An Investigation of Compliance with the Disclosure Requirements of Related Party Disclosure Standards in Emerging Economies

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An Investigation of Compliance with the Disclosure Requirements of Related Party Disclosure Standards in Emerging Economies

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This thesis investigates the factors associated with the quantity of related party transaction disclosures by large publicly listed firms in the emerging markets of Brazil, Russia, India and South Africa (BRIS) using a checklist of disclosure requirements from IAS 24 *Related Party Disclosures* across three years; 2001, 2006 and 2014. Using four proxies of disclosure, each measuring a different aspect of disclosure, the thesis addresses whether disclosure level is associated with: IFRS adoption; across-time learning effects; audit committee; auditor type; foreign listing; outstanding capital market debt; and ownership concentration. Data are hand-collected from the English-language annual reports of 151 constant firms (453 firm-years) in each of the three sample years. The results suggest that the firm-specific factors examined influence each country's compliance in different ways. Overall, the findings show that in Brazil and South Africa, the level of related party disclosure is positively associated with the mandatory adoption of IFRS. Across-time learning effect and the existence of outstanding capital market debt matters only in India. In Brazil, a higher level of related party disclosure is associated with the existence of an audit committee whereas in Russia, a positive association exists if firms are audited by a big 4 or 5 auditor. Ownership concentration, on the other hand, is associated with related party disclosure in Russia, India and South Africa. When all countries are combined and controlled for, IFRS adoption, learning effect and the existence of an audit committee are the only factors systematically related to related party disclosure.

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I would like to dedicate my thesis to my late parents, who always advocated the importance of education and so inspired me to pursue mine.

ABSTRACT

This thesis investigates the factors associated with the quantity of related party transaction disclosures by large publicly listed firms in the emerging markets of Brazil, Russia, India and South Africa (BRIS) using a checklist of disclosure requirements from IAS 24 *Related Party Disclosures* across three years; 2001, 2006 and 2014. Using four proxies of disclosure, each measuring a different aspect of disclosure, the thesis addresses whether disclosure level is associated with: IFRS adoption; across-time learning effects; audit committee; auditor type; foreign listing; outstanding capital market debt; and ownership concentration. Data are hand-collected from the English-language annual reports of 151 constant firms (453 firm-years) in each of the three sample years. The results suggest that the firm-specific factors examined influence each country's compliance in different ways. Overall, the findings show that in Brazil and South Africa, the level of related party disclosure is positively associated with the mandatory adoption of IFRS. Across-time learning effect and the existence of outstanding capital market debt matters only in India. In Brazil, a higher level of related party disclosure is associated with the existence of an audit committee whereas in Russia, a positive association exists if firms are audited by a big 4 or 5 auditor. Ownership concentration, on the other hand, is associated with related party disclosure in Russia, India and South Africa. When all countries are combined and controlled for, IFRS adoption, learning effect and the existence of an audit committee are the only factors systematically related to related party disclosure.

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LIST OF ABBREVIATIONS

APB	Accounting Practices Board of South Africa
AS	Accounting Standards (Indian)
ASC	Accounting Standards Codification
BRIS	Brazil, Russia, India, and South Africa
CPC	Committee of Accounting Pronouncements
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Co-operation Council
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAI	Institute of Chartered Accountants in India
IFRS	International Financial Reporting Standards
Ind AS	Indian Accounting Standards
KMP	Key Management Personnel
RP	Related Party
SAICA	South African Institute of Chartered Accountants
SFAS	Statement of Financial Accounting Statements

CHAPTER 1: INTRODUCTION

1.1 Aim of the Thesis

The aim of this thesis is to determine the factors that affect the quantity of related party transaction disclosures of publicly listed firms in the emerging markets of Brazil, Russia, India and South Africa – the BRIS countries[1][2]. This is achieved by examining compliance with the various accounting standards which govern the disclosure of related party transactions used by these four emerging markets. It has been argued that if firms do not comply with the disclosure requirements of a standard, they may be withholding relevant financial information required for the effective operation of global capital markets. Also, if non-compliance is intentional, the financial information provided to external users may be misleading and thus may not be useful to them for making informed resource allocation decisions (Glaum, Schmidt, Street & Vogel 2013).

One way to increase compliance with accounting standards, suggested by advocates for the global introduction of a single set of international accounting standards, is by making adoption of these standards mandatory around the world. These advocates claim that the worldwide adoption of one set of international accounting standards will result in a significant improvement in the quality of financial information reported by firms as well as increasing the comparability, transparency and uniformity of financial information

[1] Generally, the extant literature commonly refers to five emerging economies Brazil, Russia, India, China and South Africa as BRICS. In my thesis, China has not been included due to time constraints and the difficulties I encountered accessing English annual reports for Chinese companies in the earlier sample year, 2001. It was necessary to access English reports to allow me to understand the contents of them and to have a common base for the collection of data. This is discussed further in Chapter 4 Section 4.3. The four remaining countries (i.e. BRIS) examined are also included in J.P. Morgan's Emerging Market Bond Index Global and the FTSE's Annual Country Classification Review which lists all emerging markets.

[2] The quality of related party transaction disclosures is not considered in this thesis. Throughout the thesis any reference to disclosure levels of related party transactions only relates to the quantity of such disclosures.

across the globe which should lead to numerous capital market benefits (Cascino & Gassen 2015).

1.2 Background to the Development of International Accounting Standards

The introduction of International Financial Reporting Standards (IFRS), a single set of high-quality global accounting standards, is arguably the most influential accounting rule change in decades (Brown & Tarca 2012). These accounting standards are developed and published by the International Accounting Standards Board (IASB) which was established in April 2001 in an attempt to improve the overall quality of worldwide financial reporting. The board replaced the previous international standard setting body, the International Accounting Standards Committee (IASC)[3]. The IFRS Foundation's Constitution (2016a; p.6) states that two of the principle objectives of the IASB are to "develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles" and "to promote the use and rigorous application of those standards". These objectives are in response to the observed diversity in the financial information reported by firms worldwide. It was maintained that diversity existed because accounting rules were country-specific and differed significantly across countries[4].

[3] The IASC, which was created in 1973, is the predecessor of the IASB which was formally established in April 2001, with the aim to improve the overall quality of global financial reporting. See Camfferman & Zeff (2007, 2015) for a detailed discussion of the history of the IASC and the IASB.

[4] For example, Nobes and Parker (2016) report that when the multinational pharmaceutical firm GlaxoSmithKline's 1995 to 2004 reported profits, which were originally calculated in accordance with UK GAAP, were restated based on US GAAP, the reported profit numbers were notably different. In 2001, the reported profit based on UK GAAP became a loss based on US GAAP, a decline of 105%.

The objectives of the board imply that the adoption of IFRS by firms around the world will result in increased comparability, consistency and transparency in global accounting practice. They also suggest that, as the global adoption of IFRS continues to increase, the variations previously observed in the international financial reporting practices across countries will decrease. To date, the IASB has issued numerous accounting standards and interpretations and their adoption worldwide continues to grow with currently 144 countries requiring IFRS to be used for the preparation of publicly available corporate financial information (IFRS Foundation 2018).

1.3 Motivation

This thesis is motivated by a number of factors. Firstly, there is a potential for non-compliance with mandatory accounting standards which may impact on what is disclosed in corporate financial reports. As previously mentioned in Section 1.2, the introduction of IFRS, a single set of high-quality accounting standards, has the potential benefits of improving comparability and uniformity of the external financial statements of firms around the world. However, several commentators have expressed concerns that the mandatory adoption of IFRS will, in fact, not result in these benefits but, rather they suggest that non-compliance with IFRS may occur. For example, Horton, Serafeim and Serafeim (2013) contend that, "political, cultural and business differences might continue to impose significant obstacles in the progress towards this single global financial communications system" (p.388). Similarly, Ball (2006) suggests that there will be significant economic and political barriers to the successful implementation and enforcement of IFRS, which may result in non-compliance with the standards. Nobes (2013) goes even further by arguing that, "if auditors and firms are weakly monitored or subjected to little enforcement in a particular country, non-compliance with IFRS is likely

to occur" (p.90). In addition, Pope and McLeay (2011) note that although global accounting standards are being adopted, enforcement and monitoring of compliance with the standards is primarily done at a local level, which may result in significant variations in the strength of enforcement and may encourage non-compliance. Further, ICAEW (2015) note that, to date, the benefits of mandatory IFRS adoption have not been conclusive. Although many of the expected benefits have been somewhat achieved, prior studies show that the benefits of mandatory IFRS adoption are unevenly distributed among different firms and different countries. The ICAEW (2015) also details that, due to differences in incentives and institutions, negligible benefits and sometimes negative effects have resulted in some firms and countries.

Secondly, my thesis investigates compliance with the related party disclosure standards adopted in the BRIS countries. To date, prior research on related party transactions has mainly examined the US and other major Asian countries including China and Hong Kong. There has been little, if any, research in the BRIS countries regarding related party transactions, even though each of these countries is most likely to regularly participate in such transactions primarily due to their corporate ownership structures. Further, most of the previous studies have focused on the types and the total value of related party transactions firms enter into, rather than considering the level of compliance with the disclosure requirements of mandated related party disclosure standards.

Finally, the third motivating factor relates to improving our understanding of the firm-specific factors that influence compliance with mandatory accounting standards in emerging economies, specifically the standard on related party disclosures.

1.3.1 Why related party transactions?

Related party transactions are transactions that occur between a firm and any associated entity including the firm's directors, subsidiaries or associates[5]. Related party transactions have been described as having a dual business nature (Pozzoli & Venuti 2014). On the one hand, they can be entered into to satisfy the usual economic needs of a firm; that is, they simply represent commercial transactions between parties that comprise the corporate group. Alternatively, related party transactions can also include transactions used to exploit firm resources to affect a transfer of wealth from outside investors such as minority shareholders to those who have insider interests such as controlling shareholders. Therefore, it may be argued that a firm's performance and financial position may be affected, either favourably or unfavourably, by firms entering into transactions with related parties. Thus, the disclosure of them is important to investors. It is this expected difference in the disclosure of related party transactions and the impact they may have on a firm's financial statements that also encouraged me to investigate these types of transactions[6].

Also, the current international accounting standard that governs related party transactions, IAS 24 *Related Party Disclosures*, has extensive disclosure requirements and has had numerous revisions since it was first issued in 1984 by the IASC. With each revision of the standard, additional disclosure requirements were introduced, and the definition of a related party was expanded. Furthermore, a number of research papers document the presence of related party transactions in several major corporate collapses that occurred

[5] A detailed discussion of related party transactions is provided in Chapter 2 Section 2.2.
[6] A more detailed explanation of the how related party transactions affect a firm's financial statements and the incentives to disclose them is provided in Chapter 2 Section 2.2.1

in the early 2000s (Kohlbeck & Mayhew 2004; Gordon, Henry, Louwers & Reed 2007; Bava & di Trana 2015)[7].

1.3.2 Why investigate BRIS?

My thesis is based on research conducted in the emerging economies of Brazil, Russia, India and South Africa – the BRIS countries. The BRIS countries are investigated for a number of reasons. Firstly, it is expected that each of these countries are likely to have publicly listed firms with a significant number of related party transactions, primarily on the basis of their ownership structures. For example, many of the large publicly listed firms in these countries are government or family controlled, which suggests that related party transactions are more likely to occur; however, the level and types of related party transactions and their disclosures have not been well documented in the prior literature.

Secondly, prior literature has found that a country's compliance with accounting standards and its accounting practices are influenced by the existence of a well-established capital market and the enforcement of accounting standards. These country-level factors are controlled for in my thesis since the BRIS countries all have poor corporate governance regulations, low level of enforcement and poor compliance monitoring mechanisms.

Thirdly, these markets were chosen because, to date, most studies of IFRS compliance have been performed in countries in the European Union and the Asia Pacific region (Street & Bryant 2000; Glaum et al. 2013; Morris, Susilowati & Gray 2013; Nobes 2013; Cascino & Gassen 2015) with very few studies completed in the BRIS emerging markets.

[7] A more detailed discussion of why my thesis examines the disclosure of related party transactions is provided in Chapter 2 Section 2.2.2

Finally, it is argued by Borker (2012a) that adoption of and compliance with IFRS is a high priority in the BRIS countries due to their need for foreign capital investment to sustain their high economic growth. Also, currently, each of these countries is at a different stage of IFRS adoption and implementation. It is hoped that the results of my thesis will provide some insight into how the BRIS countries disclose related party transactions (refer to Chapter 2 Section 2.3 for further discussions).

1.4 Research Question

The focus of my thesis is to identify the factors associated with the disclosure of related party transactions and, thus, compliance[8] with the accounting standards that govern this disclosure in the BRIS countries. This has motivated the following research question of my thesis:

> *RQ: To what extent do publicly listed firms in the BRIS countries disclose related party transactions by complying with the disclosure requirements of the applicable accounting standards? What are the factors associated with an improvement in compliance and disclosure over time?*

This research question is important because the results of my thesis will help accounting standard setters and researchers understand the factors associated with an improvement in a firm's compliance with the disclosure requirements of accounting standards. Specifically, it will aid in understanding the factors which influence firms in the BRIS countries to, firstly, disclose details of their related party transactions and, secondly, to

[8] Throughout this thesis, the terms compliance (with related party disclosure standards) and disclosure (of related party transactions) are used interchangeably for ease of exposition.

comply with mandatory accounting standards which govern this disclosure. In this thesis, the factors investigated include if each country has adopted IFRS; if firms become better at compliance and disclosure over time; that is, whether there is a learning effect; if they are audited by a Big 4 or 5 auditor; if they have an audit committee; if they are listed on a foreign capital market; if they have outstanding capital market debt; and their ownership concentration which is measured using five proxies including closely held shares; government control; family control; other major controlling shareholder and cross shareholding. Each of these factors is discussed in detail in Chapter 3.

