



SECTION 1

**THE COMPARABILITY OF IFRS 7 IN THE
EUROPEAN BANKING SECTOR**

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Abstract

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The aim of this paper is to investigate the level of comparability of the IFRS 7 Financial Instruments Disclosure in banks' annual reports across different European countries (Italy, Spain, France, Germany and UK) from 2007 to 2014. The banking sector seems to be particularly concerned with the issue of financial risks, especially during the most recent global financial crisis. In addition, risk disclosure has led to vigorous debates at both the national and international levels among scholars and standard setters. To test the comparability across countries, we use the van der Tas C index. Our results show that there is a medium level of comparability. Despite the accounting boards' and authorities' commitment to regulating this information, there are still substantial differences in the practices of risk disclosure, which have negative effects on comparability. Our results show that an increase in the degree of comparability exists during the observed period but we are still far from a condition of full comparability due to the presence of factors other than regulations that may affect accounting practices. These findings could be helpful for the decisions of institutional regulatory bodies and for investors.

Keywords: IFRS 7, Financial Risks, Comparability, C Index

1. INTRODUCTION

Bank financial instrument risk disclosure has led to many debates among academics and standard setters, especially (during and) after the recent financial crisis (Woods et al., 2008; Birt et al., 2013; Caldarelli et al., 2014; Gebardht et al., 2014). Banks are required to report both qualitative and quantitative details about their capital structure; capital adequacy; different types of risk exposure, including credit, liquidity, market, operations and equity; and interest rate risks. According to several scholars, however, such disclosure lacks transparency (Flannery et al., 2004; Ivashina and Scharfstein, 2010; Anandarajan et al., 2011; Barth et al., 2012; Siregar et al., 2013). Scholars have also argued that a certain orientation by banks to oppose higher financial instrument risk disclosure has been observed, since this may result in significant costs (Mozes, 2002; Gebardht et al.,

2004). At the same time, there is a compelling argument suggesting that the existing regulations allow banks wide discretion concerning information selection for the financial market (Caldarelli et al., 2014). Indeed, the European Banking Authority (EBA) publishes its own guidelines, known as 'general recommendations', but they are not compulsory. In addition, the supervisory authority of each country can define the most important characteristics of this regulation at the national level. Therefore, the absence of a European risk disclosure framework allows banks to provide discretionary information in risk reporting. This situation leads banks to conform mainly to the local recommendations in each country rather than to the international accounting principles (Leuz, 2010; Caldarelli et al., 2014).

This widespread regulation may also cause the risk of an overlap of frameworks issued by different regulators (i.e. national supervisory authorities,

international supervisory authorities, international standard setters). Thus, overlapping causes redundancies. To solve this problem, the IASB issued IFRS 7: Financial Instruments Disclosure. This standard introduced many challenges and more accurate information on qualitative and quantitative financial risks. Its aim was twofold: First, it sought to reduce information opacity, information asymmetry and banks' reluctance to divulging financial risks (Dobler, 2008; Bischof, 2009). Bischof (2009) finds that under IFRS 7, disclosure practices have generally increased both in financial statements and in European risk reports; hence, the standard seems to have changed banks' methods of providing information (Bischof and Ebert, 2014). Second, IFRS 7 aimed to ensure more comparability in financial instrument risk disclosure (Caldarelli et al., 2014). As several scholars stated, the improvement of accounting comparability depends mostly on the standard's effective implementations in firms' annual reports (*de facto* compliance; Barth, 1994; Ball, 2006; Daske, 2006; Bischof, 2009; Armstrong et al., 2010; Hail et al., 2010). What should be noted is that IFRS 7 does not provide a mandatory format but instead represents a list of information that banks should provide in their notes. Managers' discretion in implementing the standard reduces the comparability of financial information across firms.

Based on the arguments outlined above, this study aims to analyse the level of comparability of financial instrument risk disclosure in European banks under IFRS 7. In other words, this research investigates whether *de jure* harmonisation of the IFRS 7 has led to *de facto* harmonisation, thorough comparability of the accounting practices. We measure the level of comparability focusing on disclosure requirements provided in the notes to the financial statements by European banks, under IFRS 7.

