devoted to, a concept or attribute (e.g. Holsti, 1969; Krippendorff, 2004; Steenkamp & Northcott, 2007). However, this "form oriented" dimension of content analysis is generally accepted as being less informative than the "meaning oriented" dimension (Steenkamp & Northcott (2007); Krippendorf (2004)). This study makes use of both dimensions of

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They note that the richness of data collected makes it a labour-intensive and time consuming methodology.

[2]We initially identified 48 EA firms but 8 are discarded because the entity uses GAAP other than NZ IFRS (4 observations); uses a functional currency other than NZ dollars (2); has no prior year financial statements available as the first year of listing on the NZX is also first year of application of IFRS (1); or has no reconciliation statement because NZ IFRS was adopted from its first year of operation (1).

content analysis in order to investigate the level of importance attached to IFRS (e.g. assessing prominence and context of disclosures as well as the number of words used). We then extend the study by exploring themes communicated by those responsible for governance. In summary, we make use of the concepts of both recording units as well as context units to contribute to the validity and reliability of our results. Steenkamp & Northcott (2007) deal with the practical challenges of conducting content analysis in accounting research including the variety of possible recording units, the need to differentiate between recording units and context units and some of the limitations of using each type of unit. We address these challenges by using a number of different recording units to triangulate our results including: number of firms; specific "IFRS mentions"; wider "words associated with IFRS" word counts; and proportion of page area devoted to IFRS related disclosures. The context units used to extract our data from annual reports were "the passages in which the recording units are set, the contexts which define their meaning" (Carney, 1972, p 39). In our deeper analysis of the meanings being conveyed in annual reports, we also acknowledge the problem that multiple themes may be present within a sentence or paragraph and conversely that a number of sentences or paragraphs could be interpreted as being aligned with just one theme (Steenkamp & Northcott, 2007); (Krippendorff, 2004) and (Holsti, 1969). Our coding approach does not therefore assume that our context units can be classified into mutually exclusive themes.

Our review of the literature revealed no clearly appropriate coding categories or themes which we could adopt or easily adapt. As Steenkamp & Northcott (2007) note, the literature regarding categories used to analyse the content of annual reports is highly variable and there is little guidance on what constitutes best practice when categorising text. We therefore develop an initial checklist of themes by reviewing a pilot group of the early adopters of IFRS to identify common themes, which we refine where necessary while coding remaining firms. We present a summary description of the themes used in Table 1 with further description and examples included in Appendix 1.

(Table 1 approximately here)

Nature and extent of disclosures and adoption timing are consistently found to be associated with firm specific factors. Some of the more recent of these include Palmer (2008); Kent & Stewart (2008) and Iatrides & Joseph (2006). Palmer (2008) finds that extent and quality of certain IFRS disclosures in a sample of Australian firms is influenced by firm size, leverage and especially auditor firm size. Kent and Stewart (2008) find that the level of IFRS disclosure is associated with certain indicators of superior corporate governance. Although not an IFRS study, Iatrides and Joseph (2006) find that, consistent with US studies, early adopters tend to be larger firms, and that variables, such as growth options, profitability, leverage and management payout, have strong predictive power. We focus on determining industry, firm size and auditor effects.

Table 2 provides descriptive information for the sample firms and indicates the following dominant classes within the five descriptor categories: Industry – the

“Services” category accounts for 65% of the EA firms but only 28% of LA sample firms; Firm size ($NZ 000’s) – the “$100,001 - $1,000,000” in total assets category accounts for 40% of EA sample firms, while smaller firm sizes dominate LA sample firms; Auditor – Big 4 firms audit 83% of sample firms for both EA and LA firms; Main shareholder % holding – the “50.1% or more” category accounts for 40% of EA sample firms whereas the “0 – 19%” category accounts for 60% of LA sample firms; and finally Main shareholder origin is found to be predominantly New Zealand - 68% for EA sample firms increasing to 95% for LA sample firms. Although we report that two LA firms have main shareholders who are Australian, we note that in both cases, these were holdings of less than 10% (i.e. the “0 – 19%” category).

We investigate annual report disclosures in relation to industry categories, firm size and auditor in the section below. The descriptive information regarding main shareholders indicates that adoption timing decisions for most EA firms in New Zealand were deliberate, independent decisions rather than being due simply to control by foreign entities in jurisdictions where IFRS adoption was required. This information therefore reinforces expectations that those responsible for the governance of EA firms would explain their adoption timing decisions and the consequences or effects thereof.

(Table 2 approx here)

5. RESULTS

We provide a number of perspectives on the importance of IFRS in Table 3, analysing IFRS *mentions* per firm, in terms of their frequency, placing and the amount of space devoted to them in the annual reports.

5.1. Frequency, placement and space

For 7 of the 40 EA firms (17.5%) and 14 of the 40 LA firms (35%) included in the sample, we find no "IFRS" or "International Financial Reporting Standards" mentions in annual reports containing the firms' first full-year IFRS financial statements[3]. Due to the small sample size and large range between minimum and maximum figures, the median is probably a better indicator of central tendency, but both median and average for EA firms indicate 2 (LA firms: 1) or fewer mentions in any one of the analysis sections of the annual report and 7 (LA firms: 4) or fewer mentions in total per annual report. The maximum cumulative space devoted to total IFRS mentions amounts to 58% (LA: 42%) of one page of an annual report i.e. just over half a page ((LA: just under half a page). As the number of pages in annual reports differs widely from one company to another, we also analyse space devoted to IFRS as a proportion of total non-financial statement pages of the annual report. We find a maximum of 1.5% (LA: 2.1%) and less than 0.5% (LA: 0.4%) for both the mean and the median. Overall, EA firms disclose more information about IFRS than LA firms.

(Table 3 approx here)

5.2. Reporting themes

In Table 4, we expand on the perspectives reported in Table 3 by using NVivo to extract *per company* and *word count* information i.e. the number of firms making IFRS mentions and the total words associated with or explaining the IFRS mentions. Table 4 reports on these units of measurement, analysing them in three ways: in total, in terms of their placement in the annual report, and by theme. The most dominant theme overall was "Informing of Importance", mentioned across all sections by 25 EA firms (62.5%) and 19 LA firms (48%) with an associated word count of 4173 words for EA firms and 2998 words for LA firms. This word count equates to 50% (LA: 60%) of the total number of words analysed, being 8311 (LA: 4991) words.

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[3] We confirmed that lack of IFRS disclosures in the non-financial statement sections of the annual report do not appear to be explained by disclosures in the financial statements that the impact of IFRS has had an immaterial effect or no effect at all (untabulated). We find that only 2 of the 7 "No IFRS Mentions" EA firms (LA: 3 of the 14 firms) make statements asserting that IFRS has had no impact on the financial statements. The remaining companies all provide reconciliations between NZ GAAP and IFRS to satisfy the requirement to provide reconciliations which give "sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement" (NZ IFRS 1, para 40). IFRS reconciliations disclose adjustments to equity or profit/loss of more than 10% for the remaining 5 of the 7 EA firms (for the remaining 11 of the LA firms, 6 disclose adjustments to equity or profit/loss of more than 10% and, while the net effect of IFRS on equity or profit/loss was less than 10% for the other 5 LA firms, individual line items in their income statements or balance sheets revealed more material adjustments).