Also, the findings may also provide new knowledge regarding how the mandatory adoption of IFRS and the learning effect have impacted compliance with accounting standards. If, however, compliance does not improve over time, then the successful implementation of IFRS may need to be questioned. That is, has the introduction of IFRS improved the transparency and harmonisation in financial reporting across countries and firms? Has uniformity in international financial reporting been achieved?

1.5 Methodology

To investigate the above research question, my thesis will consider the compliance by the largest 50 firms listed on the stock exchanges in each of the BRIS countries with the disclosure requirements of the applicable related party transactions standard over three years – 2001, 2006 and 2014[9]. These three years are selected for the following reasons. The year 2001 was chosen because Nobes (2001) benchmarked the local accounting standards of more than 60 countries against IAS 24 as at 31 December 2001 and that

[9] The applicable standard varied across the countries and years. Usually, a country's local GAAP were applicable until such time when IFRS were mandated. In some countries, local GAAP were the same as IFRS. If this was not the case, the applicable local GAAP were used for the disclosure index. See Section 4.7 in Chapter 4 for a detailed discussion of this issue.

provides a baseline for my thesis. The other two years were chosen as they coincide with the application dates of the standard which was substantially revised and reissued previously. For example, after undergoing a substantial revision in 2003, IAS 24 was reissued to be applicable from 1 January 2005. To give countries time to adapt to the new financial reporting requirements, the 2006 financial year was selected. Further, the year 2014 was chosen as the latest revision of IAS24 was undertaken in 2013 and was applicable from 1 July 2014. This final year was also chosen, because when I commenced my data collection, in early 2015, the latest financial information available was for the year ended 2014. (Refer to Chapter 4 Figure 4.1 for a detailed timeline and Chapter 4 Section 4.2 for a detailed discussion of why these years were chosen.

To determine each firm's compliance level with the disclosure requirements of the applicable accounting standard, and to observe if compliance has improved across the three sample years investigated in my thesis, disclosure is measured using a disclosure index (how the disclosure index was constructed is explained in Chapter 4 Section 4.4.4). This index is comprised of all the related party transaction disclosures required in the applicable related party disclosure standard in each of the three sample years – 2001, 2006, and 2014.

Compliance is measured using four disclosure proxies derived from the disclosure index and each proxy measures a different aspect of disclosure. Firstly, there is a proxy based on the total disclosure requirements across the three years, labelled ***TOTAL DISCLOSURE***; a second proxy is based on the mandated disclosures applicable in each year, labelled ***MOVING TARGET DISCLOSURE;*** a third proxy is based on the common disclosures across the three years, labelled ***COMMON DISCLOSURE***; and finally, a

proxy based on the disclosures required in 2006 and/or 2014 but not 2001, labelled ***NO TO YES DISCLOSURE***. ***TOTAL DISCLOSURE*** measures the maximum disclosure possible under IAS 24 or its equivalent standards. ***MOVING TARGET DISCLOSURE*** measures how well firms are complying with mandated related party disclosure requirements in each sample year, and thus varies across the years. ***COMMON DISCLOSURE*** measures compliance with those disclosure requirements consistently mandated in each of the three sample years; that is, a constant benchmark. ***NO TO YES DISCLOSURE*** measures if disclosures required in later years were voluntarily provided in earlier years. Figure 4.2 in Chapter 4 provides a diagrammatic presentation of how my four proxies are related.

Each firm's level of compliance with the disclosure requirements of the applicable accounting standard will be collected by hand from the notes to financial statements and the management and remuneration reports in the English-language annual reports for each year under review. For each proxy, a disclosure score will be calculated for each individual firm by dividing the number of related party transaction disclosures reported by the number of applicable required disclosures for that firm.

To test the research question of my thesis a number of hypotheses are developed in Chapter 3 Section 3.6 based on the previously mentioned firm-specific independent variables. Several multiple regressions, for each country will be performed to determine each variable's association with the level of compliance as measured by the four disclosure proxies discussed above.

1.6 Results

The descriptive results reported for each of the four proxies of disclosure indicate that the level of disclosure varies across each country, for each disclosure proxy, across the three sample years of my thesis. Overall, the results indicate that the disclosure of related party transactions improves from 2001 to 2014 for all four countries and all four disclosure proxies. Further, the results show that most sample firms disclose some information about related party transactions each year.

Brazil's average raw disclosure levels improved for each disclosure proxy over time except for ***TOTAL DISCLOSURE***, which initially slightly decreased. However, the mean raw disclosure score and percentage disclosures (raw disclosure score divided by number of applicable required disclosure items) reported a major improvement from 2006 to 2014 for all four disclosure proxies. For Russia, the overall results suggest that, across the three sample years, Russian firms' disclosure of related party transactions increased, with 2014 showing the highest level of disclosure for all four disclosure proxies. These results are consistent for both the mean raw disclosure score and percentage disclosure scores. The raw disclosure scores reported for Indian firms improved across the three sample years for each of the four disclosure proxies, with the highest scores occurring in 2014. South African firms report a major improvement in the raw disclosure score of related party transactions from 2001 to 2006 for all proxies of disclosure. One interesting result reported for Brazil and South Africa was a decline in ***MOVING TARGET DISCLOSURE*** from 2001 to 2006. This was due to the increase in required disclosures occurring at a faster rate than the actual increase in the reported raw disclosures for each firm in my sample. This situation was also evident in India from 2006 to 2014. A more detailed discussion of the descriptive results is presented in Chapter 5.

The regression results presented indicate that the determinants of compliance vary across each country and for each regression performed within each country. In Brazil, the overall disclosure of related party transactions is significantly associated with the mandatory adoption of IFRS. This result is consistent for each of the four proxies used to measure compliance. The findings also provide some evidence that having an audit committee, outstanding debt on a capital market and a controlling shareholder or government or family control are significantly associated with compliance.

The findings reported for Russia show that being audited by a Big 4 or 5 auditor is significantly positively associated with disclosure for each disclosure proxy. Additionally, the results provide some evidence that being listed on a foreign capital market and ownership concentration influence the disclosure of related party transactions. Of the five ownership concentration proxies tested, government control is positively associated with compliance and family control is significantly negatively associated with compliance for all four disclosure proxies.

In India, the findings provide some evidence that there is a significantly positive relationship between disclosure of related party transactions and the learning effect. This is particularly relevant for the ***COMMON DISCLOSURE*** proxy as it measures if disclosure of the same items improves over time. Additionally, the results in India provide some evidence that the independent variables, being listed on a foreign capital market, having outstanding debt in a capital market and the ownership concentration proxies closely held shares, government, family and other control are significantly associated with disclosure.

The results reported for South Africa indicate that the disclosure of related party transactions is significantly positively associated with the mandatory adoption of IFRS and the ownership concentration proxy, cross shareholding.

To determine the influence of a firm's country of domicile on compliance, I perform two cross-country combined regressions. The regression results suggest that the mandatory adoption of IFRS, the learning effect and the ownership concentration proxies, government control and cross shareholding are significantly related to compliance. A more detailed discussion of the regression results is given in Chapter 6.

1.7 Contributions

The findings from my thesis contribute to the existing literature in a number of ways. Firstly, my thesis examines compliance with the disclosure requirements of a mandatory accounting standard in the emerging economies of Brazil, Russia, India and South Africa (BRIS). Much of the previous literature in this area has focused on compliance with IFRS in the US and in developed European and Asian countries. It is hoped that the findings of my thesis will inform standard setters and other regulators regarding whether the introduction of IFRS has been successful in improving compliance with accounting standards in the BRIS countries and within firms in each country over time. My results indicate that in Brazil and South Africa, the mandatory adoption of IFRS significantly improved compliance and disclosure over time.

Secondly, my thesis adds to the literature on financial reporting practices of firms in BRIS countries. These emerging markets are important as they are currently experiencing high economic growth; accordingly, they have an increased need for foreign investment which

may influence their decision to adopt IFRS. I contribute to our understanding of the firm-specific factors which may influence compliance with, and implementation of, mandatory IFRS disclosure requirements. Also, my thesis will assist in determining if the firm-specific factors associated with compliance in emerging economies are similar to those in developed countries. To date, the extant literature is limited to European and Asian countries (e.g. Glaum et al. 2013, Morris et al. 2013, Nobes 2013, Verriest, Gaeremynck & Thornton 2013, and Cascino & Gassen 2015). By examining the BRIS countries, I add to the overall understanding of the firm-specific factors which assist in explaining compliance with IFRS, and those that do not, across a wide range of countries.

Finally, the findings of my thesis should provide valuable information for equity market investors. I find a significant improvement in the compliance and disclosure of related party transactions by Brazilian and South African firms after the mandatory adoption of IFRS but do not find the same results for Russia. As a result of this, capital market participants should be made aware that the introduction of IFRS may be uneven across countries, therefore, hindering comparability and interpretation of financial statements.

1.8 Structure of Thesis

The remainder of this thesis is organised as follows: Chapter 2 provides details of the background to related party transactions and the countries investigated. Chapter 3 reviews the existing literature and develops hypotheses to be tested in this thesis. Chapter 4 describes the research methodology employed in the thesis. A discussion of the descriptive statistics is provided in Chapter 5 and the results of the regressions are presented in Chapter 6. Finally, the conclusions and limitations of the thesis are discussed in Chapter 7 which also provides suggestions for future research.

CHAPTER 2: BACKGROUND TO RELATED PARTY TRANSACTIONS AND COUNTRIES INVESTIGATED

2.1 Introduction

This Chapter provides detailed background information to related party transactions and countries being investigated. Section 2.2 considers the reasons why related party transactions were chosen as the basis of my thesis. Section 2.3 discusses why the research was undertaken in the emerging economies of Brazil, Russia, India and South Africa (BRIS). In Section 2.4, a detailed analysis is provided of the historical development of accounting standards and how IFRS were adopted or adapted in each of these countries.

2.2 Nature of Related Party Transactions

The disclosure of related party transactions is governed internationally by the international accounting standard, IAS 24 *Related Party Disclosures*, issued by the IASB[10]. This standard defines related party transactions as "a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged" (IAS 24 para 9). Those considered a related party, as per IAS 24, include a firm's subsidiaries, associates, joint venture partners and parent entity, directors, major shareholders, key management personnel or associates of these parties. Essentially, they are parties who can influence an entity's decision to transact with another related party and determine the underlying economic terms of the transaction including the value of it and the terms of trade.

[10] The historical development of IAS 24 is further explained in Chapter 4 Section 4.2.

2.2.1 Why do firms engage in related party transactions?

Gordon, Henry and Palia (2004) provide two alternative views regarding why firms engage in related party transactions. One view is that these transactions are entered into in order to satisfy the underlying economic demands of an organisation, thereby improving its operating efficiency as well as to bond the related party to the firm. As a bonding mechanism, related party transactions provide a connection between the related parties. It is expected that this connection would discourage the parties from engaging in opportunistic behaviour that could negatively impact the firm's reported results. Ryngaert and Thomas (2012) further suggest that, in some instances, related party transactions may improve contractual efficiency within the firm due to the familiarity between the contracting parties. They note that "related party transactions may also mitigate holdup problems in the contracting process and facilitate investment in firm specific relationships" (p.849). Put simply, related party transactions can improve a firm's operating efficiency and reduce transaction costs.

The alternative view of related party transactions is consistent with the opportunistic view of agency theory. Agency theory proposes that, with the separation of a firm's ownership and control, there is a potential conflict of interest between managers and shareholders. This conflict arises as managers act in their own self-interest to maximise their wealth at the expense of shareholder wealth (Jensen & Meckling 1976). Gordon and Henry (2005) argue that related party transactions give rise to such conflicts of interest as the directors and executives may engage in opportunistic transactions that expropriate wealth from other stakeholders such as minority shareholders.

Gallery, Cooper and Sweeting (2008) also discuss how related party transactions can be used opportunistically by firms. They suggest that these transactions are complex commercial transactions conducted by a firm with its directors, owners, managers and affiliated firms. They therefore propose that related party transactions are of interest to investors since these transactions are not always negotiated as arm's length business contracts or under normal commercial trading terms and, hence, the transactions may not occur at fair value. This argument is further supported by Pozzoli and Venuti (2014) who describe how transactions between related parties can be undertaken using different economic terms compared to when a firm enters into a transaction with independent parties. They also suggest that related party transactions may be used to transfer wealth between related firms in order to exploit external stakeholders.

Elaborating on the above discussion, Pozzoli and Venuti (2014) identify related party transactions as having a dual business nature. First, they can be entered into in order to satisfy the usual economic needs of a firm and to improve its operating efficiency; that is, these transactions simply represent commercial transactions between parties that are part of the same corporate group. Although these transactions may be considered sound business transactions, they can also involve favourable trading terms which can improve the financial position and performance of a struggling related party. For example, Jian and Wong (2010) document that the dominant shareholders in Chinese listed firms, preparing to refinance loans, use abnormal related party sales to prop up profits to ensure their firm is not denied additional finance. This type of related party transaction has been described in the literature as *propping* (Friedman, Johnson & Mitton 2003). Its aim is to create wealth and add value to a firm to ensure its continued existence.

