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An empirical insight on Spanish listed companies' perceptions of International Financial Reporting Standards

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ABSTRACT

Since 2005, all publicly traded European Union companies must prepare their consolidated statements in accordance with the International Financial Reporting Standards (IFRS). This paper analyzes the consequences of IFRS adoption in a code-law country (Spain), whose context is very different from the Anglo-Saxon system. This study provides evidence on the way that environment can affect Spanish financial managers and chief accountants, when they have to prepare financial reports under high-quality standards such as IFRS. The study used a questionnaire-based survey, which was completed by 63 Spanish listed firms. The results show that IFRS are perceived as a high-quality regulation appropriate for decision-making. However, IFRS are also seen as (1) significantly different from Spanish standards, (2) troublesome, and (3) failing to meet a cost-benefit trade-off in some cases. IFRS are not considered by the survey respondents as more appropriate than Spanish standards. The results of the study indicate that statement preparers' overall views of IFRS could lead to less IFRS compliance and, therefore, lower quality financial reports than could be reached under strict IFRS application.

1. Introduction

In June 2000, a comprehensive reform of financial reporting standards began in the European Union (EU). At that time, the European Commission published "EU Financial Reporting Strategy: the way forward", requiring all publicly traded EU companies to prepare their consolidated statements in accordance with the International Financial Reporting Standards (IFRS). As a consequence, since 2005, all listed companies in the EU, including Spain, must apply IFRS when preparing their consolidated accounts (European Commission, 2000).

This paper explores Spanish publicly traded firms' perceptions of IFRS adoption. Past studies have looked at users' opinions, basically auditors and financial managers, about the adoption of IFRS in a variety of countries (Deloitte & Touche, 2003, 2004; Jermakowicz & Gornik-Tomaszewski, 2006; Navarro, Sánchez, & Lorenzo, 2007). This is the first empirical assessment of statement preparers' opinions about IFRS in Spain, a code-law country with a very different cultural and institutional framework from that of Anglo-Saxons countries. This research attempts to determine if there are factors in a code-law country such as Spain that may affect IFRS application and compliance.

As more countries adopt or consider adopting IFRS, questions arise concerning the extent to which IFRS adoption can improve financial reporting. Since IFRS are derived from common-law sources, it is not clear how this new regulation will

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work in countries with different cultures or legal origins. Ball, Kothari, and Robin (2000), Ball, Robin and Wu (2000) and Ball, Robin, and Wu (2003) suggest that the quality of financial reporting varies among countries that have adopted IFRS. La Porta, López-de-Silanes, Shleifer, and Vishny (1998) find differences in quality, even within code-law countries, related to characteristics such as shareholders' and creditors' protection or law enforcement.

Nobes (2006) indicates that even after IFRS adoption, significant differences in international financial reporting quality remain. Therefore, previous literature provides evidence that accounting standards alone are not sufficient to achieve high-quality financial reporting.

The objective of this research is to determine the factors that may influence financial statements preparers in code-law countries to apply IFRS appropriately. A questionnaire was sent to the chief accountants and financial managers of companies listed in the Spanish market (172 firms) to determine their perceptions of IFRS implementation.

Our results indicate that financial statement preparers in Spain are satisfied with Spanish accounting standards. The respondents do not consider IFRS, in general, to be better than Spanish standards.

We find two main factors that could explain this result. First, IFRS are considered to be significantly different from Spanish standards and IFRS are viewed as more (1) complex, (2) flexible and (3) troublesome than Spanish standards. Second, negative perceptions about IFRS stem mainly from the view that adoption costs exceed adoption benefits. Respondents indicate increased reporting costs due to higher disclosure requirements and a majority predicts an increase in their firm's earnings volatility. Although the respondents acknowledge an improvement in international comparability, only a minority of Spanish firms are traded in foreign markets.[1] Although financial managers point out an increase in disclosure requirements, they do not foresee a reduction in creative accounting and perceive IFRS as less suitable than Spanish standards to limit creative accounting practices.

This study makes a contribution to the accounting literature by providing insights about the transition to IFRS by companies in a code-law reporting system. The results also show that switching standards alone is not sufficient to achieve accounting harmonization (Ball, 2001; Leuz, 2003). The study finds that acceptability and enforceability problems may prevent optimal compliance, even with standards that are considered to be of high-quality. The results should be of interest to regulators who must determine appropriate enforcement actions.

The paper is organized as follows. Section 2 presents the theoretical background and reviews the relevant empirical literature. Section 3 discusses the research questions. Section 4 describes the research methodology. Section 5 analyses the empirical results and Section 6 summarizes and presents the conclusions.

2. Theoretical and empirical background

The principal-agent theory posits that information asymmetry exists between principals (shareholders) and agents (managers) (Jensen & Mecking, 1976). Quality accounting standards, which provide guidance in preparing financial reports, reduce the impact of this information asymmetry. Thus, the better the financial reports are, the more efficient is the control the principal has on the agent. Although accounting standards are influenced by economic and political forces, economic and financial globalization requires harmonization of accounting standards internationally.