Using a sample of 546 listed banks over an 8-year period (2007–2014) in five different countries (Italy, the United Kingdom, France, Spain and Germany), we build a financial instrument risk disclosure index and measure the comparability degree by employing the van der Tas C index (van der Tas, 1992). Our results demonstrate a medium level of comparability, suggesting that harmonised accounting standards do not necessarily lead to harmonised accounting practices. Regulators and standard setters should pay attention to their role in the improvement of European international convergence and comparability. The remainder of the paper is organised as follows: Section 2 provides a literature review on risk disclosure and comparability; Section 3 describes the methodology used for our research; Section 4 presents the research results and discussion, finally, Section 5 provides conclusions.

2. LITERATURE REVIEW

The development of global capital markets has created the need for harmonisation of accounting practices among companies to satisfy information needs, especially those of investors, in different countries (Canibano and Mora, 2000). Nobes (2014) states that harmonisation is the modification of the rules of two different accounting systems to make them as similar as possible to each other.

Harmonisation can be *de jure* or *de facto* (Canibano and Mora, 2000). *De jure* harmonisation refers to a process of convergence based on a

regulatory framework, while *de facto* harmonisation is an accounting practice aiming to improve the comparability of financial statements. In the latter case, harmonisation occurs when companies operating under similar conditions choose the same accounting options (Tay and Parker, 1990; Tay and Parker, 1992).

De jure harmonisation can lead to disharmony in accounting practices when specific accounting standards allow multiple choices. In contrast, *de facto* harmonisation can be present without causing an increase in the level of harmonisation in law. This phenomenon is known as 'spontaneous harmonisation' (Canibano and Mora, 2000).

While standard setters are mainly concerned with *de jure* harmonisation, users of financial reporting benefit most from *de facto* harmonisation (Catuogno and Allini, 2011). This is because an increase of *de facto* harmonisation leads to an increase in accounting comparability (Baker and Barbu, 2007). Comparability permits users of financial statements to understand the differences among firms and may favour investment decisions that best fit with users' risk appetite (Land and Lang, 2002).

Nowadays, accounting comparability is a controversial academic issue (i.e. Kvaal and Nobes, 2012). Despite interventions over several years after the introduction of the international accounting standards in Europe, there are still differences in accounting practices, leading to a decrease in comparability (e.g. Nair and Frank, 1980; D'Arcy, 2001; Delvaile et al. 2005; Jaafar and McLeay, 2007; Liao et al., 2012; Nobes and Stadler, 2013). According to D'Arcy (2001), such differences can be explained via different institutional factors, including divergences in the legal structure; the influence of the accounting profession; financial planning; the fiscal disciplines; the political system; and sociocultural factors.

Empirically, studies that have investigated the degree of accounting comparability can be divided into two broad areas, namely studies on accounting comparability in a single country (e.g. Callao et al., 2007; Brochet et al., 2013) and studies on accounting comparability between or among countries (e.g. Catuogno and Allini, 2011; DeFond et al., 2011; Yip and Young, 2012; Cascino and Gassen, 2015). However, the evidence provided has been inconclusive.

Callao et al. (2007) investigate whether the financial statements of Spanish firms listed in IBEX 35 are comparable when some apply IFRS and others continue to use Spanish standards. Their evidence shows that the level of comparability is worsened by the introduction of IAS/IFRS. Mechelli (2009) finds that Italian firms make heterogeneous choices with respect to cash flow reporting under IAS 7 and reports a high frequency of noncompliance. Similarly, Catuogno and Allini (2011) analyse the level of comparability of Italian and Spanish listed companies in the period before and after the application of IAS/IFRS. In particular, they investigate the comparability of different accounting choice according to IAS 27, IAS 28, IAS 31 and IAS 39, and they find a high degree of comparability in IAS 27 and IAS 28 but weak comparability in the accounting choices provided by IAS 31 and IAS 39.

To test comparability after IFRS adoption, DeFond et al. (2011) examine changes in foreign mutual fund investments in the European Union. Using a sample of 5460 companies from 14

European countries in the period of 2003–2007, they reveal that the improved comparability associated with mandatory IFRS adoption does not increase domestic mutual fund ownership, as domestic investors are more familiar with local accounting standards. In contrast, Yip and Young (2012) evaluate whether the adoption of IFRS in Europe increases the accounting comparability across 17 countries, and the results confirm that the advent of IFRS has resulted in a greater comparability of financial statements.