Second, Pozzoli and Venuti (2014) also suggest that related party transactions represent the potential to exploit a firm's resources in order to transfer wealth from outside investors such as minority shareholders to those who have insider interests such as controlling shareholders and directors. According to this view, related party transactions can be used opportunistically to expropriate firm resources away from minority shareholders, as well as distorting a firm's financial position and performance, for the benefit of controlling shareholders. An example of such behaviour is presented in Cheung, Qi, Rau and Stouraitis (2009). In this study the authors attempt to determine if the price at which assets are transferred, either purchased or sold, by Hong Kong listed firms differs if the transaction is with a related party compared to an independent third party. Their documented results show that contracts with related parties are based on values which are favourable to controlling shareholders compared to similar arm's length contracts, therefore impacting the firm's value and the interests of minority shareholders in a negative way. This kind of related party transaction is referred to in the literature as *tunnelling* (Friedman et al. 2003). Its intention is to erode the wealth of minority shareholders but allow major shareholders and a firm's executives to benefit from these transactions.

2.2.2 Why investigate related party transaction disclosures?

From the above discussion, it can be concluded that transactions between related parties may be undertaken for genuine business purposes or for self-interested opportunistic reasons. Due to the different nature of the transactions, different disclosure incentives may prevail; for example, tunnelling transactions may not be adequately disclosed. Cheung, Jing, Lu, Rau and Stouraitis (2009) found that listed Chinese firms tunnelling assets out of the business provide significantly fewer details about related party

transactions compared to related party transactions which are entered into in order to prop up under-performing firms. They argue that these firms undertake such disclosure behaviour to conceal the expropriation of resources.

On the other hand, it may be argued that firms which engage in related party transactions willingly disclose these transactions to reduce the agency costs of debt and equity. This argument suggests that managers provide detailed disclosure of related party transactions to indicate to external stakeholders that such transactions are not being used opportunistically but rather to improve performance (refer to Chapter 3 Section 3.5 for further details).

Another motive for examining related party transactions is based on studies that mention the presence of significant related party transactions in well-known corporate collapses in the US, including Enron, WorldCom, Adelphia and Tyco International in the early 2000s (Kohlbeck & Mayhew 2004; Henry, Gordon, Reed & Louwers 2012; Bava & di Trana 2015). Each of these studies discusses the role related party transactions played in the high-profile corporate collapses. In most cases, management was purported to have engaged in related party transactions that resulted in the reporting of fraudulent financial information which allowed the transfer of wealth to themselves and away from other interested parties. For example, Enron was found to be generating fraudulent revenues from transacting with related parties via special purpose entities which would not normally have been recognised, and Adelphia extended substantial loans to senior management, who were predominantly family, and guaranteed loans of related parties (Kohlbeck & Mayhew 2004). The fact that related party transactions dominated the failure of these multinational organisations draws attention to the severity of this

accounting issue and the lack of accountability and weaknesses in US reporting regulations (Gordon & Henry 2005; Gordon, Henry, Louwers & Reed 2007).

Further, Gallery et al. (2008) also detail how related party transactions have been linked to a number of major accounting scandals in Australia, including One.Tel, Harris Scarfe and HIH Insurance in the early 2000s. They note that the value of related party transactions represented more than 10% of the market capitalisation of the collapsed firms, which is considerably higher than the average for an Australian listed firm.

An additional reason for investigating related party transactions in my thesis is based on the accounting standards that govern the disclosure of these transactions; in particular, IAS 24. Street (2002) notes that IAS 24 *Related Party Disclosures* has extensive disclosure requirements and has had a number of revisions since it was first issued in 1984 by the IASC. In 1994, the standard was reformatted and reissued; in 2003, as part to the IASB's initial agenda of technical projects, the standard was substantially modified and expanded; and the most recent revision of the standard occurred in 2013 as part of the IASB's annual improvements of IFRS 2010-2012 cycle. With each revision of the standard, additional disclosure requirements were introduced, and the definition of a related party was expanded[11].

2.3 Related Party Transactions in Emerging Economies

This research will be conducted on the emerging economies of Brazil, Russia, India and South Africa (BRIS). It is well known that financial reporting and accounting practices in a country are affected by its economic, legal and cultural environment as well as the

[11] For a more detailed discussion of the development of IAS 24 see Chapter 4 Section 4.2 and Figure 4.1.

existence of a well-established capital market and the enforcement level of accounting standards (Doupnik & Salter 1995; Ball, Robin & Wu 2003; Djankov, La Porta, Lopez-de-Silanes & Shleifer 2002). All these factors are important when attempting to understand the compliance with accounting standards. The choice of BRIS as sample countries is based on the notion that while they have different legal origins, they are all classified as emerging economies, have poor corporate governance regulations, a low level of rule enforcement and poor compliance monitoring mechanisms[12].

Pizzo (2013) characterises emerging economies as those economies where "external markets are inadequate or corporate governance rules are lacking and presumably less effective" (p.312). Lopes and Walker (2008) describe Brazil as a country with "poor law enforcement, government standard setting, high state participation in the economy, most of the financing firms receive comes from insider transactions, anaemic public debt and equity markets, incentives to manipulate earnings due to close links between tax and financial reports and relaxed oversight coupled with a very volatile and unstable financial market with poor governance standards" (p.4). Bagaeva (2008) describes a very similar institutional environment in Russia. He refers to Russia as "characterised by low investor protection, poor corporate governance, high levels of corruption, low levels of law enforcement and weak enforcement mechanisms" (p.158). Nobes (2013) reiterates this by arguing that some uncertainty exists regarding how fully firms will comply with IFRS especially in countries, such as Russia, where enforcement is weak. It is these characteristics, which are also expected to exist in India and South Africa, that have prompted me to examine these countries in my thesis.

[12] Preiato, Brown and Tarca (2015) show that each of the countries examined in my thesis have an enforcement index either on or below average compared to the countries they investigate. This is the case for each sample year included in my thesis.

Additionally, these emerging markets are examined because previous studies on related party transactions have shown that country-and firm-specific factors can influence the type and amount of related party transactions disclosed by firms (Gordon, Henry & Palia 2004; Kholbeck & Mayhew 2004; Djankov et al. 2008; Jian & Wong 2010; Pizzo 2013; Pozzoli & Venuti 2014). These studies document that the disclosure of related party transactions is related to a country's institutional factors including enforcement levels of compliance with accounting standards and investor protection laws, and a firm's corporate governance and ownership structure. Each of these factors is considered to be important in the emerging markets researched in my thesis.

In my thesis, corporate ownership structure is also a motivation for examining the emerging markets of BRIS. Each of these markets consists of firms that are highly likely to have a significant number of related party transactions, primarily on the basis of their corporate ownership structures. Many of the largest publicly listed firms in these countries are government or family controlled, which suggests that related party transactions are more likely to occur; however, the level and types of related party transactions and their disclosures in these countries are not well documented. It is also anticipated that these emerging economies will have a significant number of related party transactions because, as stated by Johnson, La Porta, Lopez-de-Silanes and Shleifer (2000), related party transactions identified as transferring resources from minority shareholders to controlling shareholders – tunnelling transactions – are more likely to occur in emerging markets with generally weak law enforcement[13].

[13] For a detailed discussion about the nature of tunnelling transactions refer to Section 2.2.1

In addition to the preceding arguments, there are other reasons for examining BRIS. To date, most studies of IFRS compliance have been undertaken in countries in the European Union (Street, Gray & Bryant 1999; Street & Bryant 2000; Glaum, Schmidt, Street & Vogel 2013; Nobes 2013; Verriest, Gaeremynck & Thornton 2013; Cascino & Gassen 2015) and the Asia Pacific region (Morris, Susilowati & Gray 2013) with very few studies completed in emerging economies. This argument is reiterated in Chatterjee, Mir and Farooque (2015), who contend that most of the research performed to understand compliance practices is in developed countries and not developing countries which they consider are under researched. Also, Abd-Elsalam and Weetman (2003) note the scarcity of literature on IFRS adoption in countries viewed as emerging markets.

Furthermore, it is argued by Borker (2012a) that adoption of, and compliance with, IFRS is a high priority in these countries owing to their need for foreign capital investment to sustain their high economic growth; to reduce the cost of capital for publicly traded firms and also, because it is expected to help increase the liquidity of their capital market. Ghio and Verona (2015) also note that as these countries are "increasingly integrated in the world economy, they are becoming a central and crucial node in the global flow of goods and services" (p.122).

Finally, as the cultural values and traditions of these emerging economies vary significantly, these differences may reflect the way each country has dealt with the introduction of IFRS and the level of compliance with the standards for financial reporting purposes (Gray 1988; Williams 1999; Hope 2003; Morris & Gray 2007). Brazil and South Africa adopted IFRS in 2010 and 2005, respectively, as the basis for external financial reporting for all domestic firms whose securities are publicly traded. Russia

endorsed the use of IFRS at the end of 2011 and IFRS became mandatory in 2012 for the preparation of consolidated financial statements for all publicly listed firms, though separate firm financial statements are still prepared using Russian GAAP. India has not adopted IFRS but commenced convergence of Indian accounting standards with IFRS in 2007. It has been reported by the IFRS Foundation that, by 2014, Indian accounting standards had been substantially converged with IFRS, and hence are now effectively based on IFRS. (IFRS Foundation 2018).

In Sections 2.2 and 2.3, the reasons for undertaking research in emerging economies and the choice to examine related party transactions were explained. The following Section outlines the historical development of accounting standards in each country investigated in my thesis, culminating in the adoption of, or convergence with, IFRS as their national GAAP.

2.4 IFRS "Adoption" by Country

2.4.1 Brazil

Since the early 2000s, Brazil has seen significant development of its capital markets and in recent times, the country has also started to increase its global financial and economic integration (Rodrigues, Schmidt & dos Santos 2012). In response to this, business stakeholders recognised a demand for high-quality financial statements to meet the investment decision needs of investors and debt holders (Carvalho & Salotti 2013). This demand led to the decision by regulatory authorities in Brazil to begin the progressive convergence of Brazilian GAAP with IFRS for all publicly listed enterprises from 2008. Rodrigues et al. (2012) argue that it was anticipated that the convergence would mean an improvement in the financial reporting of Brazilian firms as increased transparency of

financial information and a reduction in the costs of accessing funds from foreign capital markets would ensue. By 2010, all Brazilian firms whose equity or debt securities were traded on a local stock exchange were required to prepare both consolidated and separate financial statements based on IFRS as these standards became mandatory for financial reporting years ending 31 December 2010 (IFRS Foundation 2017a).

The first major development of accounting standards in Brazil occurred in 1976 when the Brazilian Securities and Exchange commission was established to oversee the capital market. With the establishment of this body came the development of accounting standards and practices in Brazil that were closely aligned with the accounting model used in the US. At this time, the US accounting model was considered to be closest to international best practice (Cornacchione & Dal-Ri Murcia 2016).

Cornacchione and Dal-Ri Murcia (2016) state that, as time progressed, Brazilian accounting standards failed to keep pace with changes in international accounting practices and Brazilian GAAP became heavily influenced by tax legislation. To improve the reporting practices of Brazilian firms, the Committee of Accounting Pronouncements (CPC) was established in 2005, the first accounting standards setting body to exist in Brazil. It was formed by various accounting regulatory bodies including the Brazilian Listed Companies Association, the Accounting Federal Council and the Sao Paulo Stock Exchange, to oversee the adoption and enforcement of IFRS in Brazil and “played a very important role in the Brazilian convergence to international standards” (Cornacchione &

Dal-Ri Murcia 2016; p.177)[14]. Although convergence does not imply that a country's adoption of IFRS is exactly as issued by the IASB, Brazil's adoption of IAS 24 is identical to the one published by the IASB, which means that Brazilian GAAP is equivalent to IAS 24.

Even prior to the adoption of IFRS in 2010, a comparison of Brazilian GAAP and IAS 24 by Bae, Tan and Welker (2008), based on material in Nobes (2001), highlights no major differences between the disclosure requirements of related party transactions under Brazilian GAAP and IAS 24 in 2001. Based on this review, it is assumed that firms which produced financial statements based on Brazilian GAAP in 2001 or 2006 conformed to the requirements of IAS 24. As Brazil implemented IFRS in 2010, it is also assumed that listed Brazilian firms prepared their annual accounts in 2014 based on IAS 24 as issued by the IASB.

2.4.2 Russia

Historically, the Russian financial reporting system was regulated by the state, and not by professional accounting bodies unlike many other jurisdictions around the world where the professional bodies predominate. This is primarily due to the main external users of Russian firms' financial statements being government bodies including taxation authorities (IFRS Foundation 2016b). With the growing importance of globalisation on the Russian economy, IFRS were advocated for use in Russia at the end of 2011 after the adoption of Federal Law No. 208-FZ on Consolidated Financial Statements in 2010 (EY

[14] The role of the CPC is to translate IFRS to Portuguese and to modify IFRS to meet the specific economic conditions and corporate law conditions in Brazil. This standard setting body is also responsible for issuing exposure drafts of the translated standards for review by the financial community and for the publication of technical pronouncements on accounting disclosure and procedures.