Since January 2005, publicly traded corporations in the EU have been required to apply IFRS. Previously, all Spanish firms prepared their financial statements in accordance with the Spanish Chart of Accounts (1990). Since 2005, two sets of accounting standards have coexisted in Spain: (1) Spanish regulations, used by non-listed companies, and (2) IFRS, which are obligatory for listed companies' consolidated accounts, and voluntary for non-listed groups of companies.

The main features of the Spanish Chart of Accounts (1990) are: (1) it has a strong fiscal focus; (2) it gives more importance to the legal form of the operations than to their economic basis and (3) it emphasizes accountability rather than decision-making. The accounting system in Spain, a code-law country, is a codified system that has concrete rules for financial reporting. Prior studies have analyzed the differences in financial reporting quality between common-law and code-law countries. Common-law is more market-oriented and allows investors to rely on timely public disclosure and financial reporting. In code-law countries, governments establish and enforce national accounting standards (Ball, Kothari, et al., 2000) that are influenced more by the payout preferences of agents for labor, capital and government, and less by the demand for public disclosure. Because these agents are represented in corporate governance, insider communication solves the information asymmetry between managers and stakeholders.

Studies have found that even within code-law countries, major differences exist in reporting statements. La Porta et al. (1998) place Spain in the "French family" within the code-law tradition and show that, compared to the two other code-law "families" (Scandinavian and German), "French family" countries give shareholders and creditors the weakest protection. Their results indicate that the quality of regulation enforcement reaches the highest level in Scandinavian and German countries, a medium level in common-law countries and the lowest level in "French family" countries. In Spain and other countries in the "French code-law family", preparers are not used to transparency since there is not a strong demand for financial reporting and enforcement is weak. Hope (2003a) placed Spain in last position among 22 countries regarding enforcement and disclosure.

[1] Only four Spanish firms are listed on the New York Stock Exchange, although some 30 firms are traded on OTC (over-the-counter). Furthermore, only one listed firm voluntarily applied IFRS before 2005.

Callao, Jarne, and Laínez (2007) show the principal differences between Spanish regulation and IFRS apply to the balance sheet and earnings calculation. In addition, some IFRS accounting issues are not even covered by the Spanish regulation. As a result, IFRS adoption implies a sharp change in reporting standards for Spanish listed firms.

The changes introduced by IFRS also affect the type of accounting model – one that uses a principle-based approach (IFRS) and the other that uses a rule-based approach. The Spanish standards are closer to the rule-based approach. Therefore, accounting preparers in Spain will have to get used to the IFRS principle-based philosophy, which requires the exercise of professional judgment upon a reduced number of general rules (Schipper, 2003), instead of reliance on detailed standards. Since IFRS are more flexible because they are based on the pre-eminence of substance over form, those who prepare financial reports (Spanish companies) and those who ensure the application of standards (auditors and oversight bodies) will have to shift their attitudes.

These issues can be important for standard setters, especially if, as stated by Hope (2003b), firm disclosure is significantly related to both legal origin and national culture. Switching to IFRS is easier than changing the underlying culture and its management practices.

One of the most noteworthy differences between common-law and code-law accounting systems is the higher sensitivity of earnings to contemporary economic losses in common-law systems. Timelier recognition of economic losses under common-law accounting is consistent with its greater emphasis on shareholder value. Since this emphasis is not as strong in code-law countries, there exist doubts about the quality of IFRS implementation in these countries (Ball, 2006).

In April 1996, the Securities and Exchange Commission (SEC) pointed out three “key elements” that must be achieved by International Accounting Standards Board (IASB) standards:

- Constitute a comprehensive, generally accepted basis of accounting.
- Reach a high-quality (comparability, transparency and full disclosure).
- Be able to be rigorously interpreted and applied.

Several years later, in a Concept Release issued in February 2000, the SEC indicated that accounting standards must be high-quality and supported by an infrastructure that ensures that standards are rigorously interpreted and applied. This Concept Release posed some questions that were tackled in Wahlen et al. (2000). In their opinion, comprehensiveness and comparability could still be improved by the IASB. In addition, the SEC believed that the infrastructure still needed to be implemented. It underlined that the quality of the standards is different from the quality of the implementation and that both factors are necessary to get high-quality financial reporting.

The SEC Concept Release (2000) shows the need for improving capital markets' efficiency by developing a worldwide accepted high-quality financial reporting framework. The SEC recognizes that IFRS constitute a good basis for initiating an international convergence process. However, as noted earlier, the SEC requires IFRS to be a high-quality and comprehensive basis of accounting that must be rigorously interpreted and applied, and the SEC is not sure that IFRS meet these requirements.

Studies show that the institutional background of a country plays a role in financial reporting standard setting. Domestic accounting standards differ from IFRS more in code-law countries than in common-law countries (Ding, Hope, Jeanjean, & Stolowy, 2007). In code-law countries, there is a greater degree of insider owners, such as banks, who get their information directly from management, or may even participate in decision-making through board membership (Hope, 2003b). Similarly, Hope, Jin, and Kang (2006) find that code-law countries are more likely to adopt IFRS to improve investor protection, to broaden their capital markets to foreign investors, and to improve the comparativeness and comprehensiveness of financial information. These studies provide insight about the acceptability of IFRS in Spain. As a code-law country, the Spanish regulator can encourage IFRS adoption by Spanish companies, but preparers may not accept the strict implementation of such high-quality standards since IFRS require greater transparency than preparers are used to.

