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A comparative analysis of required financial disclosures in US, UK and international accounting standards

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ABSTRACT

This paper explores the extent to which there are significant differences in disclosure requirements under US, UK, international accounting standards. Previous research into international disclosure diversity has focused on an analysis of disclosure practices in different countries rather than on disclosures required by regulations in different countries.

Financial disclosures required by UK professional regulations and by International Accounting Standards (IASs) are summarised and classified using Barth and Murphy's (1994) categorisation by purpose of disclosure and by category and subject. US, UK and international required disclosures are compared and areas of divergence are highlighted.

Although differences in required disclosures between the three regulatory regimes are evident from the analysis, these differences are not significant in the multivariate models tested. A notable difference is greater required disclosures in the UK/IASs concerning entity structures (business combinations, consolidations, segmental reporting etc.).A greater proportion of US required disclosures address risks and potentials and assess returns. A much greater proportion of UK/IASs disclosures related to items recognised in accounts.

The Financial Accounting Standards Board is currently examining the issue of disclosure effectiveness in the US. By highlighting areas of diversity in required disclosures in the US, UK and internationally this study will add insights to this discussion of disclosure effectiveness.

A comparative analysis of required financial disclosures in US, UK and international accounting standards

INTRODUCTION

This paper is an adaptation of Barth and Murphy's (1994) analysis of US financial statement disclosures which is applied to UK and international accounting standards. The paper categorises, summarises and analyses financial disclosures required by UK professional pronouncements (Statements of Standard Accounting Practice (SSAPs); Financial Reporting Standards (FRSs) and pronouncements of the Urgent Issues Task Force (UITF) and by International Accounting Standards (IASs). We compare Barth and Murphy's results with the results for the UK and the IASs.

LITERATURE REVIEW

International comparative financial accounting

International comparative financial accounting is a diverse and expanding area of accounting research - see Gernon and Wallace (1995) and Saudagaran and Meek (1997) for reviews.

Many such studies deal with international harmonisation (Emenyonu and Gray 1992; Archer, Delvaille and McLeay 1996; Roberts, Salter and Kantor 1996). These have tended to examine harmonisation from the point of view of accounting treatment / measurement of specified items rather than disclosure of these items. For example, Norton (1995), Weetman and Gray (1990 and 1991) and Weetman, Jones, Adams and Gray (1998) focus on profit measurement. Pope and Rees (1992), Amir, Harris and Venuti (1993), Bandyopadhyay, Hanna and Richardson (1994), Rees (1995), Barth and Clinch (1996) and Fulkerson and Meek (1998) consider whether reconciliations of US versus non-US accounting measures have information content for the market. In relation to disclosures required in form 20-F, Adams, Weetman and Gray (1999) suggest that these be reduced to focus on more material adjustments only. Barth, Clinch and Shibano (1999) examine harmonisation and share price effects from an analytical modelling perspective.

International comparisons focussing on disclosure have mainly measured and compared levels of disclosure between countries. Meek and Gray (1989) compared voluntary disclosure by London Stock Exchange listed companies from Sweden, Netherlands, Germany and France. Disclosure requirements were exceeded suggesting, according to the authors, that competitive pressures to raise capital were important. Frost and Pownall (1994) compared disclosure in the US and UK by counting the number of documents (statutory, interim and annual reports) and extra voluntary releases (news releases in the US, Stock Exchange announcements in the UK). They found that mandatory and voluntary disclosure frequency was greater in the US and this was partly due to different disclosure rules. Frost and Ramin (1997) analysed selected disclosures of companies from five countries. They found higher disclosure levels in US and UK companies.

Adhikari and Tondkar (1995) examine harmonisation of stock exchange disclosure requirements and provide a framework for measuring disclosure harmony using a disclosure index. They find that stock exchange disclosure requirements of nine of the 11 stock exchanges examined were largely co-ordinated in terms of minimum disclosure conditions but that variation in disclosure requirements was found. The authors concluded that EC directives were targeted towards minimum rather than uniform or standard disclosure requirements.

Huddart, Hughes and Brunnermeier (1999) model disclosure requirements and stock exchange listing choice using a rational expectations model. They show that most trading is concentrated on exchanges with high disclosure requirements.

Our study examines international differences in disclosure from the perspective of accounting regulations rather than accounting practices. The paper analyses whether required disclosures differ between US, UK and international accounting standards.

Recognition, measurement and purposes of disclosure

Accounting laws and regulations (see, for example, the Accounting Standards Board's (ASB's) draft "*Statement of principles for financial reporting*" (ASB 1999)) are concerned with three broad areas:

- How items in the financial statements are to be recognised;
- How items in the financial statements are to be measured; and
- The amount of information to be disclosed.

Financial disclosures can be considered from a number of perspectives, including recognition, measurement in the context of disclosure, and finally purposes of disclosures. Recognition, measurement and disclosure rules may stand-alone or be complementary to each other.

Bernard and Schipper (1994) discuss the difficulty of distinguishing between disclosure and recognition because disclosure overlaps with other concepts. Classification of items in financial statements is a form of disclosure as well as recognition. Bernard and Schipper argue that the level of detail or aggregation is also tied up with disclosure as aggregation suppresses the level of disclosure of items recognised. Supplementary disclosures may undo the effects of aggregation.

Bernard and Schipper (1994) discuss situations where recognition and disclosure are alternatives - where it is clear whether recognition criteria have been met or not. However, where subjective judgement is required in deciding whether an item meets the criteria for recognition, disclosure and recognition may be alternatives for the item. They find that practitioners and the professional accounting literature view the distinction between recognition and disclosure as important for two reasons:

- Recognised information is processed more completely by users;
- Recognised and disclosed items will be processed differently by market agents.

There is very little research, they conclude, providing evidence on whether recognition and disclosure are/are not equivalent.