“Chairperson’s Reports” is the dominant section, used by 24 EA firms (3,041 words) and 15 LA firms (2,080 words) to make mention of IFRS. This reinforces the importance attached to IFRS by these firms, especially with regard to the impact on Equity/ Profit or Loss (EA: 9 firms; 1104 words and LA: 6 firms and 1170 words) and Expenses (EA: 12 firms; 1346 words and LA: 5 firms and 476 words)

Preparers were also concerned to provide some context for IFRS reporting. The “Contextual” theme has a company count and word count in the “Highlights” sections of annual reports which is at least three times larger than for any other theme (for LA firms it is the only theme identified in the “Highlights section). It also has the second highest (LA: highest) company count across all sections. “Highlight of Achievement” was noted by 12 (LA: 1) firms (i.e. 30% of EA firms but only 2.5% of LA firms) across all sections but with a relatively low word count of 500 (LA: 53). Preparers also provided a relatively large amount of narrative information about the accounting impacts on assets; equity/ profit or loss and expenses. Comment on the adverse consequences of adopting IFRS as shown under the “Non-Accounting Impact – Negative” theme were also noteable particularly for LA firms where the word count was second only to the “Informing of Importance” theme.

Overall, “Panel A: Company Count” reports that IFRS mentions were identified for more EA firms than for LA firms in every theme. The same trend applies for “Panel B: Word Count”, with the notable exception of six themes in “Chairpersons’ Reports” and two themes in the “Other” sections of the annual reports. LA chairpersons devoted almost twice as many words as EA firms to describing negative non-accounting impacts (EA: 631 and LA: 1088) and up to six times more words to describe accounting impacts on assets (EA: 688 and LA: 1043), disclosure (EA: 125 and LA: 811), equity/profit or loss (EA: 1104 and LA: 1170) and liabilities (EA: 174 and LA: 703). LA chairpersons also devoted three times more words to ensuring that users were aware when financial information they presented had been prepared under IFRS i.e. the “Contextual” theme (EA: 210 and LA: 771). However, overall EA firms used substantially more words to explain IFRS adoption and to motivate their choice to be an early adopter.

(Table 4 approx here)

5.3. Company size ($NZ 000’s)

Table 5 (with supporting data in Appendix 2) reports IFRS mentions by company size. In Panel A, due to the range in the number of firms per size category, we facilitate comparison by reporting the percentage of firms within each size category for which we find mentions of the IFRS themes identified. Similarly, we report an average word count per company in Panel B for each of the themes across the various size categories. For the smallest size category ($0 – 10,000), there is noticeably less disclosure then for the larger companies - no disclosures are provided for 7 (LA: 8) of the 14 themes. However, 57% of EA firms (LA firms: 36%) report on the importance of IFRS adoption while other disclosures relate to impact on assets, equity and expenses as well as negative non-accounting impacts (EA: 29%; LA 36%). Firms in the next size category ($10,001 – 100,000) report on most of the themes we identified (11 of the 14 themes for both EA and LA) although overall, the amount of information provided is relatively limited. In line with prior literature (e.g. Palmer (2008)), we find that larger firms tend to provide more extensive disclosure with the bulk of these disclosures concerning the ”Informing of Importance” theme (in the $100,001 – 1000,000 category, 81% of EA firms with an average 127 words; 40% of LA firms with an average of 73 words and for the largest size category, 56% of EA firms with an average 156 words; 83% of LA firms with an average of 65 words). In this regard, we note that small listed firms in New Zealand are found to be less affected by IFRS than large listed firms (Stent, Bradbury, & Hooks). Deviations from the tendency towards more disclosure by EA firms were most pronounced in the $10,001 – 100,000 category, particularly as regards average word counts for the “Informing of Importance”; “Assets” and “Negative” themes.

(Table 5 approx here)

5.4. Industry sectors

5.4.1. Property

Table 6 (with supporting data in Appendix 3) is similar to Table 5 but reports IFRS mentions by industry. We find that EA firms in the property sector record the highest average word counts for both “Overall Average” (434 words) and the “Negative” theme (198 words). The “Informing of Importance” (148 words) and “Liabilities” (171 words) themes for these firms are also the highest amongst EA firms. The following extract from the AMP NZ Office Trust (an EA firm) chief executive’s report, is instructive in this regard:

“*Important Notice*

In July 2006, ANZO amended its Trust Deed to ensure that its unit-holder funds could be classified as equity, rather than liabilities, under NZ IFRS for the 2007 financial year. Unfortunately, NZ IFRS currently requires ANZO’s comparatives for the 2006 financial year to show unit-holder funds as a liability, because the amendment to the Trust Deed did not take effect until the beginning of the 2007 financial year.

This has resulted in some anomalies in the 2006 comparatives …“

We note that comparability of ANZO’s current and prior year figures is severely affected as a result. Their balance sheet shows, *inter alia*, equity of $NZ 954,742,000 for the year ended 30 June 2007 but zero for the comparative 2006 figure (similar swings occur for non-current liabilities to show the other side of the double entry accounting). Their income statement and statement of changes in equity show distributions to unit-holders as a pre-tax expense ($NZ 35,394,000, which more than doubles pre-tax expenses) in the 2006 comparative year, but as change in equity for the year ended 30 June 2007.

For CDL Investments, the other EA sample firm in the property sector, IFRS disclosures are not as extensive as for ANZO and are concerned mainly with the impact of IFRS on the timing of revenue recognition for property sales. Results for LA firms in the property sector contrast strongly with those for EA firms, with one of the lowest "Overall Average" word counts (94) and average word counts of zero for 11 of the 14 themes.

5.4.2. Energy

We find relatively high "Overall Average" word counts in the energy and goods sectors for EA firms. Unlike the property and goods sectors, results for EA and LA firms in the energy sector are similar and for LA firms, this is the sector with the highest "Overall Average" word count. The highest theme word counts are found for the "Informing of Importance" (EA: 119 and LA: 151); "Equity or Profit & Loss" (EA: 162 and LA: 140); "Revenue" (EA: 103 and LA: 87) and "Negative Non-Accounting Impacts" themes (EA: 101 and LA: 100). The following extracts from The New Zealand Refining Company (an EA firm) chairman's report illuminate further:

> "*New Zealand International Financial Reporting Standards*
> Before discussing the financial results, it is important to remind readers that this is the Company's first year of reporting under New Zealand International Financial Reporting Standards (NZ IFRS). Transition to the new standards has taken a lot of hard work by our finance team and I thank them for deciding to move to this Standard earlier than necessary.
> The standards introduce more transparency and greater disclosure into the financial statements. This has created more complexity and, dare I say it, cost. In some cases for NZRC the new Standards added complexity in areas that add little or no value to readers of the accounts. It will take some time to fully appreciate the benefits the new regime brings.
>
> *Financial Results*
> Under the NZIFRS, NZRC is required to re-account for the debt assumption by the Government in 1989. We have had to retrospectively account for this item in this report. Fortunately it only affects the translation of the 2005 comparative figures, which were disclosed under GAAP in the 2005 financial statements, to 2005 comparatives in this report under NZIFRS.
> The impact of this requirement is to add $31.47 million to last year's revenue. This means that this year, while net profit after tax in real terms is actually higher than 2005, I cannot report a record company profit. I can, however, state that operating profit from refining was a record."

The introductory remarks to the chief executive officer's review for this company are also of interest:

> "2006 was a year of consolidation for the New Zealand Refining Company (NZRC). We achieved a pleasing 10% of growth in revenue despite a year which included the Auckland power outage. However, our alignment with the new New Zealand International Financial Reporting Standards means our results are presented as being less than our 2005 results."

Contact Energy Ltd provides a similar level of detail, describing their switch to IFRS as a significant achievement and explaining what the material accounting impacts were. These include fair valuation of financial instruments, changes in the calculation of deferred tax and dispensing with amortisation of goodwill.