Extensive research has dealt with the differences in reporting behavior among countries. Ball, Robin, et al. (2000b) analyze Chinese companies that publish financial statements in accordance with IFRS. Their results show that when reporting under IFRS rather than domestic standards, Chinese companies' financial statements are not timelier in reflecting economic gains or losses. Chen, Sun, and Wang (2002) show similar evidence since the harmonization of domestic accounting standards with IFRS in China was not sufficient to harmonize the gap between Chinese and IFRS earnings recognition. They indicate that a lack of adequate infrastructure could explain the results.

Ball et al. (2003) analyze the timely recognition of economic income in four common-law East Asian countries. They find that, globally, the financial reporting quality of these four countries is even lower than code-law countries.

These studies show that high-quality standards are not sufficient to guarantee high-quality financial reporting. As stated by Ball (2001), since any accounting system is rooted in the country's institutional infrastructure, an appropriate infrastructure is needed for an efficient accounting system.

The empirical literature focusing on firms' opinions about IFRS adoption is scarce, both in Spain and internationally. Pricewaterhousecoopers (2000), in a sample of over 700 CFO of listed companies in 16 countries, shows a strong support for IFRS. While only 52% of those who were yet to convert to IFRS believed that the change would be positive, 80% of those who had already implemented IFRS believed it was positive. Pricewaterhousecoopers (2002) confirms strong support for IFRS again two years later as did Mazars in 2003. These studies, however, are early surveys that do not reflect the subsequent improvements undergone by IFRS.

Larson and Street (2004) examine the progress and obstacles to convergence with IFRS in 17 European countries. They find that impediments to convergence include the complexity of IFRS, the tax orientation of many national accounting systems, underdeveloped capital markets, and insufficient guidance.

Jermakowicz and Gornik-Tomaszewski (2006) provide insight to the IFRS adoption process by listed companies in the EU in 2004. They develop a survey of 112 companies in eight countries. Some of their conclusions are: (1) the process is costly, complex, and burdensome; (2) companies do not expect to lower their cost of capital by implementing IFRS; (3) the more comprehensive the approach to conversion, the more respondents tend to agree with the benefits and costs of the transition; (4) companies expect increased volatility in financial results; and (5) IFRS complexity as well as the lack of implementation guidance and uniform interpretation are key challenges in convergence. The limitations of their study, however, including the lack of every country in their sample, as well as the mix of code-law and common-law countries could weaken the strength of the conclusions.

In a 2002 White Paper on accounting reform in Spain (ICAC, 2002), the survey results indicate that respondents consider current Spanish accounting standards to be insufficient in Spain (81.67%). They show that the notes to the financial statements (80.19%) and the financial reports (70.80%) should be upgraded. Respondents also support the introduction of two new statements in Spanish accounting regulation-cash-flow (83.10%) and statement of changes in equity (80.71%).

Deloitte & Touche (2003) sampled 360 of the 2400 largest Spanish companies (listed and non-listed). The results indicate that 81% of firms agree with IFRS adoption. Respondents believe that comparability among enterprises would improve (87.6%), as well as transparency (72.0%). If we contrast these results with Deloitte & Touche (2002), we observe that as IFRS knowledge improves, users' opinions change:

- A higher proportion of respondents consider IFRS to be different or very different from current Spanish standards (41.1% vs. 37% 1 year before). This result is in line with D'Arcy (2001), who finds important differences between national standards and IFRS in Spain.
- Concern is increasing regarding the greater disclosure required by IFRS (45.8% vs. 41.6% in 2002). The implementation of fair value is an issue for 40.6% vs. 29.4% 1 year before.

Deloitte & Touche (2004) find less acceptance of IFRS in the areas mentioned above as compared with Deloitte & Touche (2003).

The evidence shows that the more Spanish companies know about IFRS, the lower their views of IFRS. Navarro et al. (2007) find similar attitudes in a 2002 survey of preparers from non-listed Spanish firms. Both Spanish preparers and auditors rate positively the Spanish standards and agree with an accounting reform based on IFRS. This attitude is congruent with users in favor of a modernization of the Spanish local standards. However, while preparers support generic concepts like transparency, this support decreases when asked about specific measures aimed at increasing transparency. Thus, it is unclear whether or not preparers will implement IFRS properly.

3. Research questions

IFRS adoption is encouraged because it may improve the quality and international comparability of financial reporting (Brown & Tarca, 2005). For the EU, IFRS implementation represents a step forward in the harmonization of international accounting and reinforces the determination to introduce high-quality accounting standards in the EU.

As noted previously, the SEC (1996) identifies three elements that accounting standards must achieve in order to be considered 'high-quality': *comparability*, *transparency* and *full disclosure*. *Comparability* implies that similar facts must be reported in the same way through time and among different companies. Through *transparency*, information users must be able to determine the nature and accounting treatment of company operations. *Full disclosure* occurs when financial reports facilitate the understanding of accounting practices and decision-making. From this point of view, IFRS are regarded as quality standards that enable comparability and foster transparency and full disclosure.