2014). This federal law mandated the use of IFRS for the preparation of consolidated financial statements of all Russian firms with listed securities on any Russian stock exchange from 2012[15]. Further, the Russian government decreed that certain state-owned firms were also required to present consolidated accounts based on IFRS from 2012 (IFRS Foundation 2016b). One exception to this requirement are firms that previously reported based on US GAAP. These firms had until 2015 to apply IFRS to their annual accounts.

Bagaeva (2008) notes that IFRS adoption in Russia was slow due to a number of issues which were primarily concerned with understanding the standards. He argues that language problems relating to the translation of IFRS into Russian and the absence of specialist advisors and educators on the contents of IFRS were the main concerns hampering the successful implementation of IFRS in Russia. He further suggests that due to the additional costs of preparing financial information in accordance with IFRS and the lack of familiarity and knowledge of the standards, many Russian firms were discouraged from preparing financial statements consistent with IFRS, especially if they had no foreign investors. However, he also recognises Russia's need to attract foreign investment in order to maintain its importance in the world economy. One way to achieve this is to prepare financial information based on IFRS as this will provide credibility to the information reported.

A comparison of Russian GAAP with IAS 24 in 2001, as reported by Nobes (2001) and reviewed in Bae et al. (2008), reveals two differences between the two standards. Firstly, in Russia, related party disclosures were only required by joint stock companies and

[15] Note, however, that separate firm financial statements were still required to be prepared using Russian GAAP.

secondly the definition of a related party was narrower in Russian GAAP compared to IAS 24. As all the Russian firms in my sample are joint stock companies, it will be assumed that if a firm prepared their financial statements using Russian GAAP in 2001 or 2006, their financial statements were produced in accordance with IAS 24. Therefore, the disclosure requirements of the standard were applicable to these firms. In addition, as Russian listed firms and state-owned firms were required to present annual accounts based on IFRS since 2012, it will also be assumed that these firms' accounts were presented according to IFRS in 2014.

2.4.3 India

To date, India is yet to adopt IFRS as issued by the IASB. Currently, the annual accounts of Indian firms are prepared based on Indian accounting standards, which are substantially converged with, but not equivalent to IFRS as issued by the IASB. The convergence process commenced in 2007 (IFRS Foundation 2017b). The convergence of Indian accounting standards with IFRS does not mean that India has *adopted* IFRS; rather it is a process suggesting that, over time, Indian accounting standards will be compatible to IFRS but with some differences.

Indian accounting standards are developed and promulgated by the Accounting Standards Board of the Institute of Chartered Accountant in India (ICAI). This body only commenced formulating mandatory accounting standards in 1991, the same time the Government of India's economic policy focus became simpler, more transparent and liberal in relation to investment and industry policies (Chatterjee et al. 2015). From 1991, the Indian government commenced decreasing its involvement in the business sector

which allowed Indian capital markets to be opened to foreign investment[16]. As a result, multinational firms began to have a major presence in India making it important that the Indian accounting procedures be compatible with accepted international accounting systems (Perumpral, Evans, Agarwal & Amenkhienan 2009).

Originally, the accounting system of India was based on its Firms Act of 1956 which had predominately the same accounting requirements as the UK's Companies Act of 1948 (Verma & Gray 2009). Over time, this 1956 Act has been amended several times to allow for the changing economic conditions of India. The most notable modifications occurred in the late 1960s and early 1970s. Regulations were introduced which required Indian firms to maintain cost accounts which were to be audited and disclosure rules were expanded (Perumpral et al. 2009). Many Indian organisations have influenced the development of the Indian accounting system, including the Indian Accounting Association, the Indian Council of Social Science Research and, as mentioned earlier, the ICAI of India which publishes accounting standards for use by Indian corporations.

Prior to the decision by the ICAI in 2007 to converge Indian accounting standards with IFRS, 35 accounting standards were issued by the Accounting Standards Board which were known as Indian Accounting Standards (AS). Since the decision by the ICAI to converge India's accounting standards with IFRS, 41 Indian Accounting Standards (Ind AS) that are equivalent to IFRS have been issued. Initially, the ICAI and the Indian government had proposed that these revised standards would be applicable for accounting periods starting from 1 April 2011; however, this was deferred due to several

[16] Since July 1991, foreign investment approvals have risen sharply in India. Much of this investment has come from the US and it has been reported that foreign investment of over US$6.7b has been approved since this date (Chatterjee et al. 2015)

implementation issues which predominately related to taxation regulations (IFRS Foundation 2017b). In 2015, a new progressive implementation phase was announced by the Ministry of Corporate Affairs, which was based on the net worth of a firm and its listing status. Initially, the implementation required the mandatory adoption of Ind AS from 1 April 2016 for all firms with a net worth equal to or exceeding 500 Crore and, subsequently, all listed firms and unlisted firms with a net worth not less than 250 Crore were to adopt Ind AS from 1 April 2017 (PwC 2017; ICAI 2018).

As the convergence of Indian accounting standards to IFRS did not commence until 2007, it was assumed that the accounting standard applicable to all Indian sample firms in 2001 and 2006 was AS 18 *Related Party Disclosures*, unless stated otherwise in their annual reports. Ghio & Verona (2015) note that as part of the convergence process the ICAI ensures that Indian GAAP are in harmony with IFRS accordingly, as many of the previously issued Indian Accounting Standards (AS), including AS 18, were converged with IFRS by 2010, in anticipation of mandatory adoption from 1st April 2011, it will be presumed that Indian firms prepared their financial statements as per IAS 24 by 2014[17].

2.4.4 South Africa

South Africa was one of the countries which adopted IFRS in 2005 (IFRS Foundation 2016c). This meant that IAS 24 was applicable to publicly listed South African firms from 1 January 2005 as the Johannesburg Stock Exchange Listing Requirements required

[17] A convergence with IFRS, however, does not mean that a country adopts IFRS exactly as issued by the IASB. With regards to India's adoption of IAS 24, the major difference between Ind AS 24 and IAS 24 is that Ind AS 24 has an additional clause which exempts Indian companies from disclosing related party transactions if it conflicts with confidentiality requirements of a law or regulation. None of the firms in my sample exercised this clause when reporting related party transactions. All other differences are minor; for example, a broader definition of who is a related party is provided in IAS 24 and a more detailed explanation of the meaning of aggregation of similar items is included in Ind AS 24. It was considered that both of these differences were minor and thus did not make a significant difference to the data collected for each Indian firm.

all listed firms to use IFRS from this date. Prior to the adoption of IFRS in 2005, South African reporting requirements were based on Statements of Generally Accepted Accounting Practice as issued by the Accounting Practices Board of South Africa (APB) whose function was to promulgate and issue South African accounting standards. The APB was formed by the South African Institute of Chartered Accountants (SAICA) along with other accounting regulatory bodies in 1973 with SAICA acting as a technical advisor to the APB until 2011 when it was replaced by the Financial Reporting Standards Council. In 1995, the APB decided to harmonise SA GAAP with IFRS without change and from 2005, all firms in South Africa were required to prepare their financial statements using SA GAAP; that is, IFRS (IFRS Foundation 2016c).

As reported by Bae et al. (2008) based on Nobes (2001), the South African accounting standard on related party transactions was substantially the same as IAS 24 in 2001; that is, before South Africa adopted IFRS in 2005. Accordingly, it is assumed that all South African firms prepare their annual financial statements in accordance with IAS 24 in each sample year of my thesis: 2001, 2006 and 2014.

2.4.5 Summary of IFRS adoption in BRIS

Based on the discussion above, it is noted that during the sample years covered in my thesis, each of the emerging economies examined has “adopted” IFRS for the preparation of consolidated financial statements of listed firms in different years, albeit in slightly different ways. Brazil adopted IFRS in 2010, Russia made IFRS mandatory in 2012 for consolidated accounts, India has substantially converged all Indian accounting standards with IFRS by 2014, but has not formally adopted IFRS, and South Africa adopted IFRS in 2005. By 2014, the last sample year of my thesis, it is assumed that all countries were

preparing their annual financial reports using IFRS or its equivalent and, therefore, the disclosure of related party transactions was governed by IAS 24. Table 2.1 summarises the applicable accounting standards in each year for each country. Chapter 4 Section 4.7 provides a more detailed discussion of the choice of accounting standard used by each firm in my sample to prepare their financial statements for the three years examined in my thesis. It must be acknowledged that although each country now uses IFRS or IFRS-equivalent standards, what has actually been endorsed by each country is a national version of IFRS which is not necessarily an exact replica of the standards as published by the IASB (Nobes & Zeff 2008)[18].

Table 2.1: Summary of Applicable Accounting Standards

	Year 2001	Year 2006	Year 2014
Brazil	Brazilian GAAP or US GAAP[19]	Brazilian GAAP or US GAAP	IAS 24
Russia	IAS 24, Russian GAAP or US GAAP	IAS 24, Russian GAAP or US GAAP	IAS 24
India	Indian accounting standard AS 18 or US GAAP	Indian accounting standard AS 18	Indian accounting standard Ind AS 24
South Africa	South African GAAP	IAS 24	IAS 24

2.5 Summary of the Chapter

This Chapter has detailed the reasons why related party transactions were investigated and why the BRIS countries were considered as the basis of my research. The following

[18] A detailed description of how this impacts the collection of data for my thesis is provided in Chapter 4 Section 4.7.5

[19] A number of firms in Brazil, Russia and India prepared their financial statements based on US GAAP. To ensure that this did not impact my regression results each country's regressions were re-run excluding these firms. This made no substantive difference to the results reported. A more detailed discussion of the results is presented in Chapter 6 Section 6.7

Chapter discusses the reasons why non-compliance with published accounting standards may be expected to occur and reviews the existing disclosure compliance literature. This literature can be divided into two distinct categories: voluntary disclosure studies and mandatory disclosure studies. Chapter 3 also provides details of the hypotheses developed to test the research question in my thesis.

CHAPTER 3: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

3.1 Introduction

This thesis aims to ascertain the determinants and level of compliance with the disclosure requirements of IAS 24 *Related Party Disclosures* by firms whose securities are publicly listed in the four emerging economies of Brazil, Russia, India and South Africa (BRIS). To help achieve that objective, this Chapter provides a review of the extant literature on compliance with accounting standards[20]. Firstly, a discussion of why there is an expectation of non-compliance with disclosure requirements of IFRS is provided in Section 3.2. Section 3.3 reviews compliance studies relating to the voluntary adoption of accounting standards, which is followed by a review of the research undertaken to explain compliance with mandatory disclosures of accounting standards in Section 3.4. In Section 3.5, the demand for disclosure is considered and reviewed. Section 3.6 presents the development of the hypotheses investigated in my thesis.

3.2 Non-Compliance with IFRS Disclosure Requirements

As previously mentioned in Chapter 1 Section 1.2, one of the principle objectives of the IASB is the development of a set of high-quality accounting standards, expected to be adopted for financial reporting by firms worldwide (IFRS Foundation 2016a). The IASB contends that global adoption of these standards will result in a significant enhancement

[20] The accounting standards discussed in this thesis are those issued by the IASB or its predecessor the IASC. The standards issued by the IASC until 2001, when the IASB was established, are known as International Accounting Standards (IAS). Following the creation of the IASB, all standards published by the board are known as International Financial Reporting Standards (IFRS). For convenience, in this thesis, I will refer to both IAS and IFRS as international accounting standards.

in the quality of financial information reported by firms and improve the comparability, consistency and uniformity of global accounting practice (IFRS Foundation 2016a).

However, many accounting researchers have expressed concerns that the mandatory adoption of IFRS may not translate to improving the quality of financial information nor to eliminating international differences in global accounting practices and they expect non-compliance to occur; that is, they anticipate firms will fail to fully comply with the requirements of accounting standards. Ball (2006) suggests that there are significant political and economic barriers that influence a country's financial reporting practices irrespective of the accounting standards adopted. He claims that because these economic and political factors remain local, regardless of whether international accounting standards are adopted or not, international differences in accounting practices will persist. One such factor is enforcement of these accounting standards. Ball (2006) notes that there is currently no global enforcement of these standards, so it is up to domestic regulators to oversee enforcement, which could vary significantly across countries. Thus, local regulation may hamper the successful implementation of IFRS across different countries, leading to non-compliance.

This argument is further supported by Nobes (2013) who points out that the monitoring of compliance with accounting standards and audit quality are country-specific, as these matters are considered from a national perspective rather than an international one. He argues that if overseeing accounting standards use and enforcement are weak, and auditors are poorly monitored in a particular country, then inadequate compliance with accounting standards could be expected.

Pope and McLeay (2011) similarly note that the responsibility of monitoring compliance with, and enforcement of, accounting standards is conducted by national regulators in many countries. This implies that, if the strength and quality of enforcement and oversight bodies varies between countries, it may encourage non-compliance. They argue the need for global regulatory enforcement of IFRS to ensure consistent application of standards across jurisdictions if the elimination of international differences in financial reporting is to be achieved.

In addition to discussing how low levels of enforcement may lead to a lack of compliance with IFRS, Pope and McLeay (2011) also consider management's incentives for non-compliance with the disclosure requirements of accounting standards. They suggest that although a firm's management alleges it is complying with IFRS, in reality, it may be "doing something different perhaps for private rent-seeking reasons or to privilege one group of corporate stakeholders (e.g. family block-holders) at the expense of another stakeholder group (e.g. creditors)" (Pope & McLeay 2011; p.235). This argument is supported by Goh, Joos and Soonawalla (2010). Their study examines compliance by a group of French firms with the disclosure requirements of IFRS 2 *Share Based Payment* and reports considerable diversity in compliance. Specifically, the results suggest that as CEO share ownership increases, the quality of disclosures decreases, and if large blocks of shares are owned by family groups disclosure is lower. These findings point to non-compliance with IFRS occurring as a consequence of firm's chosen ownership structure.