Contact Energy Ltd also note the following negative non-accounting impact of IFRS:

> "Due to the higher level of complexity under the new accounting standards, in August 2005 the Board determined that the significant additional work and cost associated with quarterly reporting was no longer warranted."

NZ Windfarms Ltd is the third EA firm in our sample in the energy sector and is also one of the seven EA firms which contain no IFRS disclosures in the non-financial statement sections of the annual report. The notes to their financial statements provide the likely explanation for this, in disclosing that: "The adopting of IFRS reporting has resulted in no changes to the reported financial statements …".

Four of the five LA energy firms comment on the importance of IFRS in relation to their results. Three of these firms provide comments that are relatively neutral and contain little detail. For the fourth, Horizon Energy Distribution Ltd, both the chairman's report and "Financial Overview" comment extensively on the impact of IFRS. The following extracts from the "Financial Overview" provide deeper insights in this regard:

> "The transition to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in 2008, as discussed below, has distorted the trend analysis provided … "

> "***Transition to NZ IFRS***
> This year has seen Horizon Energy transition to International Financial Reporting Standards (NZ IFRS). The impact of NZ IFRS on the Company's financial statements (and notes) has been significant from a qualitative and quantitative perspective.
> Qualitatively NZ IFRS requires a greater degree of information disclosure. The number of notes to these financial statements has approximately doubled compared with previously adopted financial reporting standards.
> Quantitatively NZ IFRS has resulted in significant changes in liability and equity primarily attributable to the recognition of a deferred tax liability on revalued distribution network fixed assets. The impact of these changes on deferred tax liabilities has also resulted in a reduction in income tax expense when compared with previously adopted financial reporting standards.
> Another material change is the recognition of gains or losses on financial derivatives in the financial statements. Previously, gains or losses on financial derivatives were treated as off balance sheet. The fair value of financial derivatives now flow through the income statement and looking forward could cause significant volatility in the Company's income statement.
> Financial derivatives are used purely for interest rate risk management in accordance with the Company's treasury policy which is approved by the Board of Directors. There is no cash flow impact associated with movements in the fair value of financial derivatives and the Company's results should be considered with this in mind."

There is further commentary on the effects of these impacts on net profits in Horizon Energy Distribution Ltd's report of the directors to the shareholders:

> "The Company has in recent years paid 90% of net profit after tax however the transition to NZ IFRS for the 2008 year has resulted in an increase in net profit after tax of (sic) that in part is not driven by a fundamental change in the underlying cash flows or profitability of the Company. Directors have prudently adjusted the dividends paid for this impact."

5.4.3. Goods

The only EA firm in the goods sector is Ebos Group Ltd, which has the highest word count for "Highlight of Achievement" as well as the second highest word count for "Negative Non-Accounting Impacts". The extracts below from the managing director's review provide further explanatory insights:

> *Managing Director's Review*:
> "Early adoption of New Zealand International Financial Reporting Standards (NZ IFRS), making EBOS a leader in financial transparency," (listed as one of nine "Achievements during the year").
>
> "This is the first set of group results that have been prepared under NZ IFRS. Whilst the intention is to improve business transparency for shareholders, a goal that we fully support, shareholders may feel surprised by the volume of 'fine print' we are now obliged to include in this report. Special thanks go to the internal staff involved in this arduous task of being an "early adopter".
>
> The transition to NZ IFRS has not had a material impact on the reported profit before tax or cash flow. The 2006 results include the restatement of prior reporting periods to the NZ IFRS reporting base. The main change for EBOS is the impact of derivatives on the group's significant use of foreign exchange."

In a later section of the Ebos Group annual report, the company discloses that a class waiver was applied, allowing it to delay deadlines for providing its half yearly and annual report due to the increased complexity involved in meeting IFRS requirements.

Results for the six LA sample firms in the goods sector contrast strongly with those for Ebos Group, the only EA firm in this sector. LA firms record the second lowest "Overall Average" word count (71) and average word counts of zero for 11 of the 14 themes.

5.4.4. Primary

Results regarding the primary sector are also of particular interest for at least three reasons: this is the only industry sector where "IFRS Mentions" statistics for LA firms are consistently higher than those of EA firms. The "Overall Average" (199 words) is second amongst LA firms only to the energy sector. The "Informing of Importance" (183 words), "Assets" (145 words) and "Disclosures" (117 words) themes for these firms are the highest averages across all EA and LA firms. Four of the six LA firms in the primary sector comment on the importance of IFRS in relation to their results. One of these firms, Seeka Kiwifruit Industries Ltd simply notes that IFRS has affected their results and comparatives. A review of their financial statements reveals a number of IFRS adjustments - amongst the more material of these are adjustments relating to their leased orchards and the need to account for fair values of biological assets and onerous leases. The remaining three firms provide more specific detail about the impacts of IFRS on their financial information. Oyster Bay Marlborough Vineyards Ltd notes that fair value movements in biological assets affect revenue. Our review of their financial statements reveals that profit after income tax and net assets are approximately tripled as a result of fair value adjustments to biological assets and property, as well as the tax effects flowing from these adjustments. Satara Co-operative Group Ltd comments that there are two major adjustments, required under IFRS that have the combined effect of reducing the Group's reported net assets by approximately $9 million, but that " … neither of these financial reporting changes has any material impact on the company's cash flow, nor its financial performance." The Satara Co-operative Group Ltd financial statements reveal that the $9 million adjustments amount to a reduction of almost 25% of their net assets and relate to the need to reclassify certain share capital as a liability ($6 million) and to recognise a deferred tax liability on the revalued portion of their buildings ($3 million). The fourth firm, The New Zealand Wine Company Ltd offers the most extensive commentary on IFRS impacts amongst primary sector firms in its chairman's report, under the heading for example:

> "NZ IFRS REPORTING STANDARDS
> NZ IFRS is New Zealand's new Financial Reporting Standard and Directors are conscious of the need to focus on the company's cash-based underlying earnings performance. The Board believes this is best reflected by the first column - 'Result Before Biological Bearer-Asset Adjustments' - in the Income Statement on page 8 of the Annual Report as representing the most transparent management financial performance for an agricultural exporter given NZWC's reporting requirements specified under NZ IFRS.
> Integrated grape-growing and wine-producing entities require own-produced grapes for strategic risk management as an essential ingredient to support winery investment and marketing activities. But no other integrated reporting entities are required to value their own-production at unrealized current market value (not cost) when transferred as grapes into inventory for wine-making, nor are revaluations of biological assets (the grape vines) customarily regarded as an unrealized profit item. The financial effects of these items are therefore identified and adjusted to achieve the Result Before Biological Bearer-Asset Adjustments.
> Taken together, this underlying financial performance and the obligatory NZ IFRS reporting requirements represent, in the opinion of the Directors, a truer and fairer portrayal of the total NZWC operating results."
>
> "OPERATING RESULTS OUTLOOK
> Sales revenues and volumes for the 2009 financial year are projected to increase significantly as a result of the bumper 2008 harvest. However projecting net earnings after tax under the NZ IFRS is impossible for an agricultural exporting company to do meaningfully because of the significant fluctuations from year to year in unrealized components of the

> NZ IFRS Income Statement given some are unrealized, some valuations reversing after balance date and some are unpredictable and depend on the outcome of market prices for the 2009 harvest.
> For all these reasons the Directors will continue to focus on the cash based underlying earnings performance."

5.4.5. Services
Results for the services sector show no zero scores for EA firms (LA firms show 5 zero scores). This is likely a reflection of the concentration of sample firms in this sector, particularly for the EA sample, as noted earlier with regard to Table 2. As this industry sector contained the largest proportions of our sample firms for both EA and LA, we reviewed IFRS mentions coded to the "Informing of Importance" theme for additional industry insights. The only specific item found to be mentioned on a recurring basis concerned the cessation of goodwill amortisation (mentioned by 5 EA firms and 1 LA firm).