Although IFRS are considered to be high-quality standards, there is a concern whether they will be appropriately implemented. An important issue that could influence IFRS implementation is acceptability. Horngren (1973) indicates that since standards place restrictions on behavior, they must be accepted by the affected parties. The greater the acceptance, the greater the compliance with standards. Pownall and Schipper (1999) provide empirical evidence on cross-country differences in the strictness of accounting standards' application and interpretation. Wulandari and Rahman (2004) indicate that accounting standards should be of good quality, acceptable and enforceable in order to improve financial reporting.

In the case of Spain, acceptance is a doubtful question because of cultural factors. Spain has traditionally been a country where preparers are not used to Anglo-Saxon practices like those represented by IFRS. Thus, in Spain, the degree of IFRS compliance will be influenced by both their acceptability and the strictness of their application.

Therefore, IFRS acceptability and incentives for IFRS application in Spain are the two research questions in our exploratory assessment of IFRS adoption (see Fig. 1 for a description of the research model).

As noted by Ball (2006), an emerging literature is investigating the extent to which differences in reporting behavior are endogenous, i.e., determined by economic and political factors that differ among countries. These local forces determine how managers, auditors, courts and regulators behave. Thus, to achieve a high-quality accounting system, it is necessary to have an adequate infrastructure, as well as incentives for preparers to ensure compliance with the standards. The SEC (2000)

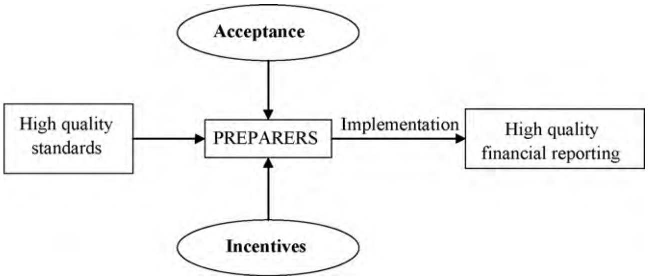

Fig. 1. Description of the research model.

outlines the elements of this infrastructure: high-quality accounting and auditing standard setters, high-quality auditing standards, audit firms with effective quality controls, profession-wide quality assurance, and active regulatory oversight. Doubts have arisen in the U.S. about the existence of infrastructure necessary for IFRS application (SEC, 2000; Turner & Godwin, 1999). Hopkins et al. (2008) report that those doubts have not decreased.

Regarding the incentives for preparers, studies of the voluntary adoption of IFRS indicate that the benefits of adoption must outweigh the costs (Ashbaugh, 2001; Francis, Khurana, Martin, & Pereira, 2008). However, Doidge, Karolyi, and Stulz (2007) find that firms' incentives are more important in developed countries whereas in developing countries, domestic factors are dominant.

Since IFRS application is mandatory for Spanish listed companies, we expect that firms will have a greater interest in implementing IFRS if certain factors are present. Previous literature shows some of these factors include expected future growth opportunities (Francis et al., 2008) and trading in several equity markets (Ashbaugh, 2001). However, in Spain, enforcement is weak (Hope, 2003a; La Porta et al., 1998) and the IFRS principle-based model introduces more subjectivity than Spanish preparers are used to. Therefore, local factors may result in a low level of IFRS compliance.

4. Methodology

We use a survey to explore preparers' perceptions of IFRS adoption and implementation. As stated by Graham, Campbell, and Rajgopal (2005), this methodology enables us to investigate, in a comprehensive approach, specific and qualitative questions that could not been studied with an archival research. We evaluate preparers' perceptions regarding IFRS implementation through their motivations and opinions.

The questionnaire[2] was pre-tested during June 2004. In its definitive version, the questionnaire consisted of two main parts:

- Accounting standards evaluation to determine the degree of satisfaction with domestic Spanish standards. These perceptions are compared with the opinions about IFRS. Finally, we explore which characteristics are more highly valued by respondents, in order to design a high-quality accounting system.
- Assessment of IFRS adoption and exploration of the foreseeable consequences of adoption.

The survey used a closed questionnaire. A 5-point Likert scale was used, where 1 is "totally disagree" and 5, "totally agree". We use the non-parametric chi-square test to determine whether respondents agree or disagree with each survey question. Further, perceptions of pre-2005 Spanish accounting standards vs. IFRS are compared using the Wilcoxon test.

Questionnaires were mailed to all Spanish listed companies (172 firms) during the last quarter of 2004. The questionnaire was addressed to chief accountants and financial managers who are directly involved in the financial reports preparation. Further, this action was followed up by phone to ask them to send the questionnaire. The final sample comprises 63 firms (response rate 36.6%), thus, our sample covers more than one-third of the total population. Table 1 shows companies by sectors. A *Z*-test shows that in 6 of the 7 sectors,[3] the percentages of the responding groups were not different than the proportions of the total population. In addition, the average professional experience of participants is high. The average total asset size of the companies is large and they are mostly (90%) audited by big firms. Finally, only one-third of the firms are listed simultaneously on more than one domestic market.

[2] A copy of the questionnaire is available upon request to the authors.
[3] In the sector Agriculture, the *Z*-test cannot be applied because there are no responses (see Table 1).