Disclosure is not formally defined in UK or international accounting pronouncements. The situation is similar in the US except that the objects of disclosure are discussed extensively in Statement of Financial Accounting Standard (SFAS) 105 '*Disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of risk*' (Financial Accounting Standards Board (FASB) 1990).

Purposes of disclosure and the International Accounting Standards Committee (IASC)

IAS 1 '*Presentation of financial statements*' notes that users cannot make reliable judgements unless the financial statements are clear and understandable (IASC 1997). The information needed for this purpose will often extend beyond the minimum necessary to meet the requirements of local law or regulatory authorities. Paragraphs 15 (c) and 91 (c) of IAS 1 require these additional disclosures, even though they are not explicitly required by another IAS.

IASC's '*Framework for the preparation and presentation of financial statements'* (IASC 1989) sets out a number of ways in which information in the financial statements may be used. Information of different types is said to be useful in predicting the future (paragraphs 15-18). Information concerning changes in the financial position of an enterprise is said to be useful in order to assess its investing, financing and operating activities during the reporting period (paragraph 18). The notes and supplementary schedules may contain information that is relevant to the needs of users (paragraph 21). They may include disclosures about the risks and uncertainties affecting the enterprise and any resources and obligations not recorded in the balance sheet.

Developments in discussions on the purposes of disclosures

FASB's Financial Accounting Series No. 151-B prospectus '*Disclosure Effectiveness*' was issued for comment on 31 July 1995 with a comment deadline of 30 November 1995 (FASB 1995). Components affecting disclosure effectiveness are considered to be cost effectiveness and information overload. Elimination of less useful disclosures, summary and two-tier financial reporting, and reduction of disclosure overlap are discussed. The prospectus notes that the FASB's conceptual framework does not have a theory of disclosure but that the Board's thoughts on the purposes of disclosure were included in SFAS 105. The prospectus then refers to the four main purposes of disclosure identified in SFAS 105 and notes the results of Barth and Murphy's (1994) survey of US requirements. Following on from this work, the FASB decided to proceed with an inductive approach to disclosure. A limited scope project was initiated to examine pensions and other post-retirement benefits to determine whether disclosures in this specific area could be improved and, if so, whether any of the approaches undertaken could be applied to other accounting topics. This project led to the publication of FASB Statement No. 132 (FASB 1998). FASB plans to continue to evaluate and discuss disclosure effectiveness and consider other areas in which disclosure effectiveness can be improved (FASB 1999).

For the purpose of this paper we only consider required disclosures by companies in their annual reports. Disclosures can also be classified as required or voluntary. Certain disclosures may be required by law or professional rules, whereas companies may disclose more than the bare legal minimum on a voluntary basis.

The above discussion on international comparative accounting and the purposes of disclosure suggests that Barth and Murphy's framework can be applied in accounting environments different to the US. This will enable us to compare disclosure requirements, by purpose, internationally.

RESEARCH QUESTIONS

Purposes of disclosures

There have been many studies of disclosure in company annual reports where the researcher measures disclosure to show different disclosure levels within a country or between countries (Marston and Shrives 1991). Differing levels of disclosure are often explained in terms of company characteristics such as size, listing status, gearing, performance etc. This type of study sheds some light on motivations for disclosure.

A different approach was taken by Barth and Murphy (1994) who categorised disclosures by purpose of disclosure. They started with a list of four purposes identified by the FASB in SFAS 105, paragraphs 71-86 and, after further refinement, ended up with a list of six primary disclosure purposes partitioned into finer categories amounting to 17 specific purposes of disclosure (these are shown in Appendix 1). In looking at purposes of disclosure they took their cue from Johnson (1992) who posed two relevant research questions:

- Are the purposes of disclosure stated in SFAS 105 complete?
- Can other purposes of disclosure be imputed from the standards or practices?

Barth and Murphy consider that their inductive approach has enabled them to develop a framework of the types of disclosures perceived by standard setters to be useful.

In the UK, no set of disclosure purposes has been established in a systematic way. The ASB's draft Statement of Principles makes only passing references to the purpose of disclosure (Chapter 1, paragraph 8 and Chapter 7, paragraphs 15 to 18) (ASB 1999).

US regulators have expressed concerns that investors might be vulnerable if non-US companies were allowed to report profits under non-US Generally Accepted Accountng Principles (GAAP). Whereas material differences in US and non-US accounting requirements have been identified, it is not clear that this extends to disclosure requirements. In the context of global drives towards harmonisation, it is useful to identify the extent to which there are any significant differences in disclosure requirements of different national and international standard setting bodies. As an initial step in this direction, we examine differences between US requirements and those of the UK and IASs.

Our first research question is whether the list of six primary disclosure purposes and 17 specific disclosure purposes developed as a framework by Barth and Murphy (1994) could be used to classify the disclosure requirements of UK and IASC accounting standards. Additionally, Barth and Murphy divide US GAAP disclosure requirements into three categories, (i) general, (ii) entity structure and (iii) specialised transactions. Thus, each disclosure requirement can be assigned a purpose and a category (giving 17x3=51 different classification possibilities). Barth and Murphy then further subdivided these categories into 25, 5 and 8 subject areas respectively (giving 17x(25+5+8)=646 different classification possibilities). It was decided to attempt this additional classification for the UK and IASC standards.

Our next research question was to attempt to identify similarities and differences in disclosure requirement classifications by purpose, category and subject area. This would enable us to identify the state of harmonisation of disclosure requirements within the three accounting regimes.

A final question is to attempt to explain observed differences in the context of the environment of accounting in the US and UK. As the IASC requirements are not related to a specific national accounting environment the final question may not be applicable.