5.4.6. Investment
Finally as regards our industry analysis, we note that IFRS mentions in the investment sector were consistently lower than any other sector for both EA and LA firms.

(Table 6 approx here)

5.5 Auditor effect
In Table 7 we report consistently higher rates of theme disclosures and average word counts for firms audited by Big 4 auditors, indicating possible support for an auditor effect found in some of the prior literature e.g. Palmer (2008) and Kent & Stewart (2008). This is most pronounced for LA firms where only one of the seven LA firms audited by "Other" auditors has any IFRS mentions in their annual reports, outside of the financial statements. However, there is also likely to be a related size effect. The most noticeable differences between firms audited by the Big 4 and those audited by "Other" auditors lie in the "Contextual", "Disclosure" and "Revenue" themes. For each of these, average word counts for the "Other" firms are zero compared to counts for EA firms audited by "Big 4" auditors of 34 or more (LA: 15 or more).

(Table 7 approx here)

6. CONCLUSION

IFRS comments outside of the financial statements add to the decision usefulness of financial information by highlighting important issues and effects. As expected, such disclosures are more apparent for early adopters than for late adopters of IFRS.

We find mixed results concerning the signals sent by governing bodies in the annual reports of sample firms in the year of their switch to IFRS.

17.5% of EA sample firms (LA: 35%), did not refer to IFRS at all in the non-financial statement sections of their annual reports. On average we find 2 (LA: 1) or fewer mentions in any one of the analysis sections of the annual report and 7 (LA: 4) mentions in total per annual report. In terms of space devoted to IFRS disclosures, this translates to an average of about 12% (LA: 6%) of one page or 0.4% (LA: 0.3%) as a proportion of total non-financial statement pages of the annual report. These findings may indicate governance decisions to the effect that IFRS was of minimal importance and, by implication, had little decision-usefulness. The overwhelming dominance of the "Negative" as opposed to the "Positive" non-accounting impact theme (i.e. adverse consequences as a result of IFRS) for both EA and LA firms lends further support to this view

On the other hand, we find that the most dominant theme overall is the "Informing of Importance" theme, mentioned in annual reports by 62.5% of EA sample firms (LA: 47.5%), with associated word counts which equate to more than half of the total number of IFRS related words (for both EA firms and LA firms). The annual report section with the highest company count and word count is "Chairpersons' Reports", reinforcing the notion that importance is placed on informing users about IFRS effects. We find the theme "Highlight of Achievement" present in 30% of EA sample firms (LA: 2.5%). For EA firms, the relatively low word count of 500 for this theme (LA: 53) is more likely a reflection that the highlights sections are brief in nature, rather than that this low word count indicates a lack of importance. We also find that a considerable proportion of the disclosures contain specific information concerning the impact of IFRS on financial statement elements, particularly expenses and equity/profit or loss. These findings provide some indication of the perceived decision usefulness of the IFRS information and consequent governance efforts to be transparent about the effects of IFRS.

Overall, in line with prior literature, we find that larger firms consistently display greater levels of disclosure, particularly with respect to the "Informing of Importance" theme. Similarly, we find consistently higher rates of theme disclosures and average word counts for firms audited by Big 4 audit firms. Our findings also triangulate with prior literature suggesting that firms with "good news" in relation to new standards tend to early adopt while those with "bad news" tend to late adopt (EA firms generally had higher disclosure rates for the "Highlight of Achievement"; "Informing of Importance" and "Non Accounting Impact – Positive" themes while LA firms, particularly in the primary industry had higher disclosure rates for the “Non Accounting Impact – Negative” theme).

We find higher than average word counts for the property (EA only), energy, goods (EA only) and primary (LA only) sectors and find that these relate to particular effects as a result of IFRS for these industries. Examples of these effects for EA property firms include changing classifications for unit-holder funds and timing of revenue recognition for property sales. Results for LA firms in the property sector contrast strongly with those for EA firms with average word counts of zero for 11 of the 14 themes.

In the energy sector, annual reports of two of the three sample firms disclose significant but differing impacts of IFRS, (e.g. re-accounting for government assistance with debt, fair value requirements for financial instruments, changes in the calculation of deferred tax and dispensing with the amortisation of goodwill). Four of the five LA energy firms comment on the importance of IFRS in relation to their results. Three of these firms provide comments that are relatively neutral and contain little detail. The fourth firm, Horizon Energy Distribution Ltd, however comments extensively on the impact of IFRS, noting that “ … the number of notes to financial statements has approximately doubled compared with previously adopted financial reporting standards”.

In the Goods sector, where Ebos Group is the only EA sample firm, we find that their relatively extensive disclosures highlight that their early adoption of IFRS is a noteworthy achievement and makes the company “a leader in financial transparency”. Comments with negative overtones included noting that adoption of IFRS was an arduous task involving a surprising volume of ‘fine print’ and the application of a waiver allowing it to delay deadlines for providing its half yearly and annual report due to the increased complexity involved in meeting IFRS requirements. As for the property sector, results for the six LA sample firms in the goods sector contrast strongly with those for Ebos Group, also recording average word counts of zero for 11 of the 14 themes.

We find that results regarding the primary sector are of particular interest, because *inter alia* this is the only industry sector where “IFRS Mentions” statistics for LA firms are consistently higher than those of EA firms. A recurring theme for these firms is the need to account for fair values of biological assets. We note that for one of these firms (Oyster Bay Marlborough Vineyards Ltd), profit after income tax and net assets are approximately tripled as a result of fair value adjustments to biological assets and property, as well as the tax effects flowing from these adjustments.

Overall, we find support for the expectation that entities may elect to adopt early as a means of demonstrating commitment to high-quality financial reporting. The frequency and level of disclosures recorded for EA firms is consistently higher than that for LA firms with a few notable exceptions, already identified earlier. These exceptions may however indicate support for a competing hypothesis, namely that firms may choose to delay adoption of IFRS where governing bodies perceive that IFRS has important adverse consequences for their firms and/or the quality of their financial reporting. This potentially competing hypothesis would reinforce, rather than contradict the commitment to good governance and high quality financial reporting for those late adopters who make more frequent and extensive non-financial statement disclosures in their annual reports.

Limitations and further research

Niskala & Pretes (1995) caution that restricting a study to annual reports only, may give an incomplete view of overall reporting. In addition, we acknowledge that, similar to the Bozzolan *et al.* (2009) study concerning forward–looking disclosures, we consider only non-financial statement sections of the annual report. However, the annual report is well-documented as being the main disclosure vehicle for corporate reporting. We also conduct analysis to confirm that a lack of IFRS information in the non-financial statement sections of the annual report does not appear to be explained by financial statement disclosures to the effect that the impact of IFRS has had an immaterial effect or no effect at all.

The usual limitations which apply to small samples apply to our sample of 80 firms. However, as noted, Boesso & Kumar (2007) confirm that a relatively small sample size is fairly common in studies using content analysis. We do not make any statistical inferences from our data and note that our findings relate to only adopters of IFRS in New Zealand. Our research could therefore be usefully extended to other countries.