Table 1
Characteristics of the sample.

Sectors represented	Listed companies	
	Sample	Sampling frame
Agriculture	0%	0.6%
Mining	6.7%	5.8%
Construction	6.7%	4.1%
Manufacturing	35.0%	36.0%
Transportation, communications, electric services	16.6%	11.0%
Trade and services	15.0%	12.8%
Finance and insurance	13.3%	16.9%
Real state	6.7%	12.8%
	100%	100%

Details about participants in the survey

Professional experience (average years)	Total assets (Th EUR)	Auditor		Debt/assets	Return on assets	Foreign listed	
		Big 4	Not big 4			Yes	No
18.47	11,262,827	90%	10%	0.63	0.05	33.3%	66.7%

5. Results

5.1. Evaluation of local accounting standards in relation to IFRS

First, we must note that the degree of knowledge of IFRS by Spanish listed companies' managers is high (Fig. 2). Seventy-three percent consider their level of knowledge as good or very good and only 6% claim that it is scarce. To better understand this high degree of knowledge, we must bear in mind that during 2004 all listed firms applied IFRS to determine the problems and consequences of IFRS adoption. Therefore, this degree of knowledge of IFRS ensures the relevance of the participants' opinions. Furthermore, since participants are experienced top managers of listed companies, they are expected to be able to produce sophisticated financial information (Collis & Jarvis, 2002).

Table 2 presents respondents' views of the Spanish accounting system compared to IFRS. Respondents do not perceive a difference in the achievement of either true and fair view or accountability (questions 1 and 2, respectively). IFRS are deemed to be more appropriate for decision-making, both for managers and users (questions 3 and 4, respectively). Our results confirm the conclusions of Hope et al. (2006) that code-law countries' governments are right when they adopt IFRS to improve both investor protection and financial information comprehensiveness.

Respondents also think that IFRS are more complex than Spanish standards (question 6). IFRS complexity has been emphasized in previous research (Jermakowicz & Gornik-Tomaszewski, 2006; Larson & Street, 2004). We must note that there is a very strong contrast between the perception of complexity of Spanish standards and that of IFRS; respondents do not consider Spanish standards complex, while they strongly view IFRS as complex.

Respondents believe that IFRS are more detailed and flexible than Spanish standards (questions 7 and 8, respectively). While they are neutral concerning the flexibility of Spanish standards, they strongly agree that IFRS are flexible. The difference is less evident when respondents are asked about the level of detail, since respondents do not observe differences between IFRS and Spanish regulation.

Our results indicate that IFRS are deemed as significantly different from Spanish standards (question 9). This outcome is in line with the findings of Ding et al. (2007) since Spain is considered a code-law country. Our results in Spain confirm the conclusions of D'Arcy (2001), who finds substantial differences between national standards and IFRS, in a sample of 14 countries.

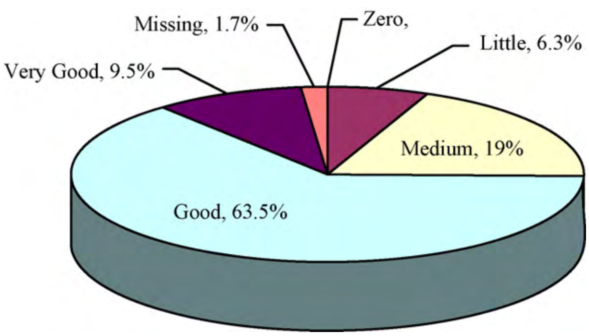

Fig. 2. Knowledge of IFRS among financial managers of listed companies.

Table 2
Comparison of perceptions of Spanish accounting standards used in the pre-2005 period and IFRS.

	Obs.	Spanish regulation mean (chi-square)	Obs.	IFRS mean (chi-square)	Wilcoxon test statistic Z
1. Appropriate for achieving a true and fair view	63	3.60 (23.273)***	62	3.53 (20.455)***	−0.409
2. Appropriate for accountability	63	3.67 (26.843)***	61	3.57 (22.349)***	−0.487
3. Appropriate for managers' decision-making	63	3.13 (1.000)	62	3.42 (12.100)***	−2.025**
4. Appropriate for users' decision-making	61	2.97 (0.030)	61	3.49 (10.756)***	−2.968***
5. Appropriate for limiting creative accounting	62	3.44 (12.755)***	62	2.76 (0.961)	−2.965***
6. Complex	63	2.65 (10.000)***	62	4.13 (40.692)***	−5.974***
7. Detailed	63	3.35 (8.805)***	62	3.63 (11.520)***	−1.613
8. Flexible	63	2.94 (1.000)	62	3.71 (23.170)***	−4.468***
9. IFRS are significantly different from Spanish standards	–	–	62	3.63 (20.512)***	
10. Generally appropriate	63	3.44 (14.535)***	62	3.50 (16.026)***	−0.082
11. IFRS are better than Spanish standards	–	–	62	3.08 (0.381)	

Columns 3 and 5 present the mean responses, together with the chi-square statistic. Mean values vary from 1 (total disagreement) to 5 (total agreement). However, for the purpose of applying the chi-square test, the observations were reclassified (old value/new value): 1–2/0, 4–5/1. Column 6 presents the Wilcoxon statistic comparing differences between values of columns 3 (Spanish regulation mean) and 5 (IFRS mean).