Liao et al. (2012) investigate the cross-country comparability of IFRS earnings and book values of French and German firms and document differences in estimates, recognition of special items and other equity reserves that help to explain the decrease in comparability over time. Barth et al. (2012) find that both before and after firms adopted IFRS, accounting quality is higher for US firms and that accounting quality is a potential source of the increase in comparability after firms adopt IFRS. Similarly, Brochet et al. (2013) demonstrate that with the mandatory adoption of IFRS financial statements, the comparability of UK firms was enforced. In contrast, a recent study by Cascino and Gassen (2015) shows that the overall comparability effect of mandatory IFRS adoption is marginal. The researchers also reveal that firms from countries with tighter reporting enforcement experience have stronger IFRS comparability effects and that public firms adopting IFRS become less comparable to local GAAP private firms from the same country.

In light of previous literature, what should be noted is that evidence on comparability is mixed, and to the best of our knowledge, no study has investigated the comparability of disclosure requirements under IFRS 7 in Europe, especially in the banking sector. Furthermore, as stated above, academics call for more research on financial instruments risk disclosure in order to better understand its role, in particular, to increase stability (Flannery et al., 2004; Ivashina and Scharfstein, 2010; Anandarajan et al., 2011; Barth et al., 2012; Siregar et al., 2013; Acharya and Ryan, 2016).

IFRS 7 is the only accounting standard until now in force that deals with disclosure on financial instruments, and if banks fully comply with these requirements such disclosures may provide greater transparency and reduce opacity. However, IFRS 7 does not provide a mandatory format, hence managerial s' discretion in implementing the standard exists. Such

discretion may undermine the comparability of financial information across firms and decreases transparency. Therefore, the present study aims to fill this gap and investigate whether the *de jure* harmonisation of the IFRS 7 has led to comparability through *de facto* harmonisation of the accounting practices.

Overall, two main research questions are formulated, as follows: What is the level of comparability of disclosure requirements by European banks under IFRS 7? Does the level of disclosure requirements by European banks under IFRS 7 increase over time?

3. METHODOLOGY

To investigate the degree of comparability regarding the application of IFRS 7, we consider the information provided in the notes to the consolidated financial statements of banks listed in the Italian, Spanish, French, German and UK financial markets from 2007 to 2014. The observation period thus runs from 2007, the year of introduction of IFRS 7, to 2014, the last year for which financial reporting is available online.

Our sample consists of all listed banks in five European countries, namely Italy, Spain, France, Germany and the United Kingdom. The choice of those countries is not arbitrary; rather, it was made for specific reasons. First, they have different legal systems, where Italy, Spain, France and Germany are classified as civil law countries, while the United Kingdom is categorised as a common law country (Alexander and Nobes, 2007). Second, they have different firm ownership structures. Indeed, there is a prevalence of family businesses in Italy, Spain and France, while public companies predominate in the United Kingdom and Germany (Zeff, 2007). Third, they have different financial systems, namely bank-oriented systems in Italy, Spain and France and financial market systems in the United Kingdom and Germany (Zysman, 1983; Nobes, 1998). Finally, these five stock markets have the highest market capitalisation in Europe. The United Kingdom represents the 19.37% of European Stock Exchange capitalization; France 19.07%; Germany 18.10%; Spain 17.04%; Italy 13.03% (source: Thomson Reuters). Table 1 shows the sample composition for each year and country.

Table 1. Sample composition

<i>Banks</i>	2007	2008	2009	2010	2011	2012	2013	2014	Tot	%
United Kingdom	8	7	7	7	7	8	9	9	62	0.11
France	20	20	20	20	20	20	21	19	160	0.29
Germany	11	12	12	13	13	13	13	13	100	0.18
Spain	7	7	7	7	8	8	8	8	60	0.11
Italy	20	20	20	20	20	21	21	22	164	0.30
<i>Total</i>	66	66	66	67	68	70	72	71	546	1

The final sample consists of 546 listed banks. The table shows that the Italian and French banks are the most representative in the sample (30% and 29%, respectively), while Spain and the United Kingdom appear to have fewer banks (both 11%). German banks make up 18% of the sample.

To determine the results, we assume that an increase in IFRS 7 compliance may lead to an increase in accounting comparability (Catuogno and

Allini, 2011). Comparability of financial reporting depends on the level of *de facto* harmonisation. Thus, Table 2 shows the items on which the content analysis has been developed according to IFRS 7 to build our financial risk disclosure index (FRDI). Indeed, IFRS 7 provides qualitative and quantitative information on financial risks (i.e. credit risk, market risk and liquidity risk).