Table 1: Themes used for Coding of IFRS related extracts from Annual Reports

Theme Name	Description
General	
- Contextual	IFRS is mentioned in Annual Reports (excluding Financial Statements) to provide context to information being presented
- Highlight of Achievement	IFRS is mentioned in Annual Reports (excluding Financial Statements) to highlight that the company is a market leader by adopting early or achieving something unique with regard to adopting IFRS
- Informing of Importance	IFRS is mentioned in Annual Reports (excluding Financial Statements) to draw users attention to the change in a way that emphasises its importance
Accounting Impact	
- General	Statements which do not refer to specific amounts or components of financial statements
- Assets	IFRS mention in Annual Report refers to a significant financial change in Assets as a result of moving from Old GAAP to IFRS
- Disclosure	IFRS mention in Annual Report refers to a significant change in the nature and extent of disclosure as a result of moving from Old GAAP to IFRS
- Equity/Profit & Loss	IFRS mention in Annual Report refers to a significant financial change in Profit and Loss or Equity as a result of moving from Old GAAP to IFRS
- Revenue	IFRS mention in Annual Report refers to a significant financial change in Revenue as a result of moving from Old GAAP to IFRS
- Expenses	IFRS mention in Annual Report refers to a significant financial change in Expenses as a result of moving from Old GAAP to IFRS
- Liabilities	IFRS mention in Annual Report refers to a significant financial change in Liabilities as a result of moving from Old GAAP to IFRS
- Limited/ immaterial impact	IFRS is mentioned in Annual Reports (excluding Financial Statements) to highlight that there is minimal change to accounting information as a result of applying IFRS
Non-Accounting Impact	
- General	Neutral statements regarding non-accounting impacts of IFRS
- Negative	Non-financial impacts which are adverse consequences as a result of IFRS
- Positive	Non-financial impacts which are improvements or reflect beneficial change

Table 2: Descriptive information (n = 80)						
	Early Adopters		**Late Adopters**		**Total**	
Description	**No. of firms**	**% of Total**	**No. of firms**	**% of Total**	**No. of firms**	**% of Total**
Industry *	***40***	***100%***	***40***	***100%***	***80***	***100%***
Energy	3	8%	5	13%	8	10%
Goods	1	3%	6	15%	7	9%
Investment	5	13%	10	25%	15	19%
Primary	3	8%	6	15%	9	11%
Property	2	5%	2	5%	4	5%
Services	26	65%	11	28%	37	46%
Firm Size ($NZ 000's) **	***40***	***100%***	***40***	***100%***	***80***	***100%***
$0 - 10,000	7	15%	11	30%	18	23%
$10,001 - 100,000	8	20%	13	33%	21	26%
$100,001 - 1,000,000	16	40%	10	25%	26	33%
$1,000,001 +	9	25%	6	13%	15	19%
Auditor	***40***	***100%***	***40***	***100%***	***80***	***100%***
Big 4	33	83%	33	83%	66	82.5%
Other	7	18%	7	18%	14	17.5%
Main Shareholder % Holding	***40***	***100%***	***40***	***100%***	***80***	***100%***
0 - 19%	13	33%	24	60%	37	46%
20 - 50%	11	28%	7	18%	18	23%
50.1% +	16	40%	9	23%	25	31%
Main Shareholder Origin	***40***	***100%***	***40***	***100%***	***80***	***100%***
New Zealand	27	68%	38	95%	65	81%
Australia	7	18%	2	5%	9	11%
EU Country	2	5%	0	0%	2	3%
Unknown	4	10%	0	0%	4	5%

* = Industry categories used are as specified in NZX Deep Archive database under heading “NZX Sector”

** = Size was measured as value of Total Assets as extracted from first full-year IFRS financial statements (using "Current Year " NZ IFRS figures)

Table 3: Frequency, Placing and Space of IFRS Mentions in Annual Report							
	Highlights Sections	**Chairs' Reports**	**Directors' Reports**	**Other Sections**	**Total**	**Total Space devoted to IFRS [b]**	
						% of 1 page of AR	**% of all non-F/S pgs of AR**
Early Adopters							
Min [a]	0	0	0	0	0	0%	0.0%
Max	14	8	9	21	27	58%	1.5%
Av	2	2	1	2	7	12%	0.4%
Median	1	1	0	0	5	9%	0.3%
Standard Deviation	10	4	1	0	15	1%	0.1%
Late Adopters							
Min [a]	0	0	0	0	0	0%	0.0%
Max	13	12	4	11	17	42%	2.1%
Av	1	1	0	1	4	6%	0.3%
Median	0	0	0	0	3	3%	0.1%
Standard Deviation	5	1	0	4	8	3%	0.0%
Total							
Min	0	0	0	0	0	0%	0.0%
Max	14	12	9	21	27	58%	2.1%
Av	2	2	1	1	5	9%	0.3%
Median	0	0	0	0	4	6%	0.2%
Standard Deviation	10	3	4	0	17	11%	0.3%

[a] = No “IFRS” or “International Financial Reporting Standards” mentions found in Annual Report in year of First Full-Year IFRS Financial Statements for:

- 7 of 40 early adopters (i.e. 17.5%) and
- 14 of 40 late adopters (i.e. 35%)

[b] = Calculated in cm^2 (1 PDF page is 29.5cm x 21 cm = 619.5cm^2)

Table 4: Themes of IFRS Mentions in Annual Report										
Panel A: Company Count										
	Highlights Sections		**Chairpersons' Reports**		**Other Dirs' Reports**		**Other Sections**		**All Sections ***	
	EA (n=40)	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**
Totals **	22	14	24	15	13	5	18	11	33	26
Contextual	19	14	6	11	5	2	9	5	24	20
Highlight of Achievement	6	0	4	1	2	0	1	0	12	1
Informing of Importance	4	0	17	13	10	4	7	6	25	19
Accounting Impact										
- General	2	0	3	1	3	0	2	0	9	1
- Assets	1	0	7	4	3	0	4	3	12	6
- Disclosure	1	0	1	2	2	0	3	1	7	3
- Equity_Profit or Loss	1	0	9	6	6	3	1	2	15	8
- Expenses	1	0	12	5	3	1	3	1	14	5
- Liabilities	0	0	2	1	3	0	2	1	7	2
- Limited/immaterial impact	0	0	3	2	1	0	0	0	4	2
- Revenue	0	0	5	2	3	0	2	1	9	2
Non Accounting Impact										
- General	0	0	2	0	1	0	1	1	4	1
- Negative	2	0	6	5	4	2	7	6	14	10
- Positive	0	0	3	0	1	0	0	0	3	0
Panel B: Word Count										
	Highlights Sections		**Chairpersons' Reports**		**Other Dirs' Reports**		**Other Sections**		**All Sections**	
	EA (n=40)	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**	**EA (n=40)**	**LA (n=40)**
Totals *	974	786	3041	2080	1671	393	2455	1294	8141	4553
Contextual	758	786	210	771	289	26	566	313	1823	1896
Highlight of Achievement	54	0	371	53	45	0	30	0	500	53
Informing of Importance	236	0	1897	1606	991	367	1049	1025	4173	2998
Accounting Impact										
- General	95	0	411	40	267	0	163	0	936	40
- Assets	54	0	688	1043	407	0	1102	600	2251	1643
- Disclosure	54	0	125	811	304	0	934	248	1417	1059
- Equity_Profit or Loss	40	0	1104	1170	814	317	271	544	2229	2031
- Expenses	54	0	1346	476	412	162	935	329	2747	967
- Liabilities	0	0	174	703	680	0	919	55	1773	758
- Limited/immaterial impact	0	0	305	251	66	0	0	0	371	251
- Revenue	0	0	744	216	253	0	140	274	1137	490
Non Accounting Impact										
- General	0	0	180	0	209	0	44	28	433	28
- Negative	95	0	631	1088	413	295	446	875	1585	2258
- Positive	0	0	236	0	18	0	0	0	254	0

* = The sum of individual sections/themes is equal to or greater than "All Sections"/ section totals for company count figures, as: (i) one firm could have an IFRS mention in one or more annual report sections; (ii) text could be coded to one or more themes as themes are not mutually exclusive.