* Significant at 0.1 level.

** Significant at 0.05 level.

*** Significant at 0.01 level.

These results reveal that (1) IFRS are viewed as better than local Spanish accounting standards for users' decision-making; (2) complexity is the main issue concerning IFRS, which may negatively prejudice their overall opinion about IFRS and (3) flexibility, the second highly rated characteristic of IFRS, may enhance the way managers disclose the firm's true and fair view.

Although detailed standards can limit discretionary management practices, they also can hamper the improvement of information disclosure to external users. If respondents view the Spanish model as more appropriate in limiting creative accounting (question 5), it may be that they believe that IFRS characteristics are not suitable enough for the Spanish context. A detailed and flexible regulation may be implemented in a different way according to the setting. In Spain, the demand for public disclosure is lower than in common-law countries and managers have fewer incentives for high-quality financial reporting. Enforcement is also weaker. Because of these factors, participants may not deem IFRS flexibility as positive since flexibility may facilitate earnings management.

We do not find statistically significant differences between IFRS and Spanish standards when respondents evaluate IFRS appropriateness (question 10). Similarly, when respondents are asked whether they consider IFRS better than Spanish standards, the mean response is only 3.08, which is not significantly different from "neutral" (question 11).

Another objective of our study was to determine which elements are necessary for accounting standards to be considered 'high-quality'. Table 3 shows that respondents believe that reliability (question 4), relevancy (question 5) and transparency (question 3) are the three most important factors. Respondents indicate that the ability to curb creative accounting (question 10) is the fourth most important factor. Stronger sanctions for accounting manipulation (question 9), detailed and flexible accounting standards (questions 1 and 2) are ranked as 8, 9, and 10, respectively.

Table 3
Factors contributing to a high-quality accounting system.

	Obs	Rank	Mean (chi-square)	A/SA (%)	D/SD (%)
1. Detailed accounting standards	63	9	3.90 (24.018)***	74.6	15.9
2. Flexible accounting standards	63	10	3.33 (4.245)**	54.0	30.2
3. Transparent accounting information	63	3	4.56 (20.940)***	95.2	0.0
4. Reliable accounting information	63	1	4.67 (57.066)***	95.2	1.6
5. Relevant accounting information	63	2	4.60 (20.856)***	93.7	0.0
6. Appropriate information requirements	63	7	4.10 (10.635)***	71.4	0.0
7. Companies' corporate governments implement efficient control mechanisms.	63	6	4.11 (47.291)***	84.2	3.2
8. Efficient oversight bodies	62	5	4.21 (46.296)***	83.8	3.2
9. Strong penalties in case of accounting fraud	63	8	4.03 (32.000)***	71.4	7.9
10. Limiting creative accounting	63	4	4.24 (43.655)***	82.5	4.8

A, agree; SA, strong agree; D, disagree; SD, strong disagree. Column 4 presents the mean responses together with the chi-square statistic. Mean values vary from 1 (total disagreement) to 5 (total agreement). However, in applying the chi-square test, the observations were reclassified (old value/new value): 1–2/0, 4–5/1. Parametric t-tests were carried out when the chi-square test was not applicable (questions 3, 5 and 6); in this case, the tested value is 3.

* Significant at 0.1 level.

** Significant at 0.05 level.

*** Significant at 0.01 level.

Table 4
Evaluation of troublesome aspects of IFRS.

	Obs.	Rank	Mean (chi-square)	A/SA (%)	D/SD (5)
1. IFRS need more guidance for their application	62	1	3.98 (38.720)***	75.8	4.8
2. IFRS require the disclosure of too much information	62	7	3.26 (2.814)*	43.5	25.8
3. “Fair value” is generally difficult to apply	62	1	3.98 (32.667)***	77.4	9.7
4. IFRS have no enough sector-adapted regulation	62	3	3.94 (32.362)***	69.3	6.5
5. IFRS allow too many accounting-recognition options	62	4	3.79 (25.000)***	67.8	11.3
6. IFRS are too extensive	62	6	3.58 (18.692)***	53.2	9.7
7. IFRS are too subjective for their application	62	5	3.60 (18.667)***	56.4	11.3

A, agree; SA, strong agree; D, disagree; SD, strong disagree. Column 3 presents the mean responses together with the chi-square statistic. Mean values vary from 1 (total disagreement) to 5 (total agreement). However, in applying the chi-square test, the observations were reclassified (old value/new value): 1–2/0, 4–5/1.
* Significant at 0.1 level.
** Significant at 0.05 level.
*** Significant at 0.01 level.

We find that some financial managers do not think that flexible (30.2%) and detailed (15.9%) accounting standards promote a high-quality system. Flexibility should be an attribute highly rated by managers to achieve high-quality financial reporting and avoid the rigidity imposed by overly strict rules. The significant disagreement with flexibility as a feature of high-quality accounting standards may have a cultural origin since Spanish financial managers are used to concrete rules. Therefore, a segment of managers thinks that, in the Spanish context, flexibility can foster creative accounting, as shown in Table 2 (question 5). If IFRS are viewed as more flexible and detailed than Spanish standards, this attitude can result in a negative assessment of IFRS, as noted previously.