These research questions can be expressed in a model as follows:

Disclosure requirements = f (purpose, category, subject, accounting regime)

RESEARCH METHODOLOGY

Data

We prepared worksheets which listed all the disclosure requirements identified in UK and international accounting standards. Appendix 2 lists UK standards, with the total number of disclosure requirements identified for each. UK standards are those published up to February 1997 and include FRS 8 and UITF Abstract 16. Appendix 3 lists international standards. International standards are those published up to February 1997 and include International Accounting Standard 32.

Using the worksheet, each disclosure requirement was allocated to one of the 17 purposes identified by Barth and Murphy (1994). Following Barth and Murphy we also classified required disclosures into three main categories: general, entity structure and specialised transactions (see tables 2 and 3). We also adopted certain coding conventions adopted by Barth and Murphy. Disclosures applying to specialised or specific industries were not included in the analysis.

Some subjectivity is involved in these classifications. To avoid excessive subjectivity and errors in classifications, worksheets were independently prepared by one author and then checked by the other author. Barth and Murphy (1994) found that some disclosure requirements had more than one purpose. We found relatively few such multiple-purpose disclosure requirements in UK and IAS regulations.

Disclosure requirements in the US

There are no legal disclosure requirements in the US (Nobes 1995). Barth and Murphy (1994) looked at all disclosures required by the FASB or its predecessors up to SFAS 109 (1992) but excluding those that applied only to specific industries. They also excluded disclosure requirements of other authoritative bodies such as the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA).

US disclosure requirements have been taken as those reported in Barth and Murphy (1994). As these only include disclosures required up to 1992, the US required disclosures are not strictly comparable with UK and international disclosure requirements which are taken up to 1997.

Disclosure requirements in the UK

Disclosure requirements in the UK are found in three main sources. Company law provides a number of disclosure requirements. Accounting Standards issued by or adopted by the ASB contain a wide range of disclosure requirements and measurement rules. There is some overlap between law and the standards. Finally the London Stock Exchange requires some additional disclosures for listed companies. Neither legal nor stock exchange disclosure requirements are included in our analysis.

We used the Institute of Chartered Accountants in England and Wales' *Companies' accounts checklist* (Institute of Chartered Accountants in England and Wales 1994) as the basis for our list of disclosure requirements in the UK, supplemented for new standards not covered in the document. This publication is a checklist of the disclosure requirements of British company law, accounting standards and the stock exchange.

International disclosure requirements

We used the *International Accounting Standards - Disclosure Checklist* (Price Waterhouse 1995) as the basis for our list of International Accounting Standard disclosure requirements, supplemented for new standards not covered in the checklist.

Variables

Variables are summarised in Table 1. Required disclosures in standards were measured using a counting approach. The primary dependent variable, *Count*, is the number of required disclosures. Resulting variables are non-normal, non-negative integer variables.

There are four independent variables. Following Barth and Murphy (1994), required disclosures were classified into six main *purposes*. Also following Barth and Murphy required disclosures were classified into three main *categories*: general, entity structure and specialised transactions. Barth and Murphy (1994) also analysed disclosures into 38 *Subjects* - 25 general disclosures, five entity structure disclosures and eight specialised transactions. Three additional general disclosure subjects were added for UK disclosures - FRS 3 Statement of Total Recognised Gains and Losses (STRGL) disclosures, Government Grants and Profit and Loss Account items. One additional subject was added for international disclosures - Hyperinflationary Economies. Thus, in this paper there are 42 subject areas compared with 38 in Barth and Murphy (1994). The final independent variable is *Standard setting authority*, of which there are three - US, UK and IASC.

TABLE 1
Definition and measurement of variables

Dependent variable	
• Count	Number of required disclosures
Independent variables	
• Purpose	Information on recognised items = 1, Information on unrecognised items = 2, Information on risks and potentials = 3, Information for comparative purposes = 4, Information on future cash flows = 5, Information for investors to assess return = 6
• Category	General = 1, Entity structure = 2, Specialised transactions = 3
• Subject	Accounting policies = 1, Debtors = 2, Commitments and contingencies = 3, Computer software costs = 4 Debt = 5, Earnings per share = 6, Employee stock option plans = 7, Financial instruments = 8, Foreign currency translation = 9, FRS 3 - STRGL = 10, General disclosures = 11, Government grants = 12, Hyperinflationary economies =13, Income taxes = 14, Intangible assets & amortisation = 15, Interests costs = 16, Stock = 17, Marketable securities = 18, Other investments = 19, Leases = 20, Other post-retirement benefits = 21, Payables = 22, Pension information = 23, Profit and loss account items = 24, Property plant and equipment = 25, Related parties = 26, Statement of cash flows = 27, Shareholders' equity = 28, Subsequent events = 29, Business combinations = 31, Consolidated financial statements = 32, Dev. Stage enterprises = 33, Foreign operations = 34, Segment reporting = 35, Accounting changes = 41, Discontinued operations = 42, Extraordinary items = 43, Futures contracts = 44, Nonmonetary transactions = 45, Quasi-reorganisation = 46, Research & Development costs = 47, Troubled debt restructuring = 48
• Standard Setting Authority	US = 1, UK = 2, IASC = 3

Statistical analysis

Bivariate analysis

Kruskal-Wallis tests are applied to the count of required disclosures in the 51 different groups (17 purposes x 3 categories) (as shown in Tables 2 and 3 and Barth and Murphy, 1994), to test the hypothesis that the samples from the three regulatory environments examined in this paper come from populations having the same distribution.

Count data models

As explained earlier, required disclosures were measured by counting the number of disclosures. The standard statistical model for analysing count data is Poisson regression. The Poisson model, and variations thereon, have been used in many contexts in applied economics. These statistical models are reviewed in Winkelmann and Zimmermann (1995). The use of Poisson distribution for modelling non-negative integer values often involves empirically questionable assumptions. The Poisson regression model is restrictive in several ways:

- It assumes that the mean and variance of the counts are equal. This fails to account for the overdispersion (variance exceeding the mean) that characterises many data sets.
- It assumes that events occur independently over time. The assumption that events occur independently over time is generally not a major problem in empirical studies, and is not a problem in this research given the type of data analysed. However, overdispersion may be a problem in this research.