** = Company Count Totals for "All Sections" = (n - no. of "No IFRS Mentions" co's)

Table 5: Themes of IFRS Mentions in Annual Report analysed by Company Size (NZ$ 000's)

Panel A: % of Firms per Size Category for which IFRS themes identified [(a)]

	$0 - 10,000		$10,001 - 100,000		$100,001 - 1,000,000		$1,000,001 +		All Sizes	
	EA	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**
Total no. of co's in Size Category (n)	**7**	**11**	**8**	**13**	**16**	**10**	**9**	**6**	**40**	**40**
Overall % (Any IFRS theme mentions)	***57%***	***55%***	***63%***	***54%***	***100%***	***70%***	***89%***	***100%***	***83%***	***65%***
Contextual	0%	18%	38%	38%	81%	70%	89%	100%	60%	50%
Highlight of Achievement	14%	0%	13%	8%	44%	0%	33%	0%	30%	3%
Informing of Importance	57%	36%	38%	46%	81%	40%	56%	83%	63%	48%
Accounting Impact										
- General	0%	0%	13%	0%	38%	10%	22%	0%	23%	3%
- Assets	29%	0%	25%	31%	31%	10%	33%	17%	30%	15%
- Disclosure	0%	0%	13%	8%	19%	20%	33%	0%	18%	8%
- Equity_Profit or Loss	29%	18%	25%	8%	50%	30%	33%	33%	38%	20%
- Expenses	29%	9%	13%	8%	50%	30%	33%	0%	35%	13%
- Liabilities	0%	0%	25%	8%	13%	10%	33%	0%	18%	5%
- Limited or immaterial impact	0%	9%	0%	8%	25%	0%	0%	0%	10%	5%
- Revenue	0%	0%	25%	8%	25%	10%	33%	0%	23%	5%
Non Accounting Impact										
- General	0%	0%	0%	0%	19%	10%	11%	0%	10%	3%
- Negative	29%	36%	25%	23%	38%	20%	44%	17%	35%	25%
- Positive	14%	0%	0%	0%	6%	0%	11%	0%	8%	0%

Panel B: Average Word Count per Size Category for each IFRS theme identified [(b)]

	$0 - 10,000		$10,001 - 100,000		$100,001 - 1,000,000		$1,000,001 +		All Sizes	
	EA	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**
Overall Average (all themes)	63	75	115	89	229	151	347	177	204	114
Contextual	0	13	24	32	39	60	112	121	46	47
Highlight of Achievement	5	0	1	4	21	0	14	0	13	1
Informing of Importance	59	39	42	112	127	73	156	65	104	75
Accounting Impact										
- General	0	0	16	0	44	4	11	0	23	1
- Assets	30	0	29	83	53	44	107	21	56	41
- Disclosure	0	0	6	54	24	36	109	0	35	26
- Equity_Profit or Loss	39	32	22	54	71	82	72	28	56	51
- Expenses	30	22	42	7	79	64	104	0	69	24
- Liabilities	0	0	29	54	24	6	128	0	44	19
- Limited or immaterial impact	0	18	0	4	23	0	0	0	9	6
- Revenue	0	0	38	4	39	44	23	0	28	12
Non Accounting Impact										
- General	0	0	0	0	24	3	6	0	11	1
- Negative	32	42	9	82	42	61	68	21	40	56
- Positive	15	0	0	0	4	0	9	0	6	0

[(a)] = %'s are calculated as (No. of Firms for which theme identified)/ (Total No. of Firms in Size Category i.e.n)

[(b)] = Average figures are calculated as (Total No. of IFRS related Words for Size Category)/ (n)

Table 6: Themes of IFRS Mentions in Annual Report analysed by Industry

Panel A: % of Firms per Industry Sector for which IFRS themes identified [(a)]

	Energy		Goods		Investment		Primary		Property		Services		All Ind's	
	EA	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**
Total no. of co's in Industry Category (n)	**3**	**5**	**1**	**6**	**5**	**10**	**3**	**6**	**2**	**2**	**26**	**11**	**40**	**40**
Overall % (Any IFRS theme mentions)	**67%**	**80%**	**100%**	**50%**	**80%**	**50%**	**67%**	**67%**	**100%**	**100%**	**85%**	**73%**	**83%**	**65%**
Contextual	67%	80%	100%	33%	40%	10%	67%	67%	100%	100%	58%	64%	60%	50%
Highlight of Achievement	33%	0%	100%	0%	20%	0%	33%	0%	50%	0%	27%	9%	30%	3%
Informing of Importance	33%	80%	100%	50%	80%	30%	33%	67%	50%	50%	65%	36%	63%	48%
Accounting Impact														
- General	0%	0%	100%	0%	20%	0%	0%	17%	0%	0%	27%	0%	23%	3%
- Assets	33%	20%	0%	0%	40%	10%	0%	50%	50%	0%	31%	9%	30%	15%
- Disclosure	67%	20%	0%	0%	0%	0%	0%	17%	50%	0%	15%	9%	18%	8%
- Equity_Profit or Loss	67%	40%	100%	0%	20%	10%	33%	17%	50%	50%	35%	27%	38%	20%
- Expenses	67%	20%	0%	17%	40%	10%	0%	0%	0%	0%	38%	18%	35%	13%
- Liabilities	33%	20%	0%	0%	0%	0%	0%	17%	50%	0%	19%	0%	18%	5%
- Limited or immaterial impact	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	12%	18%	10%	5%
- Revenue	67%	20%	0%	0%	0%	0%	0%	17%	100%	0%	19%	0%	23%	5%
Non Accounting Impact														
- General	33%	20%	0%	0%	0%	0%	0%	0%	0%	0%	12%	0%	10%	3%
- Negative	67%	20%	100%	0%	40%	50%	0%	33%	100%	0%	27%	18%	35%	25%
- Positive	0%	0%	100%	0%	20%	0%	0%	0%	0%	0%	4%	0%	8%	0%

Panel B: Average Word Count per Industry Sector for each IFRS theme identified [(b)]

	Energy		Goods		Investment		Primary		Property		Services		All Ind's	
	EA	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**	**EA**	**LA**
Overall Average (all themes)	381	237	359	71	45	35	97	199	434	94	202	110	204	114
Contextual	137	66	4	36	6	19	65	45	86	78	39	67	46	47
Highlight of Achievement	4	0	134	0	7	0	1	0	15	0	11	5	13	1
Informing of Importance	119	151	66	39	51	52	16	183	148	11	121	33	104	75
Accounting Impact												0		
- General	0	0	66	0	6	0	0	7	0	0	32	0	23	1
- Assets	26	87	0	0	38	21	0	145	34	0	74	11	56	41
- Disclosure	81	50	0	0	0	0	0	117	23	0	43	10	35	26
- Equity_Profit or Loss	162	140	66	0	15	33	21	117	137	11	49	25	56	51
- Expenses	35	98	0	15	52	24	0	0	0	0	92	14	69	24
- Liabilities	0	11	0	0	0	0	0	117	171	0	55	0	44	19
- Limited or immaterial impact	0	0	66	0	0	0	0	0	0	0	12	23	9	6
- Revenue	103	87	0	0	0	0	0	9	122	0	22	0	28	12
Non Accounting Impact												0		
- General	19	6	0	0	0	0	0	0	0	0	14	0	11	1
- Negative	101	100	149	0	23	71	0	136	198	0	24	21	40	56
- Positive	0	0	66	0	21	0	0	0	0	0	3	0	6	0