Other factors that are rated positively include efficient oversight bodies (question 8), adequate corporate government control (question 7), and establishment of appropriate information requirements (question 6).

The evidence in Spain is that IFRS may be viewed as a better tool for decision-making, but this factor is not sufficient for respondents to consider IFRS better than Spanish standards. Preparers deem IFRS to be complex, flexible and detailed, which may be the reason why they trust Spanish standards more than IFRS when it comes to limiting creative accounting.

Cultural and institutional factors may also explain the respondents’ perceptions. La Porta et al. (1998) show that different types of legislation in particular countries result in different types of enforcement. In a code-law country within the “French group”, such as Spain, shareholder protection and law enforcement have traditionally been lower than in other code-law countries (La Porta et al., 1998). Therefore, the mechanisms to achieve appropriate enforcement vary under different types of code or common-law environments. Respondents in a country with insufficient incentives to present transparent financial reporting may have little confidence about the adequate implementation of a complex and flexible regulation such as IFRS.

5.2. Implications of IFRS adoption and consequences of their acceptance

Since the respondents’ knowledge of IFRS is high, their opinions about the implications of IFRS adoption are relevant.

The results in Table 4 indicate a high level of agreement concerning the aspects of IFRS implementation that may be problematic. Respondents strongly agree about the need for more guidance (question 1), the difficulty in applying fair value (question 3), and the lack of sufficient development in some sectors (question 4). Our results are consistent with prior studies such as Jermakowicz and Gornik-Tomaszewski (2006) and Larson and Street (2004) that find that lack of IFRS implementation guidance is a key challenge in IFRS adoption. We find the least agreement with the statement that “IFRS require the disclosure of too much information” (question 2), although 43.5% of respondents agree with it.

The results in Table 4 also corroborate our assertion that respondents have an overall negative opinion of IFRS. Respondents argue that (1) IFRS allow too many accounting-recognition options (67.8% agree and 11.3% disagree; question 5), (2) IFRS are too subjective (56.4% agree and 11.3% disagree; question 7), and (3) IFRS are too extensive (53.2% agree and 9.7% disagree; question 6).

Table 5 presents the perceptions of respondents concerning aspects of IFRS that are new compared to requirements under Spanish Standards. We find that there is wide acceptance of the statement of changes in equity and the cash-flow statement (questions 2 and 3, respectively), but a neutral or negative view of the other changes such as the suppression of the capitalization of research expenses (question 4) and the introduction of the fair value principle (question 1).

Tables 4 and 5 provide further insights into respondents’ acceptance of IFRS. Spanish financial managers agree that IFRS are troublesome. IFRS are considered to be significantly different than the Spanish standards and many respondents are concerned about the changes required by IFRS. IFRS are not perceived as being better than Spanish accounting standards. As Horngren (1973) notes, a regulation that does not satisfy those who must implement it probably will not be applied correctly unless it is enforced or provides incentives for adequate financial reporting.

Table 6 explores the possible consequences of IFRS implementation. Respondents believe that the greater disclosure required by IFRS will increase the costs of information processing (83.6% agree with question 8). Only 45.1% of respondents think that IFRS will improve the accounting information systems in their companies (question 11). Respondents feel that

Table 5
Evaluation of novel accounting aspects of IFRS in relation to Spanish accounting standards.

	Obs.	Rank	Mean (chi-square)	A/SA (%)	D/SD (%)
1. Introducing via IFRS the concept of "fair value", enabling the revaluation of assets	62	7	3.03 (0.021)	38.7	37.1
2. Introducing via IFRS the statement of changes in equity	62	2	3.95 (31.041)***	71.0	8.1
3. Introducing via IFRS the cash-flow statement	62	1	4.23 (44.308)***	80.7	3.2
4. Suppression via IFRS of the capitalization of research expenses	62	7	3.03 (0.087)	38.7	35.5
5. Suppression via IFRS of the capitalization of start-up expenses	62	3	3.13 (0.200)	38.7	33.9
6. Suppression via IFRS of the extraordinary items	62	5	3.10 (0.348)	40.3	33.9
7. Suppression via IFRS of the amortisation of goodwill	61	6	3.07 (0.022)	36.0	37.7
8. Possibility, considered by IFRS, of taking some results directly to equity	62	3	3.13 (0.184)	41.9	37.1

A, agree; SA, strong agree; D, disagree; SD, strong disagree. Column 3 presents the mean responses together with the chi-square statistic. Mean values range between 1 (total disagreement) to 5 (total agreement). However, in applying the chi-square test, the observations were reclassified (old value/new value): 1–2/0, 4–5/1.
* Significant at 0.1 level.
** Significant at 0.05 level.
*** Significant at 0.01 level.

in many cases, adoption costs will exceed adoption benefits, which could lead to lower acceptance of and compliance with IFRS.