Negative binomial regression

The negative binomial model may be derived from the Poisson model by incorporating a multiplicative random error term, which captures unobserved heterogeneity, into the model. When this random error term is "integrated out", the negative binomial model is obtained. Negative binomial regression is an extension of the Poisson regression model, which allows the variance of the counts to differ from the mean, and is a more flexible model for count data.

Using the same empirical data, Cameron and Trivedi (1986) compare five different count data models: ordinary least squares regression, normal, Poisson and two negative binomial models. They conclude that relatively few coefficients are sensitive to the choice of model, and those that are have relatively small *t*-ratios. Winkelmann and Zimmermann (1995) compare three different models: Poisson, hurdle Poisson and negative binomial regression. Negative binomial predictions outperform the other two models. It parameterises more parsimoniously and also has a higher log-likelihood. The authors conclude that one would therefore unanimously choose the negative binomial model.

Negative binomial regression evaluation

Three tests are performed to determine whether the fitted negative binomial model is adequate and well specified. A generalised Pearson chi-square statistic (Winkelmann and Zimmermann 1995) is used as a measure of the goodness of fit of the negative binomial model. Pseudo R^2 is a measure of the extent to which alternative models (negative binomial regression in this research) outperform primitive ones (Poisson model) (Winkelmann and Zimmermann 1995). Pseudo R^2, like R^2 in linear regression, is bounded to the interval [0,1]. It is 0 if no improvement occurred and 1 if the alternative model has a perfect fit. The negative binomial model is one example of a generalised Poisson model which relaxes some of the restrictions of the Poisson model. Because the negative binomial model and the Poisson model are nested, a direct test assessing the validity of the restriction can be examined by a likelihood ratio test. The likelihood ratio test compares the unrestricted negative binomial model with the restricted Poisson model.

RESULTS

Frequency and patterns of disclosure purposes

Frequency and patterns of UK and IAS disclosure requirements are summarised in Tables 2 and 3. The most frequently required disclosures relate to amounts recognised in financial statements. Relatively little information is required about cash flows and even less to enable investors to assess their return on investment (none in the case of IASs).

TABLE 2
Frequency of disclosure items by purpose - UK standards

Purpose[1]	General[2] No.	General %1[5]	General %2[6]	Entity structure[3] No.	Entity structure %1[5]	Entity structure %2[6]	Specialised[4] No.	Specialised %1[5]	Specialised %2[6]	Total No.	Total %1[5]	Total %2[6]
1. Describe recognised items and provide relevant measures of those items other than the measure in the financial statements												
1a (describe)	120	28	57	66	25	45	10	29	77	196	27	53
1b (disaggregate)	81	19	38	68	25	47	2	6	15	151	21	40
1c (alternative)	5	1	2	5	2	3	1	3	8	11	1	3
1d (assumption)	7	2	3	7	3	5	-	-	-	14	2	4
Total	213	50	100	146	55	100	13	38	100	372	51	100
2. Describe unrecognised items and provide a useful measure of those items												
2a (describe)	17	4	63	18	7	78	-	-	-	35	5	70
2b (disaggregate)	10	2	37	4	2	17	-	-	-	14	2	28
2c (measure)	-	-	-	-	-	-	-	-	-	-	-	-
2d (assumption)	-	-	-	1	0	4	-	-	-	1	0	2
Total	27	6	100	23	9	100	-	-	-	50	7	100
3. Provide information to help investors and creditors assess risks and potentials of both recognised and unrecognised items												
3a (describe)	36	9	36	35	13	55	-	-	-	71	10	43
3b (risks/potentials)	44	10	43	25	9	39	-	-	-	69	10	42
3c (maximum)	17	4	17	-	-	-	-	-	-	17	2	10
3d (own calculation)	4	1	4	4	2	6	-	-	-	8	1	5
Total	101	24	100	64	24	100	-	-	-	165	23	100
4. Provide information that allows financial statement users to compare numbers to other companies and between years												
4a (policies)	33	8	74	15	6	50	5	15	24	53	7	55
4b (effect/this year)	11	3	24	14	5	47	16	47	76	41	6	43
4c (effect/prior year)	1	0	2	1	0	3	-	-	-	2	0	2
Total	45	11	100	30	11	100	21	62	100	96	13	100
5. Provide information on future cash inflows or outflows	28	6	100	2	1	100	-	-	100	30	4	100
6. Help investors assess return on their investment	13	3	100	-	-	-	-	-	-	13	2	100
Grand total	427	100	100	265	100	100	34	100	100	726	100	100

[1] Purposes of required financial statement disclosures are described more fully in Appendix 1
[2] General: Includes all disclosures other then *Entity structure* and *Specialised* disclosures
[3] Entity structure: Disclosures concerning business combinations, consolidated financial statements, development stage enterprises, foreign operations and segmental reporting
[4] Specialised: Disclosures relating to accounting changes, discontinued items, extraordinary items, futures contacts, nonmonetary transactions, quasi-reorganisations and troubled debt restructuring
[5] %1: Percentage of all disclosure items in that group (i.e. in *General*, *Entity structure*, *Specialised transactions* or *Total*)
[6] %2: Percentage of all disclosure items in that category (1-6) and group