Further evidence why non-compliance with IFRS may occur, even after mandatory adoption of IFRS, is provided by Nobes (2006) who identifies a number of "motives" and "opportunities" for international differences to continue after IFRS adoption. He asserts

that a number of country-specific factors may impact the level of compliance with mandated IFRS because, in some instances, certain traditions remain relevant regardless of the accounting standards adopted by a country. These factors include legal, taxation and financing systems, enforcement systems, cultural values and the persistence of pre-IFRS national accounting practices. Glaum, Schmidt, Street and Vogel (2003) analyse compliance with the disclosure requirements of IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets* and report significant non-compliance to support Nobes' proposition. They find that the determinants of compliance are both firm- and country-specific, illustrating that prior accounting practices may continue to influence current reporting methods despite the use of mandated IFRS. In particular, Glaum et al. (2013) identify how strongly accounting standards are enforced and the size of a country's capital market impact the level of compliance with IFRS.

At the present time, there are two categories of studies that investigate compliance with the disclosure requirements of international accounting standards. Firstly, studies which were undertaken during periods when the IAS and IFRS were adopted voluntarily, where the standards were still being developed and revised; and, secondly, studies which were undertaken subsequent to many countries mandatorily adopting IFRS from 2005[21].

3.3 Compliance Studies of Voluntarily Adopted International Accounting Standards

Numerous studies report on the extent of firms' adherence with internationally recognised accounting standards – both IFRS and US GAAP. These papers relate to periods when

[21] The mandatory adoption of IFRS by the countries in the European Union and by other countries, including Australia, Hong Kong, and South Africa commenced on 1 January 2005.

voluntary adoption of internationally recognised standards occurred; that is, usually before 2005. They highlight that, although firms purport to comply with the reporting requirements of the standards, significant non-compliance occurs. Most of these studies have been performed in countries in the European Union and the Asia Pacific region. One such study, Street, Bryant and Gray (1999) investigates compliance in the financial statements of 49 large firms from a diverse range of countries with the accounting policies and disclosure requirements of a number of IAS. They conclude that although firms claim compliance with IAS, they comply on a selective basis, and whilst auditors assert compliance with the standards in the financial statements, the study reveals significant non-compliance.

Further evidence of non-compliance can be found in Street and Bryant (2000). This study examines whether differences exist between foreign firms listed in the US, foreign firms that have US filings, and those foreign firms with no US listing or filings in relation to firstly, the extent of compliance with the disclosure requirements of IAS and secondly to the level of disclosure reported in the 1998 financial statements of 82 such firms. The results suggest that although the firms examined in the study report compliance with the disclosure requirements of IAS, substantial non-compliance is evident, specifically for firms with no US listings or US filings.

Focusing on the specific non-compliance issues identified in the previously discussed research paper, Street and Gray (2001) address the level of compliance among 279 firms, which claim to comply with IAS in 1998. The study reports that various firm-specific characteristics are associated with the degree of compliance with IAS. They conclude that

compliance improves if a firm is listed on a US stock exchange, is in the commerce and transportation industry, or is a public firm in Switzerland or China.

Additionally, Glaum and Street (2003) investigate if the variation in compliance levels of firms listed on Germany's New Market[22] can be explained by whether they prepare financial statements based on IAS or US GAAP. The study reviews the year 2000 annual reports of a sample of 200 firms, 100 which apply IAS and 100 which apply US GAAP to determine compliance with a number of accounting standards. They report compliance levels between 41.6% and 100%, with an average of 83.7%. Their findings also suggest that compliance is significantly lower for firms using IAS compared to those firms using US GAAP. Further, compliance is positively related to being listed in the US, being audited by a Big 5 auditor and if the audit opinion references the International Standards of Auditing.

Finally, Hodgdon, Tondkar, Harless and Adhikari (2008) consider whether financial analysts' earnings forecast errors are influenced by the level of voluntary compliance with the disclosure requirements of IAS. Their research is based on the 1999 and 2000 annual reports of 89 non-US firms which claim to comply with IAS. The results indicate considerable variation in the disclosure compliance levels of these firms and they find approximately only 68% of the required disclosures are actually included in the financial statements. They also provide empirical evidence of a negative association between compliance with the disclosure requirements of IFRS and earnings forecast errors. In addition, their findings imply that adherence to the financial disclosure requirements of

[22] The German New Market (Neuer Markt) is now a defunct segment of the Frankfurt Stock Exchange. Firms listed on it were required to use either US GAAP or IAS to prepare their annual financial statements.

IFRS improve the earnings predictions made by analysts and also reduces information asymmetry.

It is important to discuss voluntary disclosure compliance studies because, although it is anticipated that firms who voluntarily adopt IFRS will have high levels of compliance, firms may still have incentives not to publicly disclose all relevant financial information. Healy and Palepu (2001) suggest that these incentives include the costs associated with collecting and reporting information, the desire to withhold potentially sensitive information that may harm a firm's reputation or its managements, the threat of litigation, and the impact on firm value with the release of good and/or bad news to the capital market (Bushman & Piotroski 2006; Leuz & Wysocki 2008; Kothari, Shu & Wysocki 2009; Glaum et al. 2013). These are also valid incentives in mandatory disclosure compliance studies.

3.4 Compliance Studies of Mandatory IFRS Adoption

More recently, several studies have been undertaken that consider compliance with mandated accounting disclosure requirements in IFRS. These studies also present evidence of significant non-compliance with IFRS disclosure requirements. Al-Shammarie, Brown and Tarca (2008) investigate the extent of compliance with IAS by firms in the six Gulf Co-operation Council (GCC) states during the period 1996-2002. Although this research covered years prior to the IASB promoting the mandatory adoption of IAS globally, the GCC had progressively made IAS mandatory for all or selected firms in their member states since 1986. As such, the authors decided the GCC would be an appropriate setting to examine compliance with mandatory accounting standards in countries considered early adopters. They report that compliance

progressively improves over time; however, the level of compliance across the six-member states varies considerably. As noted, compliance increases for the sample of 137 firms over the period of the research, ranging from 68% in 1996 to 82% in 2002, but some non-compliance remains.

Carlin and Finch (2010) also provide evidence of a lack of compliance with the goodwill accounting disclosure requirements of AASB 136 *Impairment of Assets*. The paper examines the level of goodwill reporting disclosure by a sample of 50 large Australian listed firms in 2006 and 2007. The authors report a high level of non-compliance with the disclosure requirements of the standard. Following on from this study, Carlin and Finch (2011) investigate the level of compliance by 200 publicly listed Australian firms with the goodwill impairment testing disclosures required by the same standard. The results of this study also show systematic non-compliance with these disclosure requirements, substantiating the authors' earlier findings.

In another study, Glaum et al. (2013) analyse the level of compliance with the mandatory disclosures required by two IFRS standards, IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*. They explore the compliance of 357 publicly listed firms in 17 European countries with the disclosure requirements of the two standards using both firm- and country-specific indicators that are expected to influence a firm's level of disclosure. Their results provide significant evidence of non-compliance with the disclosure requirements of both standards and indicate that both firm- and country-specific factors affect compliance both individually and jointly.

At the firm-level, Glaum et al. (2013) show that the existence of an audit committee, the firm's equity composition, the type of auditor, industry, goodwill level and if voluntary IFRS adoption occurred prior to 2005 affect compliance with both standards' reporting requirements. At the country-level, the study examines whether a country's cultural values and traditions, the divergence between IFRS and national GAAP, the size of its stock market and the level of IFRS enforcement, influence compliance, and conclude that the latter two – stock market size and IFRS enforcement – are important determinants of compliance.

Using a sample of 223 firms from 15 European countries, Verriest, Gaeremynck and Thornton (2013) explore the association between corporate governance and compliance with IFRS disclosure requirements for six standards, which were previously identified as requiring increased disclosures as compared to prior national GAAP. Their findings indicate that firms with stronger governance comply better with IFRS and have higher levels of disclosure than weak governance firms. The results of the study also document that more than 50% of the sample did not comply with at least one of the 15 mandatory disclosure items examined.

Examining the role firm and country characteristics play in explaining the level of compliance with the disclosure requirements of IFRS 3 *Business Combinations* on listed European Union firms from 17 countries, Lucas and Lourenco (2014) report that both characteristics are important determinants of compliance. Specifically, the results suggest that firms from common law countries have higher compliance levels than firms located in French and German civil law countries. Also, their findings confirm that return on assets is positively associated with compliance for firms from common law countries and

German civil law countries, while leverage explains the level of compliance for firms from French civil law countries.

Another published research paper that investigates compliance with the disclosure and measurement requirements of IFRS is Cascino and Gassen (2015). The paper sets out to determine if mandatory IFRS use improves the cross-country comparability of financial accounting information. One set of tests undertaken examines the firm and country factors that determine accounting disclosure and measurement compliance of 153 Italian and 136 German firms in relation to several accounting standards. Overall, the results reported show that measurement compliance is high for both countries for most standards and it is greater than disclosure compliance in each country. Specifically, in relation to disclosure compliance, they find significantly low disclosure compliance both in Italian and German firms although this varies across the standards investigated. They also provide evidence that the following firm-specific factors significantly influence disclosure compliance; type of auditor, firm size and profitability, level of government ownership and the independence of the board members.

In another recent study, Davalle, Rizzato and Buso (2016) analyse compliance in the 2010 annual reports of 189 Italian listed firms, with the mandatory disclosure requirements for intangible assets as required by IFRS 3 *Business Combination*, IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. They use four disclosure index methods to measure disclosure: a weighted and unweighted disclosure index[23] and a partial and non-partial compliance index[24]. Overall, the findings reveal a low level of compliance with the

[23] A weighted index assigns a higher score to a disclosure item that is considered more important than other items when measuring overall disclosure to ensure that firms benefit from disclosing the item.
[24] A non-partial compliance index ignores a disclosure item that is not relevant or necessary when measuring overall disclosure to ensure that a firm is not penalised for non-disclosure.

standards reviewed for each of the four disclosure indexes measured; however, the compliance score is different for each index. Also, the independent variables that explain compliance vary in significance depending on which disclosure method is adopted. Finally, only one variable impacts compliance with mandatory intangible asset disclosure across all four indexes: the percentage weight of the financial costs on revenues.

In summary, the compliance studies discussed above, both those that investigate compliance with voluntary (Section 3.3) and mandatory (Section 3.4) international accounting standards, find substantial non-compliance with the disclosure requirements of the standards examined. As discussed in Chapter 1 Section 1.3 such non-compliance is one factor that has motivated me to investigate this issue further in relation to related party transactions.

3.5 Demand for Disclosure

Corporate disclosure and financial reporting are considered communication tools used by a firm's management to provide information to external stakeholders, such as shareholders and debtholders, to make informed investment decisions (Healy & Palepu 2001). External investors demand such information to mitigate the effects of information asymmetry and minimise the conflicts of interest that result from the separation of management and owners. These issues arise as the interests of management do not necessarily coincide with those of external parties, as each aims to maximise their own wealth (Jensen & Meckling 1976). This view of financial information disclosure is based on agency theory which can be used to develop hypotheses about incentives for firms to

comply with the disclosure requirements of accounting standards[25] (Hossain 1995; Healy & Palepu 2001; Glaum et al. 2013). These studies note that the agency relationship that occurs when a firm's management control and its ownership are separated, give rise to agency costs which are generally borne by the managers. To minimise these costs, managers are motivated to provide financial information. They also suggest that to reduce the costs associated with information asymmetry firms willingly disclose financial information.

Although agency theory was first developed for a setting where separation exists between corporate management and outside equity holders leading to information asymmetry between them and agency problems, the theory can be readily adapted to other situations where agency conflicts arise within a firm.

As previously discussed in Sections 3.3 and 3.4, a large number of studies have examined the determinants of disclosure under both voluntary and mandatory disclosure regimes (Street et al. 1999; Street & Gray 2001; Glaum & Street 2003; Hodgdon et al. 2008; Carlin & Finch 2010; Glaum et al. 2013; Verriest et al. 2013; Cascino & Gassen 2015). The findings of these studies suggest that a number of firm-specific and country-specific characteristics are associated with disclosure levels. The firm-specific characteristics are consistent with agency theory and include firm size, level of debt, foreign listing status, ownership concentration, corporate governance, type of auditor, and profitability.

[25] Other incentives which motivate firms to comply with the disclosure requirements of accounting standards have been discussed in Verrecchia (1983), Hughes (1986), Skinner (1994), and Armitage and Marston (2008). These incentives include firms readily providing more "good news" financial information than "bad news", firms provide greater disclosure to promote their willingness to reveal extensive information about their activities, firms disclosing greater information to avoid litigation and when the benefits of disclosure outweigh the costs.

Country-specific characteristics associated with disclosure have their origins in the work of La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997, 1998), which focusses on macro influences rather than firm-level characteristics. Macro influences include country of domicile, legal system and level of rule enforcement. The results reported from studies which investigate the relationship between these firm- and country-specific factors and compliance with the disclosure and measurement requirements of IFRS show considerable variation, and so, each is used to develop the hypotheses to be tested in this thesis.