A large percentage of respondents (64.5%) argue that the auditors' role will increase in importance (question 9). This view could be the result of the perceptions concerning the flexibility in applying IFRS, since auditors will have to evaluate the appropriateness of this application. In code-law countries auditors' strictness can be decisive in enforcing accounting standards. However, neither auditing standards nor professional practice control has been revised so far.

Respondents strongly believe that international comparability will improve with IFRS adoption (question 4) but are neutral concerning the comparability among national enterprises (question 3). Respondents may be skeptical about the simultaneous existence of Spanish standards and IFRS since even Spanish standards could influence the accounting practices used under IFRS.

Over 65% of respondents expect an increase in earnings volatility (question 10) as a result of applying IFRS. In code-law countries, earnings generally have lower volatility and lower disclosure (Ball, 2006). This predicted increase in volatility could be a reason for dissatisfaction with IFRS. It is unknown to what extent preparers will be able to avoid volatility through earnings management practices.

Respondents believe that the transparency, relevance and reliability of financial reports will increase under IFRS. Reliability (question 7), however, is one of the lowest-rated items. This view maybe the consequence of several factors attributed to IFRS such as subjectivity (Table 4, question 7), flexibility (Table 2, question 8 and Table 4, question 5), or the introduction of fair value, which allows the revaluation of assets (Table 5, question 1). Respondents also expect financial statements to be more understandable (question 1).

A slight majority of respondents does not agree that IFRS will decrease creative accounting (question 2). In fact, respondents view Spanish standards as being more appropriate to limit creative accounting (Table 2, question 5). As a result, although respondents think IFRS are high-quality because they result in comparable, transparent and full disclosure financial reporting, they believe these factors are not sufficient to make IFRS better than Spanish standards.

Table 6
General consequences of IFRS adoption.

	Obs.	Rank	Mean (chi-square)	A/SA (%)	D/SD (%)
1. More understandable financial statements	62	8	3.34 (7.364)***	50.0	21.0
2. Decrease in creative accounting	62	11	2.95 (0.091)	33.8	37.1
3. Improvement of comparability of information among national enterprises	62	9	3.21 (2.083)	46.8	30.6
4. Improvement of the comparability among enterprises from different countries	62	3	3.82 (24.020)***	69.3	12.9
5. Increase in the transparency of the accounting information	62	5	3.65 (23.439)***	58.0	8.1
6. Increase in the relevance of the accounting information for the taking of decisions	62	6	3.55 (17.818)***	58.1	12.9
7. Increase in the reliability of the accounting information	61	9	3.21 (2.793)*	31.1	16.4
8. Cost increase of information processing due to higher requirements	61	1	4.26 (42.667)***	83.6	4.9
9. Increase in the importance of the auditor's role	62	2	3.84 (25.130)***	64.5	9.7
10. Increase in my company's earnings volatility	61	4	3.80 (21.333)***	65.6	13.1
11. Improvement of the accounting information system in my company	62	7	3.39 (7.410)***	45.1	17.7

A, agree; SA, strong agree; D, disagree; SD, strong disagree. Column 3 presents the mean obtained in the responses together with the chi-square statistic. Mean values vary in a scale between 1 (total disagreement) up to 5 (total agreement). However, with the purpose of applying the chi-square test, the observations have been reclassified (old value/new value): 1–2/0, 4–5/1.
* Significant at 0.1 level.
** Significant at 0.05 level.
*** Significant at 0.01 level.

6. Conclusions

Although IFRS are considered high-quality standards, it is difficult to know how preparers will apply them. This study investigates the problems and possible consequences of IFRS adoption in a code-law country such as Spain.

Since listed companies have been the first to apply IFRS in the EU, we survey financial statement preparers in Spain. Our results indicate a high level of knowledge about IFRS among listed companies' preparers.

These preparers, however, do not consider IFRS to be better than Spanish accounting standards. Although IFRS are considered to enhance users' decisions-making, they also are viewed as having negative features such as complexity, flexibility, and detail. Spanish financial statement preparers are used to domestic standards that are simpler, concrete, and less extensive than IFRS. Preparers are not in favor of some of the most important changes required by IFRS, which could increase their negative perceptions of the standards.

Respondents believe that IFRS adoption results in more costs than benefits and indicate that increased costs are due to disclosure requirements. They acknowledge an improvement in international comparability, although only a minority of firms is traded in foreign markets. Fewer than half the respondents believe that IFRS adoption will improve the accounting information systems in their own companies. A large majority believes IFRS will result in an increase in their firm's earnings volatility. Respondents are neutral concerning national comparability.

Therefore, the future of IFRS adoption is full of lights and shadows. This study presents evidence that IFRS implementation in a code-law country will not be entirely successful. Although IFRS are seen as quality standards, preparers think IFRS may result in more disclosure as well as more creative accounting practices. Thus, we can observe acceptability problems and lack of sufficient incentives to achieve optimal IFRS compliance.

It is unlikely that the issues noted above will be corrected in the next future since they depend on institutional factors that change slowly. Therefore, it is foreseeable that these problems will persist until an important change in the institutional setting takes place.

We acknowledge that the survey results reflect only the views of a single manager at each company. The findings, however, should be useful to regulators, who must be aware of the need for new measures of enforcement in order to achieve suitable compliance with IFRS.

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