TABLE 3
Frequency of disclosure items by purpose - IASs

	Purpose	General No.	General %1	General %2	Entity structure No.	Entity structure %1	Entity structure %2	Specialised No.	Specialised %1	Specialised %2	Total No.	Total %1	Total %2
1.	Describe recognised items and provide relevant measures of those items other than the measure in the financial statements												
	1a (describe)	98	29	59	22	16	37	12	50	100	132	26	56
	1b (disaggregate)	45	13	27	36	25	61	-	-	-	81	16	34
	1c (alternative)	5	3	6	-	-	-	-	-	-	5	1	4
	1d (assumption)	12	3	7	1	1	2	-	-	-	13	3	6
	Total	160	48	100	59	42	100	12	50	100	231	46	100
2.	Describe unrecognised items and provide a useful measure of those items												
	2a (describe)	4	2	80	-	-	-	1	4	100	5	1	72
	2b (disaggregate)	-	-	-	-	-	-	-	-	-	-	-	-
	2c (measure)	-	-	-	1	1	100	-	-	-	1	0	14
	2d (assumption)	1	0	20	-	-	-	-	-	-	1	0	14
	Total	5	2	100	1	1	100	1	4	100	7	1	100
3.	Provide information to help investors and creditors assess risks and potentials of both recognised and unrecognised items												
	3a (describe)	31	8	36	26	18	78	-	-	-	57	11	50
	3b (risks/potentials)	47	13	59	7	5	22	-	-	-	54	11	47
	3c (maximum)	4	2	5	-		-	-	-	-	4	1	3
	3d (own calculation)	-	-	-	-	-	-	-	-	-	-	-	-
	Total	82	23	100	33	23	100	-	-	-	115	23	100
4.	Provide information that allows financial statement users to compare numbers to other companies and between years												
	4a (policies)	67	19	87	20	14	54	1	4	9	88	17	71
	4b (effect/this year)	7	3	12	10	7	27	5	21	45	22	4	18
	4c (effect/prior year)	1	0	1	7	5	19	5	21	46	13	3	11
	Total	75	22	100	37	26	100	11	46	100	123	24	100
5.	Provide information on future cash inflows or outflows												
		18	5	100	12	8	100	-	-	-	30	6	100
6.	Help investors assess return on their investment												
		-	-	-	-	-	-	-	-	-	-	-	-
	Grand total	340	100	100	142	100	100	24	100	100	506	100	100

[1] Purposes of required financial statement disclosures are described more fully in Appendix 1
[2] General: Includes all disclosures other then *Entity structure* and *Specialised* disclosures
[3] Entity structure: Disclosures concerning business combinations, consolidated financial statements, development stage enterprises, foreign operations and segmental reporting
[4] Specialised: Disclosures relating to accounting changes, discontinued items, extraordinary items, futures contacts, nonmonetary transactions, quasi-reorganisations and troubled debt restructuring
[5] %1: Percentage of all disclosure items in that group (i.e. in *General*, *Entity structure*, *Specialised transactions* or *Total*)
[6] %2: Percentage of all disclosure items in that category (1-6) and group

The results in Tables 2 and 3, and those in the equivalent table in Barth and Murphy (1994) are compared in Table 4. The objective is to identify whether there are any significant differences in the categories and purposes of required disclosures between the three regulatory environments. Chi-square statistics indicate that in both the categories and purposes of required disclosures differences are significant.

A greater proportion of US disclosures are categorised as general while a larger proportion of UK disclosures are categorised as entity disclosures. IASs require fewer disclosures, and a greater proportion of these are entity disclosures compared with the US. Thus, it would appear that there is greater emphasis in the US on disclosures concerning specialised transactions, while in the UK and IASs, there is more emphasis on entity structure transactions.

There are significantly more disclosures in relation to recognised items in the UK/IASs compared with the US. Conversely, a greater proportion of US disclosures are for the purpose of assessing risks and potentials and of assessing return compared with UK/IAS requirements. More disclosures relating to unrecognised items are required by US and UK regulations compared with IAS regulations.

TABLE 4
Comparison of required disclosures between different Regulatory regimes

	US		**UK**		**IAS**	
By category	**No.**	**%**	**No.**	**%**	**No.**	**%**
General	537	76	427	59	340	67
Entity structure	77	11	265	37	142	28
Specialised transactions	95	13	34	4	24	5
	709	100	726	100	506	100
Pearson chi-square 155.68 (d.f. 4) Significance 0.00**						
By purpose						
Recognised items	263	37	372	51	231	46
Unrecognised items	41	6	50	7	7	1
Risks and potentials	221	31	165	23	115	23
Comparative purposes	117	16	96	13	123	24
Future cash flows	26	4	30	4	30	6
Assess return	41	6	13	2	0	0
	709	100	726	100	506	100
Pearson chi-square 112.58 (d.f. 10) Significance 0.00**						

** Significant at < 0.01

Table 5 compares required disclosures in the US, UK and internationally by subject. Some differences are evident between the three regulatory regimes. Out of a total of 38 subjects, seven (shareholders' equity, leases, pensions, income taxes, other post-retirement benefits, commitments and contingencies and accounting changes) account for 49 percent of all US disclosure requirements. Four subjects (business combinations, consolidated financial statements, debt and cash flows) account for 45 percent of all UK disclosure requirements. Five subjects (consolidated financial statements, accounting policies, property, plant and equipment, business combinations and shareholders' equity) account for 47 percent of all international disclosure requirements. These results echo those in Tables 2 and 3. Business combinations and consolidated financial statements (entity structure disclosures) attract more required disclosure in the UK/IASs compared with the US.