3.6 Hypothesis Development

This Section provides a detailed discussion of the firm specific characteristics that influence compliance with the disclosure requirements of IFRS as provided in prior research. From each factor considered, a hypothesis to be tested is developed.

3.6.1 Adoption of IFRS and learning effect

Adoption of IFRS

More than a decade ago, global financial reporting saw the most influential and innovative accounting rule change with the adoption of IFRS in over 100 countries. The IASB has stated that the global adoption of one set of internationally recognised accounting standards will lead to a number of benefits to adopting firms and countries including: i) a significant improvement in the quality of reported financial information; ii) enhanced comparability of financial reports; and, iii) lower costs of capital.

Numerous studies have been undertaken since 2005, the year when many countries around the world made adoption of IFRS mandatory. Much of this research has centred

around the expected benefits of IFRS adoption mentioned previously. In relation to the improvement in the quality of reported financial information, the IASB has stated that the development of high-quality accounting standards such as IFRS should translate into high quality financial reporting by adopting firms. Landsman, Maydew and Thornock (2012) find that, after the mandatory adoption of IFRS in 16 countries, the information content of earnings announcements increases, suggesting that the quality of accounting information improves after the adoption of IFRS. These results are supported by Horton, Serafeim and Serafeim (2013) who report a significant improvement in the forecast accuracy of analysts after the adoption of IFRS which they suggest relates to the improved quality of financial information after mandatory IFRS adoption.

Another important benefit of the adoption of IFRS is the increased international comparability of financial reports. The proponents of IFRS contend that the use of IFRS will introduce more uniformity to accounting practices adopted by companies worldwide. Several studies have shown that comparability of financial information improves after the mandatory adoption of IFRS. Cascino and Gassen (2015) analyse if cross-country comparability of financial information increases with the mandatory adoption of IFRS in 29 European countries. They conclude that cross-country comparability improves if compliance with accounting standards is maintained. Further evidence of greater comparability after the adoption of IFRS is detailed in Barth, Landsman, Lang and Williams (2012). They find a significant improvement in the comparability of accounting amounts reported by firms using US GAAP matched with firms applying IFRS rather than their local GAAP. Further, Yip and Young (2012) conclude that when comparing the financial information of comparable firms in different countries, comparability increases after the mandatory adoption of IFRS.

One more advantage that results from IFRS adoption relates to the operation of capital markets. Healy and Palepu (2001) maintain that if IFRS adoption means more comparable and transparent financial reports, the investment risk for investors decreases which may lead to a reduction in firms' cost of capital. Many of the empirical studies investigating the benefits of IFRS adoption on capital markets focus on the cross-country flows of capital. These studies discuss how IFRS adoption matters to foreign investors because they perceive financial statements prepared using IFRS as being of higher quality and they are more familiar with the standards thus are able to more easily interpret the financial information provided to make informed investment decisions (Khurna & Michas 2011; Florou & Pope 2012; Yu & Wahid 2014).

Borker (2012a) proposes that emerging economies such as Brazil, Russia, India and South Africa (those examined in this thesis) require foreign capital investments to sustain their high economic growth and minimise their cost of capital. Therefore, it is suggested that these countries will likely benefit from the improved quality and comparability of financial reports prepared using IFRS[26]. Therefore, it is expected that firms domiciled in these countries requiring foreign capital investment will improve their compliance with accounting standards after the mandatory adoption of IFRS.

In addition, it is argued that the actual adoption of IFRS will produce improved disclosure of related party transactions. This is the "standards alone" perspective, introduced in Dinh, Kang, Morris and Schultz (2018). With the "standards alone" perspective, the

[26] Carvalho and Salotti (2013) note that since the early 1990s, Brazil's "stock exchange has boomed, inflation has been controlled, and foreign direct investment has been coming in ever-higher volumes" (p.235). Bagaeva (2008) discusses how "the use of IFRS in Russia will propel enhanced international investment in Russia" (p.158). Perumpral, Evans, Agarwal and Amenkhienan (2009) argue that "the liberalisation of the Indian economy since 1991 has exposed Indian firms to foreign competition and foreign investment" (p.106).

superiority of IFRS over local GAAP means that the change from local GAAP to IFRS will create improvements in observed practices due solely to the unbiased application of the new standards themselves, with no need for reliance on opportunistic or other economically motivated actions by managers. Accordingly, a positive association between IFRS adoption and compliance with accounting standards is expected under both economic and standards alone perspectives. Therefore, the first hypothesis of this thesis is stated as:

> *H1a: The level of related party transaction disclosures will improve after the mandatory adoption of IFRS in BRIS countries.*

Learning effect

Another expectation that may eventuate when firms prepare their financial information based on promulgated accounting standards is what I call a learning effect. This expectation is based on the notion that a firm's compliance with accounting standards improves over time for two reasons. Firstly, when firms continue to use the same accounting standards over several years, they become better at complying with the standard owing to an increased understanding of its requirements. Secondly, it may be argued that the longer the same disclosures are reported by firms, due to continued disclosure and reporting, the better they become at disclosing the items.

In relation to IFRS, or any local GAAP, it is suggested that as a result of firms complying with the standard for a number of years, their compliance levels will improve significantly simply due to the length of time they use the standard regardless of the frequency with which it is revised. It is argued that firms which continue to disclose related party transactions over numerous years become better at disclosing them. Based on this

discussion, it is anticipated that compliance with the disclosure requirements of accounting standards will improve over time due to the learning effect. Thus, the following hypothesis is developed:

H1b: Compliance with the disclosure requirements of Related Party Disclosure standards improves over time due to a learning effect.

3.6.2 Auditor

Consistent with agency theory, managers may employ high-quality auditors to improve the credibility of a firm's financial statements, and external stakeholders will demand such auditing. Company law in most countries requires that company financial statements be audited. Generally, earlier studies have suggested that Big 4 or 5[27] auditors provide higher quality audits and demand increased level of disclosures from firms as they have a strong incentive to ensure their reputation is upheld (De Angelo 1981; Chalmers & Godfrey 2004). Further, larger audit firms have the resources and a greater capacity to invest in training and sophisticated audit systems resulting in better quality audits (De Angelo 1981; Chalmers & Godfrey 2004). Gordon, Henry, Louwers and Reed (2007) suggest that numerous challenges exist when attempting to audit related party transactions. Firstly, identifying the existence of the transactions may be difficult because in some instances related party transactions are not recognised in the accounts as they may not involve the exchange of cash and secondly auditors often rely on management to provide details of the transactions. It is expected that larger audit firms will be able to overcome these issues more easily than smaller audit firms.

[27] As a result of the failure of Arthur Andersen, the number of large audit firms has reduced from Big 5 to Big 4 over the years covered by this thesis.

Consistent with the auditor reputation argument, prior studies find a positive association between the level of corporate disclosures and the type of auditor. Street and Gray (2001), as well as Street and Bryant (2000) report results of a significant relationship between compliance with voluntary disclosure requirements and being audited by a Big 4 or 5 audit firm. A Brazilian study by Santos, Ponte and Mapurunga (2014) shows a significant positive impact of Big 4 auditors on compliance with IFRS. Considering the results from this literature, it can be argued that the type of auditor influences the extent of compliance with the disclosure requirements of accounting standards. The following hypothesis is therefore proposed:

> *H2: Compliance with the disclosure requirements of Related Party Disclosure standards is higher when a firm's auditor is a Big 4/5 audit firm.*

3.6.3 Audit committee

The establishment of an audit committee, an internal corporate governance technique, is one-way firms mitigate agency costs, as it is used as a mechanism to monitor a firm's financial accounting system to ensure that reported financial information is not manipulated but is reliable (Chaghadari & Shukor 2011). As previously stated in Chapter 2 Section 2.2.1, related party transactions can be viewed as opportunistic transactions undertaken by management to transfer wealth from outside stakeholders to themselves leading to conflicts of interest. To reduce these conflicts and minimise the opportunistic behaviour, firms implement corporate governance measures such as establishing an audit committee.

Previous literature has presented varying results on the relationship between a firm's corporate governance and the quality of financial reporting. There is weak support that

firms with strong governance participate in a reduced amount of earnings management (Larcker, Richardson & Tuna 2007). Further, the findings of a study conducted in Australia by Goodwin, Ahmed and Heaney (2009) show that the type of corporate governance techniques had an impact on the managerial forecast errors after the adoption of IFRS, usually forecast errors were lower for firms with stronger governance.

The relationship between a firm's corporate governance and its compliance with IFRS is examined by Verriest et al. (2013). Using a large sample of European firms, they investigate how corporate governance is associated with IFRS compliance and disclosure focusing on six standards, which were previously identified as requiring increased disclosures compared to previous national GAAP. The results indicate that stronger governance is related to higher quality disclosure and better compliance with IFRS.

Finally, Klein (2002) investigates how corporate governance is associated with earnings management in a sample of 687 US listed firms. This study specifically considers the existence of an audit committee as a measure of corporate governance and finds a positive association between the existence of an audit committee and financial reporting quality. Using audit committee as a proxy for better corporate governance, these arguments lead to the third hypothesis of this thesis:

> *H3: Compliance with the disclosure requirements of Related Party Disclosure standards is higher when a firm has an audit committee.*

3.6.4 Foreign listing

Many multinational organisations choose to raise debt and/or equity capital from international markets and it is noted that such foreign listing creates information

asymmetry and an agency conflict between insiders and foreign shareholders. From an agency theory perspective, Leuz and Wysocki (2008; p.54) argue that "firms in countries with weak institutional frameworks have difficulties in raising external finance because controlling insiders in these environments cannot sufficiently assure outside investors that they will not expropriate them". Related party transactions can represent this type of expropriation activity (Cheung, Qi, Rau & Stouraitis 2009; Pozzoli & Venuti 2014). In response to the potential expropriation of funds, potential investors will increase the cost of capital for firms as they seek to protect their investment. To overcome this issue, it is suggested that firms will choose to list on foreign capital markets that are considered to have strong regulatory requirements in order to bond themselves to these requirements thus reducing their capital cost.

Prior studies have detailed the potential advantages for firms when listing in foreign markets. Karolyi (2012) suggests that foreign listing allows firms to access larger and broader capital markets, and it can mean a more diversified ownership and debt structure for many firms. It has also been argued by El-Gazzar, Finn and Jacob (1999) that listing on overseas capital markets may lower the cost of raising capital. While both these studies emphasise the expected benefits of cross-listing on foreign markets, they also discuss the increased disclosure and regulatory demands placed on firms which decide to list overseas. El-Gazzar et al. (1999; p.242) regard the "additional risks and uncertainties in procuring competitive resources" as reasons to expect firms listed overseas to meet the financial information needs of these foreign capital markets.

Consistent with this literature, Morris and Gray (2007) report a positive relationship between the accounting disclosures and international listing of Asia-Pacific firms.

Further, Street and Bryant (2000) find that adherence to IAS by European firms is higher if they have a US listing. From this discussion, it is expected that firms listed on foreign stock exchanges are more motivated to comply with the disclosure requirements of accounting standards and thus the following hypothesis is developed:

> *H4: Compliance with the disclosure requirements of Related Party Disclosures standards is higher when a firm is cross-listed on a foreign stock exchange(s).*

3.6.5 Outstanding capital market debt

It has been well-documented in the literature that disclosure of accounting information is used by firms as a mechanism to lessen the information asymmetry between management, owners and debtholders (Healy & Palepu 2001; Beyer, Cohen, Lys & Walther 2010; Hermlin & Weisbach 2012). Healy and Palepu (2001) highlight the role that financial information disclosure plays in lowering the cost of capital for firms raising public debt finance in capital markets in the US. They argue that firms with higher levels of disclosure provide investors with lower information risk resulting in reduced costs of capital. Additionally, Chen et al. (2011) suggest that when firms in emerging economies are in need of external financing, the preparation of high-quality accounting information is likely to be a priority as such financial information may result in mitigating information asymmetry between management and debtholders[28]. These arguments can be used to explain why firms that enter into related party transactions are motivated to disclose them.

[28] It is acknowledged that, in the four BRIS countries investigated, private debt and bank-oriented financing are likely to be the common forms of financing relied on by firms rather than accessing public debt markets. This may suggest a lower market demand for high-quality external reporting by firms with public debt holdings in these countries. However, Borker (2012b) argues that as these BRIS countries are currently experiencing high economic growth, they have an increased need for foreign capital and debt investment. That is, there is an increased incentive for firms to improve disclosure of financial information. It is therefore expected that a positive association will exist for firms which have raised external debt from the capital market and compliance with the disclosure requirements of IAS24.

When firms trade with related parties, management may have the power to influence the terms and conditions of the transactions, which allows them to expropriate funds from outside stakeholders such as debt holders. As debt holders anticipate this behaviour and to compensate for it, they will increase the cost of capital to the firm, therefore motivating managers to willingly disclose related party transactions.