[(a)] = %'s are calculated as (No. of Co's for which theme identified)/ (Total No. of Co,s in Size Category i.e. n)

[(b)] = Average figures are calculated as (Total No. of IFRS related Words for Size Category)/ (n)

Table 7: Themes of IFRS Mentions in Annual Report analysed by Auditor

Panel A: Company Count and % of Firms per Auditor type for which IFRS themes identified [(a)]

	Big 4				Other				All Auditors[(c)]	
	EA No	EA %	LA No.	LA %	EA No.	EA %	LA No.	LA %	EA	LA
Total no. (%) of co's per Auditor Type (n)	33	100%	33	100%	7	100%	7	100%	**40**	**40**
Total no. (%) of co's with any IFRS mentions	28	85%	25	76%	5	71%	1	14%	33	26
Contextual	24	73%	19	58%	0	0%	1	14%	24	20
Highlight of Achievement	11	33%	1	3%	1	14%	0	0%	12	1
Informing of Importance	21	64%	18	55%	4	57%	1	14%	25	19
Accounting Impact										
- General	9	27%	1	3%	0	0%	0	0%	9	1
- Assets	9	27%	6	18%	3	43%	0	0%	12	6
- Disclosure	7	21%	3	9%	0	0%	0	0%	7	3
- Equity_Profit or Loss	13	39%	7	21%	2	29%	1	14%	15	8
- Expenses	12	36%	5	15%	2	29%	0	0%	14	5
- Liabilities	6	18%	2	6%	1	14%	0	0%	7	2
- Limited or immaterial impact	4	12%	2	6%	0	0%	0	0%	4	2
- Revenue	9	27%	2	6%	0	0%	0	0%	9	2
Non Accounting Impact										
- General	4	12%	1	3%	0	0%	0	0%	4	1
- Negative	11	33%	10	30%	3	43%	0	0%	14	10
- Positive	2	6%	0	0%	1	14%	0	0%	3	0

Panel B: Word Count and Average Word Count of Firms per Auditor type for which IFRS themes identified [(b)]

	Big 4				Other				All Auditors[(c)]	
	EA No.	EA Av	LA No.	LA Av	EA No.	EA Av	LA No.	LA Av	EA No	LA No
Overall No./Average (all themes)	7530	228	4480	136	611	87	73	10	8141	4553
Contextual	1823	55	1888	57	0	0	8	1	1823	1896
Highlight of Achievement	465	14	53	2	35	5	0	0	500	53
Informing of Importance	3762	114	2976	90	411	59	22	3	4173	2998
Accounting Impact						0				
- General	936	28	40	1	0	0	0	0	936	40
- Assets	1934	59	1643	50	317	45	0	0	2251	1643
- Disclosure	1417	43	1059	32	0	0	0	0	1417	1059
- Equity_Profit or Loss	1958	59	2009	61	271	39	22	3	2229	2031
- Expenses	2534	77	967	29	213	30	0	0	2747	967
- Liabilities	1669	51	758	23	104	15	0	0	1773	758
- Limited or immaterial impact	371	11	251	8	0	0	0	0	371	251
- Revenue	1137	34	490	15	0	0	0	0	1137	490
Non Accounting Impact						0				
- General	433	13	28	1	0	0	0	0	433	28
- Negative	1296	39	2258	68	289	41	0	0	1585	2258
- Positive	149	5	0	0	105	15	0	0	254	0

[(a)] = %'s are calculated as (No. of Co's for which theme identified)/ (Total No. of Co's per Auditor type i.e. n)
[(b)] = Average figures are calculated as (Total No. of IFRS related Words per Auditor type)/ (n)
[(c)] = As there are only two auditor types, only numbers are displayed for "All Auditors" as these are considered more useful than

percentages or averages.

Appendices

Appendix 1 (Relates to Table 1)

Themes used for Coding of IFRS related extracts from Annual Reports

Theme Name	Description	Example	Source
General	Open theme categories relating to IFRS		
- Contextual	IFRS is mentioned in Annual Reports (excl F/S's) to provide context to information being presented	"Note: 2004 and 2005 figures are reported under NZ IFRS"	Millennium & Copthorne Hotels NZ Ltd - 31/12/2005
- Highlight of Achievement	IFRS is mentioned in Annual Reports (excl F/S's) to highlight that the company is a market leader by adopting early or achieving something unique with regard to adopting IFRS	"NZ IFRS New Zealand equivalents to International Financial Reporting Standards. ANZO adopted these accounting standards from 1 July 2006, the first of New Zealand's listed property vehicles to do so."	AMP NZ OfficeTrust - 30/6/2007
- Informing of Importance	IFRS is mentioned in Annual Reports (excl F/S's) to draw users attention to the change in a way that emphasises its importance	"(Financials for 2004/05 have been restated in line with NZ IFRS as required by NZ IFRS 1 First-time Adopters of New Zealand Equivalents to International Financial Reporting Standards)" - Highlighted in green at top of the Chairman's Report	Abano Healthcare Group Ltd - 31/5/2006
Accounting Impact	IFRS is mentioned in Annual Reports (excl F/S's) to highlight a significant change to accounting information as a result of applying IFRS. This theme was split into the sub-themes indicated below.		
- General	Statements which do not refer to specific amounts or components of financial statements	"This is the first full year that ASB has reported under the new International Financial Reporting Standards, therefore some of the financial data cannot strictly be compared to previous year's figures."	ASB Capital Ltd - 30/6/2006
- Assets	IFRS mention in Annual Report refers to a significant financial change in Assets as a result of moving from Old GAAP to IFRS	"Note: The 2002-2004 financial statements have not been restated to comply with NZ IFRS. The most significant differences in accounting treatment include the treatment of goodwill amortisation, classification of biological assets, classification of fixed term licences and software to intangible assets, and impairment of property, plant and equipment to fair value if appropriate."	Tourism Holdings Ltd - 30/6/2006

- Disclosure	IFRS mention in Annual Report refers to a significant change in the nature and extent of disclosure as a result of moving from Old GAAP to IFRS	"In accordance with NZIFRS, Contact is required to report segmental information. Contact's primary reporting format is business segments. As these segments are fully integrated within New Zealand, this disclosure does not attempt to present the segments as stand-alone entities."	Contact Energy Ltd - 30/6/2006
- Equity/Profit & Loss	IFRS mention in Annual Report refers to a significant financial change in Profit and Loss or Equity as a result of moving from Old GAAP to IFRS	"NPAT of $25.22 million reported for the January 2006 year under NZ GAAP has been restated under NZ IFRS to $24.77 million."	Briscoes - 28/1/2007
- Revenue	IFRS mention in Annual Report refers to a significant financial change in Revenue as a result of moving from Old GAAP to IFRS	"Under NZ GAAP, property sales & other income for 2005 would have been $30,805,000. This represents an increase of 52.9% on 2004 (2004: $20,150,000)."	CDL Investments Ltd - 31/12/2005
- Expenses	IFRS mention in Annual Report refers to a significant financial change in Expenses as a result of moving from Old GAAP to IFRS	"With the adoption of NZIFRS, the calculation basis for income tax expenses has changed."	Contact Energy Ltd - 30/6/2006
- Liabilities	IFRS mention in Annual Report refers to a significant financial change in Liabilities as a result of moving from Old GAAP to IFRS	"The resultant impact on the deferred tax liability of the above changes."	Southern Capital Ltd (Hirequip) - 30/6/2006
- Limited/ immaterial impact	IFRS is mentioned in Annual Reports (excl F/S's) to highlight that there is minimal change to accounting information as a result of applying IFRS	"The transition to NZ IFRS has not had a material impact on the reported profit before tax or cash flow."	Ebos Group Ltd - 30/6/2006
Non-Accounting Impact	IFRS mentions in the Annual Report (excl F/S's) made to highlight impacts other than to merely accounting information e.g. benefits, costs, operational changes, key ratios.		
- General	Neutral statements regarding non-accounting impacts of IFRS	"These are changes in accounting definitions and do not change Contact's business strategy ... "	Contact Energy Ltd - 30/6/2006
- Negative	Non-financial impacts which are adverse consequences as a result of IFRS	"Overall the requirements to report under IFRS have been onerous and we trust that the additional reading for shareholders provides greater value in the understanding of the Finzsoft business."	Finzsoft Solutions Ltd - 31/3/2007
- Positive	Non-financial impacts which are improvements or reflect beneficial change	"Early adoption of New Zealand International Financial Reporting Standards (NZ IFRS), making EBOS a leader in financial transparency."	Ebos Group Ltd - 30/6/2006