TABLE 5
Required disclosure by subject compared

	US		UK		International	
General disclosures	**No.**	**%**	**No.**	**%**	**No.**	**%**
Accounting policies	16	3%	34	8%	52	15%
Debtors	19	3%	4	1%	6	2%
Commitments and contingencies	42	8%	31	7%	18	5%
Computer software costs	2	0%	-	-	-	-
Debt	30	5%	47	11%	18	5%
Earnings per share	34	6%	17	4%	-	-
Employee stock option plans	7	1%	8	2%	-	-
Financial instruments	22	4%	18	4%	17	5%
Foreign currency translation	7	1%	4	1%	9	3%
FRS 3 - STRGL	-	-	6	1%	-	-
General disclosures	2	0%	3	1%	15	4%
Government grants	-	-	4	1%	3	1%
Hyperinflationary economies	-	-	-	-	7	2%
Income taxes	50	9%	26	6%	12	4%
Intangible assets & amortisation	3	1%	4	1%	12	4%
Interests costs	2	0%	4	1%	1	0%
Stock	8	1%	16	4%	13	4%
Marketable securities	17	3%	-	-	2	1%
Other investments	54	10%	-	-	3	1%
Leases	12	2%	33	8%	8	2%
Other post-retirement benefits	49	9%	3	1%	-	-
Payables	6	1%	4	1%	10	3%
Pension information	52	10%	26	6%	14	4%
Profit and loss account items	-	-	17	4%	21	6%
Property plant and equipment	12	2%	32	7%	44	13%
Related parties	9	2%	11	3%	8	2%
Statement of cash flows	24	4%	47	11%	16	5%
Shareholders' equity	56	10%	21	5%	29	8%
Subsequent events	2	0%	7	21%	2	1%
Total	537	100%	427	100%	340	100%
Entity structure disclosures	**No.**	**%**	**No.**	**%**	**No.**	**%**
Business combinations	27	35%	151	57%	34	24%
Consolidated financial statements	8	10%	81	31%	78	55%
Dev. Stage enterprises	13	17%	-	-	-	-
Foreign operations	4	5%	4	1%	7	5%
Segment reporting	25	33%	29	11%	23	16%
Total	77	100%	265	100%	142	100%
Specialised transactions	**No.**	**%**	**No.**	**%**	**No.**	**%**
Accounting changes	41	43%	5	15%	13	54%
Discontinued operations	14	15%	16	47%	-	-
Extraordinary items	11	12%	8	24%	8	34%
Futures contracts	4	4%	-	-	-	-
Nonmonetary transactions	3	3%	1	3%	1	4%
Quasi-reorganisation	1	1%	-	-	-	-
Research & Development costs	4	4%	4	11%	2	8%
Troubled debt restructuring	17	18%	-	-	-	-
Total	95	100%	34	100%	24	100%

Kruskal-Wallis test results are shown in Table 6 to test the hypothesis that the samples from the three regulatory environments come from populations having the same distribution. These results indicate that there is no significant difference between the number of disclosures required in US, UK and international standards.

TABLE 6
Kruskal-Wallis one-way Anova of differences in required disclosures between different regulatory regimes

	Mean count	Mean rank
US	13.90	83.88
UK	14.24	79.43
IAS	9.90	67.69

Chi-square 3.64 (d.f. 2) Sig. 0.16
F= 0.56 Sig. 0.57

Required disclosures are analysed in a multiple regression model by reference to three independent variables, purpose of required disclosure, category of disclosure and standard setting authority. Results in Table 7 show that the standard setting authority is not a significant factor in explaining variations in the distribution of required disclosures. The only significant variable in the model is category. There is a significant difference in the number of required disclosures in each of the three categories: general, entity structure and specialised transactions. This finding is already apparent from the results in Tables 2 and 3.

TABLE 7
Negative binomial model results

Number of observations: 153
Log-likelihood -465.34
Pearson chi-square goodness of fit (148 d.f.) 3257.12 Significance 0.00**
Pseudo R^2 0.32
Likelihood ratio test 2300.54 Chi-square (d.f. 1) 4601.08 Significance 0.00**

	Regression coefficients	**Std.error of coefficient**	**t statistic**	**P value**
Intercept	5.22	0.75	6.92	0.00**
Purpose	-0.14	0.12	-1.21	0.23
Category	-1.07	0.22	-4.81	0.00**
Standard Setting Authority	-0.26	0.21	-1.22	0.22
Theta	0.39	0.06	6.76	0.00**

** Significant at < 0.01 * Significant at ≤ 0.05

The analysis in Table 7 is repeated in Table 8, replacing purpose of required disclosure by subject of required disclosure. Thus, required disclosures are analysed against subject of required disclosure, category of disclosure and standard setting authority. Results in Table 8 are similar to those in Table 7 and show that the standard setting authority is not a significant factor in explaining variations in the distribution of required disclosures. None of the variables tested in this model are significant.

TABLE 8
Negative binomial model results

Number of observations: 126
Log-likelihood -465.09
Pearson chi-square goodness of fit (121 d.f.) 3417.49 Significance 0.00**
Pseudo R^2 0.12
Likelihood ratio test 1922.69 Chi-square (d.f. 1) 3985.382 Significance 0.00**

	Regression coefficients	**Std.error of coefficient**	**t statistic**	**P value**
Intercept	3.34	0.51	6.56	0.00**
Subject	0.89E-2	0.02	0.42	0.67
Category	-0.33	0.40	-0.82	0.41
Standard Setting Authority	-0.17	0.17	-0.95	0.34
Theta	0.61	0.07	8.29	0.00**

** Significant at < 0.01 * Significant at ≤ 0.05

There are a number of reasons why the distribution of disclosure requirements might be similar in the three accounting regimes selected for this study. All the regimes can be described as fitting into the Anglo-Saxon accounting model. This model is found in an accounting environment where external shareholders and stock markets are important and where there is a relatively low level of government control and a strong accounting profession. Accounting in these regimes tends to be flexible and pragmatic and is designed to meet the needs of investors as the main users of financial information. If we had selected disclosure requirements from a Continental model accounting regime (such as Germany or France) the results might have been different. Indeed, as the purposes of disclosure are derived by Barth and Murphy (1994) in the context of US GAAP, it might have been necessary to amend the list of purposes.