Table 2. Financial risks according to IFRS 7

Credit risk	Liquidity risk	Market risk
<i>Qualitative disclosure</i>		
(a) Exposures to risk and how they arise	(a) Exposures to risk and how they arise	(a) Exposures to risk and how they arise
(b) Objectives, policies and processes for managing risk and methods used to measure risk	(b) Objectives, policies and processes for managing risk and methods used to measure risk	(b) Objectives, policies and processes for managing risk and methods used to measure risk
(c) Any changes in (a) or (b) from the previous period	(c) Any changes in (a) or (b) from the previous period	(c) Any changes in (a) or (b) from the previous period
<i>Quantitative disclosure</i>		
(a) Amount that best represents its maximum exposure to credit risk at the end of the reporting period without considering any collateral held or other credit enhancements	(a) Maturity analysis for nonderivative financial liabilities (including issued financial guarantee contracts) showing the remaining contractual maturities	(a) Sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in relevant risk variables that were reasonably possible at that date
(b) Description of collateral held as security, other credit enhancements and their financial effect	(b) Maturity analysis for derivative financial liabilities showing the remaining contractual maturities	(b) Methods and assumptions used in preparing the sensitivity analysis
(c) Information about the credit quality of financial assets that are neither past due nor impaired	(c) Description of how the entity manages the liquidity risk inherent in (a) and (b)	(c) Changes from the previous period in the methods and assumptions used and the reasons for such changes
(d) Analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired		(d) Explanation of the method used in preparing the sensitivity analysis and the main parameters and assumptions underlying the data provided
(e) Analysis of financial assets that are individually determined to be impaired at the end of the reporting period, including the factors the entity considered in determining that they are impaired		(e) Explanation of the objective of the method used and limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved
(f) Nature and carrying amount of the assets		(f) When the sensitivity analyses disclosed are unrepresentative of a risk inherent in a financial instrument, disclosure of this fact and the reason the sensitivity analyses are unrepresentative according to the entity
(g) When the assets are not readily convertible into cash, policies for disposing of such assets or for using them in an entity's operations		

Source: Own elaboration

Following the studies by Cook (1992) and Hossain and Reaz (2007), our index is defined by dividing the total number of required disclosures provided by a bank under IFRS 7 as follows:

$$FRDI_{ij} = \frac{\sum x_i}{n}, \quad (1)$$

where,
 $x_{ij} = 1$ if i item is disclosed by bank j
 otherwise;
 n = number of items included in the disclosure index.

Thus, to measure comparability, we use the van der Tas C index (van der Tas, 1988). The C index is widely employed in accounting literature (Herrman and Thomas, 1995; Emenyonu and Gray, 1996; Morris and Parker, 1998), as it is easy to apply, as well as being particularly suitable for multiple options and for measuring harmonisation between two or more countries (van der Tas, 1992; Catuogno and Allini, 2011). This index is obtained as follows:

$$C = \frac{(\sum ai^2) - m}{m^2 - m}, \quad (2)$$

where,
 a_i - is the number of entities applying the accounting treatment under investigation (i);
 n - is the number of alternative accounting options;
 m - represents the total of the entities.
 To give a judgment on the level of comparability, it is assumed that $0 \leq C \leq 1$ (van der Tas, 1988; van der Tas, 1992), where 0 is an absence of comparability and 1 is full comparability.

4. RESULTS AND DISCUSSION

Table 3 shows the average degree of compliance with the IFRS 7 in the period 2007-2014, as well as the general mean and the standard deviation. An increase in the variability summarises the effort made by banks to be compliant.

Table 3. IFRS 7 compliance per year by European countries - mean value

Years	France	Italy	Spain	Germany	UK
2007	0.58	0.47	0.47	0.51	0.50
2008	0.59	0.51	0.51	0.57	0.51
2009	0.63	0.53	0.52	0.64	0.57
2010	0.63	0.55	0.55	0.68	0.58
2011	0.60	0.57	0.67	0.70	0.63
2012	0.63	0.55	0.66	0.71	0.68
2013	0.68	0.59	0.71	0.71	0.71
2014	0.66	0.59	0.71	0.69	0.71
Mean	0.63	0.55	0.60	0.65	0.61
Std. Dev.	0.03	0.04	0.09	0.07	0.08