This argument is further supported by the findings of Sengupta (1998). He documents that firms reporting a high level of accounting disclosures are likely to have lower costs of issuing debt. It is also reported by Meek, Roberts and Gray (1995) that firms accessing the capital market for debt finance are expected to provide increased disclosure to attract potential investors. Therefore, it is anticipated that firms which have raised external debt from the capital market would provide greater disclosure, leading to the following hypothesis:

> *H5: Compliance with the disclosure requirements of Related Party Disclosure standards is higher when a firm has outstanding capital market debt.*

3.6.6 Ownership concentration

Agency theory as documented by Jensen and Meckling (1976) infers that separating a firm's control from its ownership generates agency costs due to the conflicts of interest between managers and owners. This conflict may actually be exacerbated when considering related party transactions as these transactions can be used by owners and/or managers to engage in opportunistic behaviour. To minimise the costs associated with conflict of interest, it is expected that management will provide increased disclosure of financial information to appear more transparent. Alternatively, it may be said that if

management is undertaking opportunistic behaviour, they may choose not to disclose such details due to the repercussions of such behaviour on their reputation and that of the firm.

A number of studies have investigated the impact of ownership concentration on the level of monitoring and compliance with accounting standards (Chau & Gray 2002; Haniffa & Cooke 2002; Eng & Mak 2003; Chen, Chen & Cheng 2008). Based on the findings of these studies, it is considered that the ownership concentration of a firm may influence its level of financial information disclosure. Accordingly, the following non-directional hypothesis is proposed:

> *H6: Compliance with the disclosure requirements of Related Party Disclosure standards is associated with a firm's ownership structure.*

As there are numerous ownership structures prevalent in the sample of firms investigated in my thesis, a number of alternative proxies for ownership concentration will be examined. These include closely held shares, government control, family control, other major controlling shareholders and cross shareholdings. Each of these will be discussed below.

Closely held shares

Glaum et al. (2013) suggest that the agency costs are greater when share ownership is widely held, as minority shareholders have much less influence and incentive to monitor operating managers than do dominant shareholders. To minimise these agency costs, the authors argue that managers willingly provide increased disclosures for external stakeholders indicating a positive relationship between the level of corporate disclosure

and widely dispersed share ownership. Empirical findings by Haniffa and Cooke (2002), as well as Chau and Gray (2002) support this view. Both these studies were conducted in Asia-Pacific countries and both describe a positive relationship between ownership concentration and corporate disclosure. In contrast to this argument, however, it can be said that when a company's investors own small shareholdings, they lack the power and influence to demand improved disclosures in order to better monitor management's performance. With this knowledge, management may deliberately withhold information from these shareholders especially if such information involves opportunistic behaviour which transfers wealth away from smaller shareholders to themselves. A study by McKinnon and Dalimunthe (1993) finds weak support for an increase in segment disclosures and widely held share ownership. Due to these opposing views, no directional association is predicted between closely held ownership and compliance with accounting standards, leading to the following non-directional hypothesis:

> *H6a: Compliance with the disclosure requirements of Related Party Disclosure standards is associated with the presence of closely held share ownership.*

Government control

This thesis is conducted in four countries recognised as emerging economies, so it is anticipated that many of the firms in the sample may have government ownership. Accordingly, it is considered that this ownership type could be an important determinant of disclosure compliance. Based on the research by Eng and Mak (2003), it can be suggested that state-owned firms are not purely run to earn profit and enhance shareholder value, in contrast to wholly privately-owned firms, but rather, they also need to consider the impact of their operations on government economic policy. Also, as these firms

receive government funding, Eng and Mak (2003) argue that they will have a greater need to disseminate information to the public and other outside stakeholders. In fact, the above points imply that these firms may be subject to greater public scrutiny and consequently to minimise this they will disclose more information. Further support for this argument is provided by Ferguson, Lam & Lee (2002). They note that state-owned firms voluntarily report more strategic and financial disclosures than non-state-owned to satisfy investor's concerns regarding management quality and asset stripping.

In contrast to the previous discussion Huafang and Jianguo (2007) discuss how governments have access to many sources for financial information and, as such, reduce the pressure on government owned firms to disclose more information. Accordingly, they propose that firms with government control will have less disclosure compared to non-state-owned firms; that is, a negative association exists. This argument is further supported by Eng and Mak (2003) as they report that because state-owned firms receive government funding, they act in the interest of the government rather than other shareholders. In light of this discussion, the following non-directional hypothesis regarding government control is proposed:

> *H6b: Compliance with the disclosure requirements of Related Party Disclosure standards is associated with the presence of government control.*

Family control

The four countries examined in this thesis are considered emerging economies and countries that may have a substantial number of firms operated and controlled by family groups. Ali, Chen and Radhakrishnan (2007) discuss how family-controlled firms are characterised by what they call Type II agency problems – the conflicts of interest which

arise between controlling shareholders and minority shareholders. They argue that family control may encourage the family management to behave opportunistically by transferring resources away from minority shareholders to themselves through the manipulation of accounting earnings by, for example, engaging in related party transactions which have an adverse impact on earnings. To mitigate the impact of such related party transactions on the cost of capital and to reduce outside investor scrutiny of performance, Chen, Chen and Cheng (2008) suggest that family-controlled firms prefer to provide increased public disclosure of corporate financial information.

Alternatively, to avoid detection of opportunistic behaviour which transfers wealth away from minority shareholders, family owned firms may choose not to disclose such information. Using family control as a third proxy for ownership concentration, the following non-directional hypothesis is proposed:

> *H6c: Compliance with the disclosure requirements of Related Party Disclosures is associated with the presence of family control.*

Other major controlling shareholders

La Porta, Lopez-De-Silanes and Shleifer (1999) investigate the ownership structure of the largest corporations in 27 countries and find that firms in countries with low shareholder protection, such as emerging economies, usually have a controlling shareholder or ultimate shareholder. They claim that such countries will have poor measures in place to safeguard the interests of minority shareholdings when controlling shareholders undertake opportunistic activities that expropriate wealth away from minorities such as entering into related party transactions which can be considered non-arm's length transactions. Yeh (2005) suggests that this gives rise to "fundamental conflicts of interest between majority and minority shareholders" (p.313). To minimise

these agency costs, minority shareholders demand increased disclosure in financial statements to protect their investment in exchange for lower cost of capital. Wang (2006) describes this as the "entrenchment effect" of high ownership concentration on the disclosure and willingness of controlling shareholders to report related party transactions.

An alternative argument, which suggests that dominant shareholders will try to expropriate funds away from smaller external investors, is described in Glaum et al. (2013). The authors imply that a controlling shareholder may have no interest in providing disclosure if such expropriation occurs. The results reported in Fan and Wong (2008) suggest that firms with controlling owners who partake in such behaviour will manipulate earnings to avoid detection of the expropriation activities, leading to a negative association between compliance and having a controlling shareholder. Therefore, the following non-directional hypothesis is tested:

> *H6d: Compliance with the disclosure requirements of Related Party Disclosure standards is associated with the presence of a major controlling shareholder.*

Cross shareholdings

Cross shareholding is the final proxy used for ownership concentration in my thesis. It relates to the ownership structure where one firm in a corporate group owns shares in another firm in the group which, in turn, owns shares in the first firm. It is proposed that such an ownership structure may encourage firms to enter into related party transactions with each other for various reasons. They could be used as sound business transactions to meet the economic needs of the group. Alternatively, they may be used to improve the financial performance of a struggling related party as they may involve favourable trading

terms for one party. Or they may be used opportunistically to expropriate resources away from outside investors. If the related party transactions are used for the latter purposes, management may not wish to disclose them; however, if they are used for the former purpose disclosure may be willingly undertaken. As a result of this discussion the following non-directional hypothesis is proposed:

> *H6e: Compliance with the disclosure requirements of Related Party Disclosure standards is associated with the presence of cross shareholdings.*

3.6.7 Additional analysis – country of origin

A firm's country of origin has been considered an important factor in determining its level of compliance with IFRS because a country's financial reporting framework is said to influence compliance (Tower, Hancock & Taplin 1999; Al-Shammari et al. 2008; Morris, Susilowati & Gray 2013). These studies all report significant cross-country variation in the level of disclosure both in the quantity and breadth of disclosures, as well as low compliance levels within all countries examined. Tower et al. (1999) focus on the extent of harmonisation with IFRS across six countries in the Asia Pacific region. Using a comprehensive disclosure checklist, they report disclosure levels ranging from 28% to 54% across the six countries. Similarly, Al-Shammari et al. (2008) and Morris et al. (2013) use detailed disclosure checklists to measure compliance with IAS/IFRS, the former in the member states of the GCC and the latter in eight Asia-Pacific countries. Both studies report a range of compliance levels across the countries examined. Based on

these results, it is expected that the country in which a firm is domiciled will affect the level of disclosure of related party transactions[29].

To summarise, the hypotheses developed above suggest that there are numerous firm-specific characteristics that may determine the level of disclosure of related party transactions by publicly listed firms in BRIS. It is proposed that these characteristics will provide answers to the research question investigated in my thesis.

3.7 Control Variables

The following firm-specific characteristics are included as control variables: firm size, leverage and profitability. They have been identified in previous research as impacting compliance with accounting standards and therefore are expected to influence compliance with IAS 24. They are used as control variables because previous research findings yield mixed results about the direction of their association with disclosure. As mentioned earlier, prior research has also found that each of the ownership concentration proxies provide conflicting arguments regarding the direction of their association with compliance and disclosure, but in contrast to each of the control variables, hypotheses were developed because of the strong link between ownership structures discussed in my thesis and related party transactions.

[29] International studies of disclosure usually test if firms with Common Law legal origins or high rule enforcement levels have greater disclosures (Morris et al. 2013; Glaum et al. 2013), however neither is tested in my thesis. Research has found that of these two factors, enforcement tends to dominate over legal system, thus as the level of rule enforcement in uniformly low in each of the four BRIS countries, testing for this influence is not considered worthwhile (Preiato, Brown and Tarca 2015). In addition, I control for country-specific effects by inclusion of country-fixed effects in the regressions and analyse each country separately.

3.7.1 Firm size

When considering related party transactions, larger firms are expected to enter into such transactions as their group structure supports the use of them. For example, larger firms tend to have an ownership interest in subsidiary and associate companies and are likely to trade with these related parties. Prior studies have found firm size to be positively and significantly associated with corporate disclosure levels (Cerf 1961; Cooke 1992; Wallace & Nasser 1995; Eng & Mak 2003). These studies argue that larger firms are more likely to have the resources to prepare more detailed financial information compared to smaller firms. Additionally, it is noted that larger firms tend to have increased pressure from financial analysts to provide greater information to investors (Lang & Lundholm 1993; Ahmed & Nicholls 1994; Hossain & Adams 1995).

In addition, Cooke (1989) and Watts and Zimmerman (1990) suggest that larger firms are more politically visible than small firms, hence they have increased incentives to comply with the mandatory disclosure requirements of accounting standards to avoid any undue scrutiny by regulators and various other stakeholders. Although an extensive number of research papers confirm that firm size is related to higher levels of financial information disclosure, many report insignificant results (Street & Bryant 2000; Street & Gray 2001; Glaum & Street 2003; Glaum et al. 2013) suggesting that larger firms may not always disclose more information.

3.7.2 Leverage

The presence of debt financing in a firm creates agency costs of debt and conflicts of interest between debt holders and management and debt holders and shareholders (Smith & Warner 1979). The conflicts arise because managers/shareholders act to maximise their

wealth to the detriment of the debt holders. To reduce this conflict, debt holders impose restrictions on managers to monitor their future financing activities. These restrictions are known as bonding mechanisms, and they create a demand for information to be disclosed to creditors over and above the demand for disclosure to shareholders. This implies that firms who have related party transactions and outstanding debt have incentives to disclose those transactions to mitigate the negative effects the transactions may have on their cost of capital due to the belief that managers enter into related party transactions to expropriate wealth from debt holders.

The results of earlier studies predict that firms with high levels of leverage disclose more information to mitigate the conflicts of interest that arise between managers and debtholders. Each of these studies report a positive and significant association between the level of leverage and the level of disclosures (Bradbury 1992; Wallace, Naser & Mora 1994; Hossain, Perera & Rahman 1995; Ferguson et al. 2002; Taylor, Richardson, Tower & Hancock 2012). In contrast to this positive association, Eng and Mak (2003) report that lower debt levels are related to higher disclosure as does Meek et al. (1995). Also, Creswell and Taylor (1992) provide no evidence of a relationship between the voluntary disclosure of oil and gas reserves and a firm's leverage and Chow and Wong-Boren (1987) similarly report no association between disclosure and debt levels.

3.7.3 Profitability

As already mentioned, one view of related party transactions is that they are opportunistic. Gallery, Gallery and Supranowicz (2008; p.151) propose that management use related party transactions "for their own private gain at the expense of shareholders' interests, and accordingly, related party transactions are value-destroying". This proposition

implies that a firm's operating performance may be negatively associated with the related party transactions and so to minimise this association, firms will be expected to disclose their related party transactions to assure external stakeholders that they engage in such transactions to improve firm performance. Conversely, firms with low profitability may be inclined to withhold the disclosure of related party transactions to avoid being penalised for entering into value-decreasing transactions (Kohlbeck and Mayhew 2010).

There is a vast array of literature which reports that a firm's profitability is positively associated with its disclosure of financial information (Singhvi & Desai 1971; Wallace et al. 1994; Wallace & Naser 1995). This implies that profitable firms prefer to provide comprehensive information in the annual accounts released to the public to highlight their achievements and future potential for high performance. In light of this, related party transactions undertaken to improve firm performance, are expected to be disclosed. However, there is also considerable prior research reported that finds no relationship between disclosure and profitability (Meek et al. 1995; Inchausti 1997; Street & Bryant 2000; Street & Gray 2001) or a negative association (Cheung et al. 2006; Kohlbeck & Mayhew 2010).