SUMMARY AND CONCLUSIONS

This paper analyses and compares required disclosures in three regulatory regimes. Our first research question was whether Barth and Murphy's framework could be used to categorise disclosure requirements of UK and IASC standards. We found that their list of 6 main purposes of disclosure, with its further subdivision into 17 purposes, could indeed be used to categorise the disclosure requirements. As noted in the previous section this may have been fortuitous and the framework may not be applicable for all sets of GAAP from all countries. Apart from the list of purposes Barth and Murphy also developed a list of subjects using an inductive approach. Although we found that this list was suitable for categorising most of the disclosure requirements in UK standards and IASs we needed to add four more subjects.

Our second research question was to attempt to identify similarities and differences in the distribution of the disclosure requirements by purpose, category and subject area. Although visual inspection of our various summary tables (Tables 2, 3, 4) showed up some differences, when we carried out a statistical analysis there was no significant difference in the distribution of disclosure requirements between the three regimes.

Thus our third research question, 'how can the observed differences be explained?', resolves itself or should perhaps be rephrased as 'how do we explain the observed similarities?'. We attempt to answer this by noting that all three sets of accounting standards fit within the Anglo-Saxon model of accounting.

Comparison with prior research findings

As there has been little prior comparative international accounting research into required disclosures, the findings in this paper are not directly comparable to any prior research findings. Most previous research deals with disclosure practices, focussing primarily on voluntary disclosures.

Required disclosures in this paper were not substantially different between the US and UK. Prior research studying voluntary disclosure items, finds higher disclosure levels by US companies. Meek, Roberts and Gray (1995) found that British multinational companies provided less disclosure of strategic information than US multinational companies. Frost and Pownall (1994) found that mandatory disclosures are substantially more frequent in the US, based on disclosure (and timing of disclosure) of financial statements, interim reports and media releases. Frost and Ramin (1997) conclude that higher disclosure levels observed among US and UK samples are consistent with more extensive disclosure requirements in these countries.

Limitations

This paper replicates a study by Barth and Murphy (1994). The Barth and Murphy research is limited in that it only considers required disclosures in FASB standards. Disclosures required by the SEC, and formerly by the AICPA, are ignored.

In replicating the Barth and Murphy study we too have ignored the wider regulatory environment in the UK, including legal disclosure requirements and disclosure requirements of the Stock Exchange. This is also the case for IASs - it would not be possible to take into account the additional legal and stock exchange disclosure requirements in all the countries in which the IASs are applied.

Required disclosures are compared at different periods of time - 1992 for the US and early 1997 for the UK and international standards. This reduces the comparability of the data. Differences between US standards and UK standards/IASs are likely to be understated as a result, given that standard setting is a learning process and that many standard setters look to the more developed regulatory environment in the US.

It would be desirable to update the US data to enable a comparison to be made at the same point in time. Unfortunately we were unable to obtain the data on which the Barth and Murphy (1994) study was based. Had this data been available, the US disclosures could have been updated to 1997. In addition, a proper line by line comparison of individual required disclosures could have been undertaken.

Our results show that IASs contained rather fewer disclosure requirements than US and UK standards. At the moment the IASC is working towards IOSCO and US SEC recognition. When this project has been completed we expect to see a greater number of disclosure requirements encapsulated within IASs.

It would also be desirable to analyse the disclosures required by the SEC in the US (e.g. form 10-k) and by company law and the London Stock Exchange in the UK. These disclosures could be compared with disclosures required by the standards. Disclosures required by regulation and not by the standards could then be identified and analysed. In the case of the IASC standards there are no additional disclosure requirements in regulations and as such they stand alone in providing a list of disclosures.

Future research

Prior research of international disclosure has focussed on disclosure practices, primarily emphasising voluntary disclosure. This paper is the first study of required disclosures, which, in turn, are acknowledged as being influential on disclosure practices. More in-depth analysis of required disclosures in a greater variety of countries would add insights to voluntary disclosure practices studied in prior literature. It would also be interesting to look at other countries representing different accounting models (especially non-Anglo-Saxon) to see how easily Barth and Murphy's model can be applied and to investigate different patterns of disclosure requirements.

Barth and Murphy investigated trends in disclosure requirements. They summarised the oldest and most recent standard, and year issued for each disclosure purpose. For general disclosures they found that most purposes were used over the entire time period of standards reviewed (1953-1992). They also compared different standards on the same five subjects (pensions, other post-retirement benefits, income taxes, leases and foreign currency translation). They noted that in nearly all cases the number of required disclosures increased over time. They also noted that recent standards require more disclosures that permit users to assess risks and potentials (3b). Our analysis could be extended to study changes over time in the UK and IASC standards.

Lastly, this paper only considers required disclosures. It is not clear how required disclosures are implemented in practice and whether observance of requirements is better in some countries than in others. Frost and Pownall (1994) found that factors other than disclosure rules influenced firms' disclosure practices, consistent with varying monitoring and enforcement mechanisms between the US and UK. An interesting extension to this paper would be a study of compliance levels with disclosure requirement in different countries.