Appendix 2 (Relates to Table 5)

Themes of IFRS Mentions in Annual Report analysed by Company Size (NZ$ 000's)

Panel A: Company Count	**$0 - 10,000**		**$10,001 - 100,000**		**$100,001 - 1,000,000**		**$1,000,001 +**		**All Sizes**	
	EA No.	**LA No.**	**EA No.**	**LA No.**	**EA No.**	**LA No.**	**EA No.**	**LA No.**	**EA No.**	**LA No.**
n =	**7**	**11**	**8**	**13**	**16**	**10**	**9**	**6**	**40**	**40**
Total no. of co's with any IFRS mentions	4	6	5	7	16	7	8	6	33	26
Contextual	0	2	3	5	13	7	8	6	24	20
Highlight of Achievement	1	0	1	1	7	0	3	0	12	1
Informing of Importance	4	4	3	6	13	4	5	5	25	19
Accounting Impact										
- General	0	0	1	0	6	1	2	0	9	1
- Assets	2	0	2	4	5	1	3	1	12	6
- Disclosure	0	0	1	1	3	2	3	0	7	3
- Equity_Profit or Loss	2	2	2	1	8	3	3	2	15	8
- Expenses	2	1	1	1	8	3	3	0	14	5
- Liabilities	0	0	2	1	2	1	3	0	7	2
- Limited or immaterial impact	0	1	0	1	4	0	0	0	4	2
- Revenue	0	0	2	1	4	1	3	0	9	2
Non Accounting Impact										
- General	0	0	0	0	3	1	1	0	4	1
- Negative	2	4	2	3	6	2	4	1	14	10
- Positive	1	0	0	0	1	0	1	0	3	0

Panel B: Word Count	**$0 - 10,000**		**$10,001 - 100,000**		**$100,001 - 1,000,000**		**$1,000,001 +**		**All Sizes**	
	EA No.	**LA No.**	**EA No.**	**LA No.**	**EA No.**	**LA No.**	**EA No.**	**LA No.**	**EA No.**	**LA No.**
Totals	439	830	919	1155	3657	1506	3126	1062	8141	4553
Contextual	0	147	193	418	622	603	1008	728	1823	1896
Highlight of Achievement	35	0	5	53	336	0	124	0	500	53
Informing of Importance	411	432	335	1451	2024	726	1403	389	4173	2998
Accounting Impact										
- General	0	0	130	0	711	40	95	0	936	40
- Assets	213	0	234	1081	842	436	962	126	2251	1643
- Disclosure	0	0	50	703	388	356	979	0	1417	1059
- Equity_Profit or Loss	271	348	172	703	1139	815	647	165	2229	2031
- Expenses	213	237	338	87	1261	643	935	0	2747	967
- Liabilities	0	0	234	703	383	55	1156	0	1773	758
- Limited or immaterial impact	0	198	0	53	371	0	0	0	371	251
- Revenue	0	0	306	55	623	435	208	0	1137	490
Non Accounting Impact										
- General	0	0	0	0	376	28	57	0	433	28
- Negative	226	462	69	1065	676	605	614	126	1585	2258
- Positive	105	0	0	0	66	0	83	0	254	0

Appendix 3 (Relates to Table 6)

Table 6: Themes of IFRS Mentions in Annual Report analysed by Industry

Panel A: Company Count

	Energy		Goods		Investment		Primary		Property		Services		All Ind's	
	EA	LA	EA	LA	EA	LA	EA	LA	EA	LA	EA	LA	EA	LA
Total no. of co's in Industry Category (n)	**3**	**5**	**1**	**6**	**5**	**10**	**3**	**6**	**2**	**2**	**26**	**11**	**40**	**40**
Total no. of co's with any IFRS mentions	**2**	**4**	**1**	**3**	**4**	**5**	**2**	**4**	**2**	**2**	**22**	**8**	33	26
Contextual	2	4	1	2	2	1	2	4	2	2	15	7	24	20
Highlight of Achievement	1	0	1	0	1	0	1	0	1	0	7	1	12	1
Informing of Importance	1	4	1	3	4	3	1	4	1	1	17	4	25	19
Accounting Impact														
- General	0	0	1	0	1	0	0	1	0	0	7	0	9	1
- Assets	1	1	0	0	2	1	0	3	1	0	8	1	12	6
- Disclosure	2	1	0	0	0	0	0	1	1	0	4	1	7	3
- Equity_Profit or Loss	2	2	1	0	1	1	1	1	1	1	9	3	15	8
- Expenses	2	1	0	1	2	1	0	0	0	0	10	2	14	5
- Liabilities	1	1	0	0	0	0	0	1	1	0	5	0	7	2
- Limited or immaterial impact	0	0	1	0	0	0	0	0	0	0	3	2	4	2
- Revenue	2	1	0	0	0	0	0	1	2	0	5	0	9	2
Non Accounting Impact														
- General	1	1	0	0	0	0	0	0	0	0	3	0	4	1
- Negative	2	1	1	0	2	5	0	2	2	0	7	2	14	10
- Positive	0	0	1	0	1	0	0	0	0	0	1	0	3	0

Panel B: Word Count

	Energy		Goods		Investment		Primary		Property		Services		All Ind's	
	EA	LA	EA	LA	EA	LA	EA	LA	EA	LA	EA	LA	EA	LA
Totals	1144	1184	359	428	226	347	291	1193	868	188	5253	1213	8141	4553
Contextual	412	328	4	216	28	192	195	268	171	155	1013	737	1823	1896
Highlight of Achievement	11	0	134	0	35	0	4	0	30	0	286	53	500	53
Informing of Importance	356	756	66	235	256	520	49	1099	296	22	3150	366	4173	2998
Accounting Impact														
- General	0	0	66	0	31	0	0	40	0	0	839	0	936	40
- Assets	79	436	0	0	188	213	0	868	68	0	1916	126	2251	1643
- Disclosure	244	248	0	0	0	0	0	703	45	0	1128	108	1417	1059
- Equity_Profit or Loss	487	701	66	0	73	326	63	703	273	22	1267	279	2229	2031
- Expenses	106	490	0	87	261	237	0	0	0	0	2380	153	2747	967
- Liabilities	0	55	0	0	0	0	0	703	341	0	1432	0	1773	758
- Limited or immaterial impact	0	0	66	0	0	0	0	0	0	0	305	251	371	251
- Revenue	310	435	0	0	0	0	0	55	244	0	583	0	1137	490
Non Accounting Impact														
- General	57	28	0	0	0	0	0	0	0	0	376	0	433	28
- Negative	303	498	149	0	115	713	0	813	396	0	622	234	1585	2258
- Positive	0	0	66	0	105	0	0	0	0	0	83	0	254	0

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