Italy and Spain have an extremely similar trend because they have similar characteristics, but in 2011, Spain's compliance quickly rises. One possible explanation for this is that in the years between 2011 and 2012, Spain was affected by the great scandal of Bankia credit cards. Evidently, in these years, the market demanded more transparency on banking products and risks, resulting in more disclosure following IFRS 7. At the end of the observation period (2014), Italy had a level of compliance equal to 59%, while Spain's was 71%; the two countries' general means were 55% and 60%, respectively. Moreover, Spain recorded a higher standard deviation (0.09) than Italy (0.04), highlighting this country's effort to comply with IFRS 7. According to Maffei (2009), the Italian banking sector shows sufficient information about the explanations of financial reporting and the reported amounts, but disclosure is poor when it comes to providing information on risks, their impact on the balance sheet accounts and possible ways of managing them.

Although France is a civil law country, it exhibits some differences with respect to Italy, Spain and Germany. Indeed, France has always been more compliant from the first year of applying the standard (58% in 2007) compared to the other investigated countries. France recorded a general mean of 63% and extremely low variability,

suggesting the country's minimal effort to adapt to the standard.

Germany is highly compliant with IFRS 7 (almost 70% from 2011). The standard deviation is 0.07, indicating that particularly during the years of crisis, Germany made a major effort over time in terms of providing information about financial instruments. Indeed, it is known that the financial crisis highlighted the opacity of the banking system in terms of financial instrument information (Laux and Leuz, 2009).

The United Kingdom's compliance trend is similar to that of Germany. Indeed, it maintains a level of compliance of almost 70% from 2012.

Generally, for the whole sample, there is a medium level of compliance with IFRS 7 (61%), although we can observe an important increase after the financial crisis. This medium level suggests the need to adopt more rigorous controls to urge banks to provide all important information on the financial instruments, particularly to investors, so that they can assess the information in terms of their risk appetite.

Regarding comparability, Table 4 shows the results for the van der Tas C index. The FRDI has been decomposed into credit, market and liquidity risk disclosure according to IFRS 7. The table exhibits the level of comparability per year for each type of financial risk.

Table 4. C index comparability per year

Disclosure	C Index in %							
	2007	2008	2009	2010	2011	2012	2013	2014
Credit risk	0.50	0.50	0.51	0.52	0.53	0.54	0.56	0.57
Market risk	0.50	0.50	0.50	0.50	0.51	0.51	0.52	0.53
Liquidity risk	0.51	0.52	0.54	0.59	0.57	0.58	0.62	0.67
Overall risk disclosure	0.50	0.50	0.51	0.52	0.53	0.53	0.56	0.58

First, it is possible to discuss the overall effect of IFRS 7 on financial instrument risk disclosure. The degree of comparability in total is medium in the first year of standard application (50%). Over time, a slight increase is documented, since the C index achieves 58% in the last year of observation. Based on this analysis, we can argue that the introduction of IFRS 7 resulted in relative variation in banks' disclosure practices over time. Thus, the absence of a European framework for risk disclosure may lead to a situation of non-full comparability.

Concerning credit risk, a medium degree of comparability (about 57%) was identified. Specifically, it was almost 50% from 2007 to 2012, while in 2013 and 2014, the rates rose to 56% and 57%, respectively. It is hoped that this result could be improved over time. Indeed, Kim et al. (2013) demonstrate that financial statement comparability improves the accuracy of investors' valuation judgments and reduce entities' capital costs. They provide evidence that greater comparability is associated with lower frequency of split ratings by credit rating agencies. In addition, prior research provides evidence that split ratings, resulting in a worsening of the probability of default, are more frequent when credit risk is more uncertain. Morgan (2002) argues that because banks are opaque, they are characterised by more frequent split ratings than firms in other industries are.

In terms of market risk information, our results still show a medium degree of comparability. Indeed, the mean value of the C index is about 53% in the observation period. This result is consistent with

Woods et al. (2008), who claim that variations in market risk disclosure practices suggest that harmonisation remains rather more apparent than real. In addition, after analysing banks' financial reports, Big 4 Accounting Firms (e.g. PwC, 2008; KPMG, 2008) emphasise that despite the detailed and extensive disclosures required by IFRS 7, the market risk disclosures are not directly comparable between the banks. Our result is worrying because it confirms evidence provided nine years ago, although regulators and standard setters have made extensive efforts to improve disclosure practices.