APPENDIX 1
Purposes of required financial statement disclosures

	Purpose	Examples from UK standards
1	**Describe recognised items and provide relevant measures of those items other than the measure in the financial statements**	
1a	Describe items	Assets, liabilities, revenues expenses in accounts
1b	Disaggregate item	Components of tax charge
1c	Provide alternative measure	Alternative earnings per share calculations
1d	Disclose critical assumption used in determining amounts	Definition of classes of business for segmental analysis
2	**Describe unrecognised items and provide a useful measure of those items**	
2a	Describe item	Contingent losses, non-adjusting post balance sheet event
2b	Disaggregate item	Analysis of unprovided deferred taxation into major components
2c	Provide alternative measure	None found (US example: estimates of fair values of off balance sheet financial instruments)
2d	Disclose critical assumption used in determining amounts	Exclusion of subsidiaries - reasons
3	**Provide information to help investors and creditors assess risks and potentials of both recognised and unrecognised items**	
3a	Provide description of underlying economic situations	Nature, funding policy of pension scheme
3b	Provide description to assess risks and potentials	Legal nature and uncertainties relating to contingent liabilities
3c	Provide maximum amount involved	Disclosures on exercise of share options
3d	Provide information necessary for user to make independent calculation of an amount	Year in which assets were revalued
4	**Provide information that allows financial statement users to compare numbers to other companies and between years**	
4a	Describe company's accounting policies and practices	Basis of valuation of investment properties revalued during the year
4b	Describe effects of unusual transactions	Explanation of effect of tax relief on losses brought forward on earnings per share
4c	Describe effect of unusual transaction on a prior year, or portion of a period	Substantial acquisitions - extraordinary items to date of acquisition
5	**Provide information on future cash inflows or outflows**	Analysis of finance lease obligations due in one, two-five and more than five years
6	**Help investors assess return on their investment**	Reconciliation of earnings per share to alternative calculation of earnings per share

Source: Barth and Murphy (1994)

APPENDIX 2
UK accounting standards analysed by number of required disclosures

Standard currently in force (at 28/2/1997)		No.
	Forward to accounting standards and UITF abstracts	3
SSAP 1	Accounting for associated companies	37
SSAP 2	Disclosure of accounting policies	4
SSAP 3	Earnings per share	11
SSAP 4	The accounting treatment of government grants	8
SSAP 5	Accounting for value added tax	0
SSAP 8	The treatment of taxation under the imputation system in the accounts of companies	13
SSAP 9	Stocks and long-term contracts	17
SSAP 12	Accounting for depreciation	22
SSAP 13	Accounting for research and development	8
SSAP 15	Accounting for deferred taxation	20
SSAP 17	Accounting for post-balance sheet events	7
SSAP 18	Accounting for contingencies	8
SSAP 19	Accounting for investment properties	6
SSAP 20	Foreign currency translation	7
SSAP 21	Accounting for leases and hire purchase contracts	49
SSAP 22	Accounting for goodwill	40
SSAP 24[1]	Accounting for pension costs	32
SSAP 25	Segmental reporting	28
FRS 1	Cash flow statements	57
FRS 2	Accounting for subsidiary undertakings	31
FRS 3	Reporting financial performance	63
FRS 4	Capital instruments	66
FRS 5	Reporting the substance of transactions	49
FRS 6	Acquisitions and mergers	86
FRS 7	Fair values in acquisition accounting	0
FRS 8	Related party disclosures	11
UITF 3	Treatment of goodwill on disposal of a business	1
UITF 4	Presentation of long-term debtors in current assets	1
UITF 5	Transfers from current assets to fixed assets	0
UITF 6	Accounting for post-retirement benefits other than pensions	4
UIFT 7	True and fair view override disclosures	7
UITF 9	Accounting for operations in hyper-inflationary economies	1
UITF 10	Disclosure of directors' share options	13
UITF 11	Capital instruments: Issuer call options	0
UITF 12	Lessee accounting for reverse premiums and similar incentives	5
UITF 13	Accounting for ESOP trusts	8
UITF 14	Disclosure of changes in accounting policy	3
UITF 15	Disclosure of substantial acquisitions	0
UITF 16		0
	Total	726

[1] SSAP 24 requires equivalent disclosures for post-retirement benefits other than pensions. All disclosure requirements of SSAP 24 have not been repeated for post-retirement benefits, particularly as post-retirement benefits are rare in the UK.

Note FRS 3 (Insurance companies) and the SORPs have been omitted as they are industry specific

APPENDIX 3
International accounting standards analysed by number of required disclosures

Standard currently in force (at 28/2/1997)		**No.**
IAS 1	Disclosure of accounting policies	36
IAS 2	Valuation and presentation of inventories in the context of the historical cost system	12
IAS 3	Consolidated financial statements	0
IAS 4	Depreciation accounting	0
IAS 5	Information to be disclosed in financial statements	121
IAS 7	Statement of changes in financial position	31
IAS 8	Unusual and prior period items and changes in accounting policies	17
IAS 9	Accounting for research and development activities	8
IAS 10	Contingencies and events occurring after the balance sheet date	9
IAS 11	Accounting for construction contracts	8
IAS 12	Accounting for taxes on income	13
IAS 13	Presentation of current assets and current liabilities	5
IAS 14	Reporting financial information by segment	17
IAS 15	Information reflecting the effects of changing prices	0
IAS 16	Accounting for property, plant and equipment	30
IAS 17	Accounting for leases	20
IAS 18	Revenue recognition	11
IAS 19	Accounting for retirement benefits in the financial statements of employers	14
IAS 20	Accounting for government grants and disclosure of government assistance	6
IAS 21	Accounting for the effects of changes in foreign exchange rates	15
IAS 22	Accounting for business combinations	36
IAS 23	Capitalisation of borrowing costs	1
IAS 24	Related party disclosures	8
IAS 25	Accounting for investments	17
IAS 26	Accounting and reporting by retirement benefit plans	0
IAS 27	Consolidated financial statements and accounting for investments in subsidiaries	22
IAS 28	Accounting for investments in associated	7
IAS 29	Financial reporting in hyperinflationary economies	7
IAS 30	Disclosures in the financial statements of banks and similar financial institutions	*0
IAS 31	Financial reporting of interests in joint ventures	15
IAS 32	Financial instruments: Disclosure and presentation	20
		506

* Disclosures in specific industries were excluded

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