Finally, concerning information on liquidity risk, our results document greater comparability over time. Indeed, the C index is about 60% in 2009, increasing to almost 70% in 2014.

The financial crisis of recent years has shown the fragility of the financial system, and particularly banks' difficulties in dealing with stress situations due to a lack of liquidity. Indeed, Drehmann and Nikolaou (2013) find record peaks after August 2007, indicating that as expected, increased funding liquidity risk is present. This has led the financial market to call for more transparency for this type of risk, and banks have made efforts to comply with this need for information.

Overall, the level of comparability in our results is consistent with those reported by DeFond et al. (2011), Catuogno and Allini (2011) and Cascino and Gassen (2015), who show that an increase in the degree of comparability in financial reporting exists but that we are still far from a situation of full

comparability. The presence of factors other than regulations can affect accounting practices.

Ultimately, we can argue that despite the accomplishment of a level of *de jure* harmonisation by banks under IFRS 7, the extent of *de facto* harmonisation is not satisfactory, as the C index generally reveals a medium degree of comparability (almost 60%). Although the comparability of FRDI during the observed years increases as a response to the lack of information, regulators should take note that the accounting comparability still seems to be a 'chimera'.

5. CONCLUSIONS

The aim of this study was to assess whether the harmonisation relating to IFRS 7 has led to the achievement of full comparability of banks' financial instrument risk disclosure in Italy, Spain, France, Germany and the United Kingdom during the period of 2007–2014. We focussed on IFRS 7 because, on the one hand, the topic of financial instrument risk disclosure is an open issue both at the national and international levels, involving many academics and standard setters, and on the other hand, this standard is the culmination of an effort to meet the needs of greater comparability and transparency of information in the field of banking risks (Caldarelli et al., 2014).

To provide the results, we built a financial instrument risk disclosure index under IFRS 7 and adopted the comparability C-index by van der Tas (1992) to measure comparability. The results showed that there is still a medium level of compliance, and the degree of comparability under IFRS 7 is approximately 50% for credit and market risks, while that of liquidity risk reaches a peak of almost 70%. The findings also illustrated that the introduction of IFRS 7 has provided relatively positive variation in the disclosure practices by banks for each type of risk (credit, market and liquidity risk), with an overall increase in the comparability level during the observed period. Indeed, with regard to credit risk results show a medium degree of comparability (about 57%) and this is consistent with previous studies (i.e. Kim et al., 2013). In terms of market risk information, our results still confirm a medium degree of comparability (53%). According to Woods et al. (2008) despite the detailed and extensive disclosures required by IFRS 7, the market risk disclosures are not directly comparable between the banks. Lastly, our evidence suggests that the degree of comparability of liquidity risk is higher (70% in 2014) than credit and market risks suggesting that after financial crisis banks have made efforts to comply with this investor information needs.

However, we are still far from a situation of full comparability, probably due to the nonexistence of a common European framework on financial risk disclosure and the presence of factors other than regulations can affect accounting practices. Consistent with Delvaile et al. (2014), while European countries like France, Germany and Italy were considered similar with respect to an accounting regulatory framework based on legislation in the past, today they are extremely different not only in reporting practice but also in how they adapt to the international convergence of accounting rules. Considering that the period analysed was quite short, we can expect that comparability will

be improved in the medium-to-long term (thanks to the introduction of IFRS 9).

Our results have several implications for standard setters and users. Standard setters (and regulators) should adopt actions to better regulate financial risk disclosure with the aim of increasing homogeneity worldwide. In 2013, ICAEW already emphasised the importance of better-regulated financial reporting because a lack of this regulation led to a gap in comparability and an increase in information asymmetries. Thus, merely by means of the enforcement of accounting standards, our results raised several concerns about the role of the IASB, the EBA and the national regulatory body in the improvement of international convergence and comparability (Zeff, 2007).

Users also could benefit from our findings. Specifically, investors should pay attention when making investments decisions, since a lack of comparability impedes their correct interpretation of information to assess their risk appetite. Similarly, analysts may have difficulty formulating correct and useful predictions for financial markets.

This paper also had some limitations. First, the C index depends on the number of banks included in the sample (Catuogno and Allini, 2011). Second, the index is not weighted, although some scholars have argued that the result of the equal weighting procedure tends to be similar to those of other weighting systems (Zarzeski, 1996; Prencipe, 2004; Amoako and Asante, 2013).

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