3.8 Model Specification

As my thesis is concerned with the level of compliance with the disclosure requirements of related party transaction disclosure standards the following regression model was developed to test the relationship between the dependent variable, level of compliance and the independent variables. The following model is estimated for each country separately:

$$\boldsymbol{COMPLIANCE = \alpha + \beta_1 Yr2001 + \beta_2 Yr2014 + \beta_3 BIG4/5 + + \beta_4 AUDITCOM + \beta_5 FORLIST + \beta_6 OUTDEBT + \beta_7 OWNCONCEN + \beta_8 SIZE + \beta_9 LEV + \beta_{10} ROA + \varepsilon}$$

Where ***COMPLIANCE*** is measured using four proxies: ***TOTAL DISCLOSURE***, ***MOVING TARGET DISCLOSURE***, ***COMMON DISCLOSURE*** and ***NO TO YES DISCLOSURE.*** How each of these proxies of disclosure is measured is explained in Chapter 4 Section 4.6 A discussion of how each independent and control variable was measured is provided in Chapter 4 Sections 4.8 and 4.9 respectively[30].

3.9 Summary of the Chapter

In this Chapter, the compliance literature relating to both voluntary and mandatory IFRS adoption was discussed. It also provided details of the demand for disclosure research and developed the hypotheses investigated in my thesis. The next Chapter provides a detailed discussion of the research design utilised to test the hypotheses, which are examined separately for each BRIS country using the regression equation specified above.

[30] Many of the independent variables included in my regression needed to be dummy variables as they are naturally binary; for example, an audit committee either exists or does not. I acknowledge that having a large number of dummy variables may impact the interpretation of my regression results; however, I note that the use of a large number of dummy variables is common in many recent disclosure studies including Glaum et al. (2013).

CHAPTER 4: RESEARCH DESIGN

4.1 Introduction

In this Chapter, the research design of this thesis will be discussed. Section 4.2 reviews the sample years covered in the thesis. Section 4.3 discusses the sample selection procedure and Section 4.4 provides a detailed discussion of content analysis, the research method used in this thesis. This section also includes details of the construction of the disclosure index checklist based on the accounting standard IAS 24 *Related Party Disclosures*. In Section 4.5, the data collection method is outlined, and Section 4.6 describes how the dependent variable was measured using four proxies of disclosure. Section 4.7 compares the relevant related party disclosure standards and Sections 4.8 and 4.9 describe how the independent and control variables were measured respectively. Finally, Section 4.10 provides a short summary of the Chapter.

4.2 Thesis Sample Years

Three years – 2001, 2006 and 2014 – are covered in this thesis which allows me to analyse the level of compliance with the disclosure requirements of IAS 24 in each year and to observe if disclosure compliance has improved over time. These three years are selected as they coincide with times when the standard was substantially revised and reissued. IAS 24 *Related Party Disclosures* was initially issued as an exposure draft available for public comment in 1983. It was then published as a standard by the IASC in 1984. The standard was reformatted and reissued in 1994, the first time since its initial promulgation in 1984. This version of the standard was examined by Nobes (2001) in his study that surveys the local accounting standards of more than 60 countries, including the four countries in this thesis, benchmarked against IAS as at 31 December 2001.

The year 2001 provides a starting point for my thesis as Nobes' (2001) benchmarking survey highlights the differences between IAS and the local accounting standards of the four countries investigated in this thesis. The survey allows measurement of the distance between local standards and IAS before IFRS were adopted, or converged with, in the four countries covered in the thesis. The year 2001 was also chosen as it pre-dates the issue of IFRS by the IASB, a time when the quality of international accounting standards was considered inferior to the current IFRS.

In 2003, as part of the IASB's initial agenda of technical projects, IAS 24 was substantially revised and expanded. The amended standard was significantly improved and additional disclosure requirements were introduced. The standard was reissued in 2004 and effective for annual periods beginning on or after 1 January 2005, the date that many countries adopted IFRS as their own national accounting standards. To give countries time to adapt their financial reporting to the new disclosure requirements, the 2006 financial year was selected as the second sample year.

The final year chosen is 2014. The most recent revision of IAS 24 occurred in 2013 as part of the IASB's annual improvements of IFRS 2010-2012 cycle. The revised standard was applicable from 1 July 2014. Hence the year 2014 was chosen as the disclosure requirements of the revised standard were expected to be incorporated in the financial statements prepared in 2014. In addition, it was the year of the latest publicly available annual reports for most firms in the sample when this thesis began, in early 2015. A timeline depicting the development of the standard and the sample years chosen to be examined in this thesis is presented in Figure 4.1. The next section provides details about the selection of the final sample of firms analysed in this thesis.

Figure 4.1: Timeline of Development of IAS 24

1983	1984	1994	2001	2004	2006	2009	2013	2014
ED Issued	IAS24 Issued (effective 1/1/86)	IAS24 Reformat ted	**Sample Yr1**	IAS24 Reissued (effective 1/1/05)	**Sample Yr2**	IAS24 Reissued (effective 1/1/11)	IAS24 Amended (effective 1/7/14)	**Sample Yr**3

4.3 Sample Selection

As noted in Chapter 2 Section 2.3, the setting for the research is the emerging economies of Brazil, Russia, India and South Africa. To determine the final sample of firms, the Compustat Global database was used to select the largest 50 surviving non-financial firms by market capitalisation in each country giving a total potential sample of 200 firms[31]. All financial firms were excluded as the banking industries in most of the countries examined are subject to specific and distinct reporting regulations. Market capitalisation was calculated using the outstanding number of ordinary shares multiplied by the closing share price on either the last trading day or the last trading week in December 2001, 2006 and 2014. In 2001 and 2014 the last trading day of the year was the 31st December; however, as 31st December 2006 was a Sunday, a non-share trading day, market capitalisation was determined for the 29th December for the year 2006.

Further, for Brazil and Russia, due to the lack of publicly listed firms whose shares were traded on the last day of 2001, market capitalisation was calculated on each trading day of the last week of December 2001. This allowed a greater number of firms to be included in the initial list of firms downloaded from Compustat Global, a necessary step to ensure that the largest 50 firms were included in the final sample. For both countries, in 2006

[31] As the countries investigated in this thesis have more than one major stock exchange, the firms included in the sample could have been listed on any active exchanges in each country.

and 2014, market capitalisation was determined using the last trading day of the year. For Indian and South African firms, market capitalisation was calculated on the last trading day of the year for 2001, 2006 and 2014.

In order to select the largest 50 firms from each country, all publicly listed firms were first downloaded from the Compustat Global database for each country and sample years discussed above. Details of the outstanding shares and the closing share price for each firm were also downloaded so that market capitalisation could be calculated for each firm as previously described. This market capitalisation was then used to rank all the firms from largest to smallest for each year. These rankings were then reviewed to determine which firms appeared on all three lists; that is, which firms survived across the three sample years. Generally, a firm was a non-survivor because of restructuring, mergers or winding-ups. From the list of surviving firms, the largest 50 were selected, excluding financial firms, as the sample of firms investigated in the thesis. A constant sample was used across all three years, as it allows a better understanding of how compliance with the disclosure requirements of related party disclosure standards has changed over time given that the characteristics of each firm remain relatively unchanged compared to the alternative of taking a different sample of firms each year.

The selection of the largest 50 listed firms is justified as previous research has shown that large firms often disclose more information than small firms (Marston & Shrives 1991), although as mentioned in Chapter 3 Section 3.7.1, the evidence is not unequivocal. Cooke (1989) as well as Singhvi and Desai (1971), report many reasons to expect a positive association between large firms and the quality and amount of disclosure. These include, firstly, the management of bigger corporations recognising the benefits of improved

disclosure when accessing the capital market for funds and, secondly, the lower costs incurred by large firms to provide information.

Another reason for choosing the largest firms in each of the four countries is that they are likely to be firms in which international investors would consider buying shares as they are thought to be less risky than smaller firms (Lopes & de Alencar 2010). The quality of disclosure in annual reports would be of interest to such investors because they tend to lack local knowledge from domestic sources within the four countries. Furthermore, the largest firms would more likely present their financial statements in English, which was necessary for data collections purposes (Jeanjean, Lesage & Stolowy 2010).

Additionally, it is assumed that larger firms are more likely to engage in related party transactions due to their corporate structure and hence are more eligible to make related party disclosures in their financial reports. Lastly, the time constraints of the thesis limited the sample size to only 50 firms from each country given that the data are mainly hand-collected.

Once this list of the top 50 surviving firms per country was compiled, a reduction in the sample size occurred due to: i) the lack of publicly available financial information; ii) the non-availability of English-language annual reports (for all firms, access to English-language annual accounts was necessary); and, iii) any incomplete data required for the statistical analysis. As a result, 49 firms were excluded from the final sample which then comprised a total of 151 firms, which translates to 453 firm-years: 30 firms (90 firm-years) in Brazil; 24 firms (72 firm-years) in Russia; 50 firms (150 firm-years) in India; and 47 firms (141 firm-years) in South Africa. Table 4.1 summarises the procedures used

to derive the final sample of firms. The next section discusses content analysis, the main research method used in this thesis.

Table 4.1: Final Sample of Firms

	Brazil	Russia	India	South Africa	Total
Total Publicly Listed Firms that survived across the three years	50	50	50	50	200
Less: Firms with no English Annual Reports or Annual Reports not available for one or more of the three years	*19*	*20*	*0*	*0*	*39*
Less: Firms with incomplete data	*1*	*6*	*0*	*3*	*10*
Total Final Sample Firms (# of firm-years)	**30 (90)**	**24 (72)**	**50 (150)**	**47 (141)**	**151 (453)**
Total firms listed on stock exchange 2001	**300**	**72**	**2,400**	**312**	
Total % of stock market in 2001[32]	**10%**	**33%**	**2%**	**15%**	

4.4 Content Analysis

This thesis can be characterised as a content analysis study because it investigates the disclosure of financial information in corporate annual accounts. According to Krippendorff (2013; p.24):

> "Content analysis is a research technique for making replicable and valid inferences from texts to the contexts of their use… As a research technique content analysis provides new insights, increases a researcher's understanding of particular phenomena, or informs practical action."

[32] Although the number of firms in my final sample is not large as a percentage of the total number of publicly listed firms in 2001, the total market capitalisation of my final sample in each country, as a percentage of the total stock market capitalisation, in 2001, show a different story: Brazil 33%, Russia 29%, India 65% and South Africa 46%.

Content analysis is a research tool that has been widely used in the accounting literature to analyse reporting in corporate financial accounts in response to academic and investor interest in the disclosure of information in these reports (Guthrie & Parker 1989; Gray, Kouhy & Lavers 1995; Buhr & Freedman 2001). It also allows reported accounting disclosures to be quantified and summarised for subsequent statistical analysis. Although content analysis is a reputable research technique within the accounting sphere, Unerman (2000) notes the following potential issues: i) reliability of analysis; ii) documents to be analysed; and, iii) measurement of disclosures. Each of these issues and how they were overcome in this thesis are discussed in the next sub-sections.

4.4.1 Reliability of analysis

Determining the reliability of content analysis has two components: reliability of the coded data and reliability of the coding instrument (in this thesis, a disclosure index). Milne and Adler (1999) discuss ways to achieve a significant level of reliability for the coding process. Firstly, they suggest the utilisation of multiple coders, highlighting the discrepancies between the coders and then detailing how they have been resolved. Alternatively, using a single coder would be appropriate if it can be shown that a satisfactory level of training has occurred. The use of a pilot sample is one way to demonstrate the achievement of appropriate training.

In relation to the reliability associated with the coding instrument, Milne and Adler (1999; p.239) comment that:

> "Well-specified decision categories, with well-specified decision rules, may produce few discrepancies when used by relatively inexperienced coders."

Hence to maintain consistency, an independent review of the identified disclosure items and the coding instrument is necessary (Milne & Adler 1999).

In this thesis, to ensure reliability of both the coded data and the coding instrument, I undertook a pilot study (refer to Section 4.4.5 for a detailed discussion of this process). Initially, I reviewed the coding process by choosing five firms, one firm from each of the emerging economies examined in the thesis as well as an Australian firm, and each one was coded in accordance with the disclosure index constructed for the thesis[33]. The difficulties encountered with this coding were discussed and reviewed in detail with my supervisors. As a result of these discussions, some minor interpretation amendments emerged which were dealt with by adjusting the coding process. After these adjustments, it was confirmed that the data was appropriately coded, and the coding instrument developed could be used for completion of data collection.

4.4.2 Documents to be analysed

When undertaking a content analysis study, the first decision necessary is to choose which documents to analyse. Information about a firm can be disseminated in many ways, for example, quarterly reports, media releases and annual reports. Many content analysis studies which have been undertaken in the past, have used firm annual reports as the main or only documents analysed (Botosan 1997; Choi 1999; Bujaki & McConomy 2002). A firm's annual report is considered the major form of communication by publicly listed firms as they have a legal obligation to publish these reports annually, within a specified period and in accordance with reporting regulations (Wiseman 1982). One such form of reporting regulation is accounting standards. Generally, most countries require firms

[33] Section 4.4.4 provides a detailed explanation of how the disclosure index was constructed.

whose shares are traded on a stock exchange to prepare annual accounts in accordance with mandated accounting standards, which is the case in Brazil, Russia, India and South Africa, the countries examined in this thesis. Therefore, it is assumed that as all the firms in the sample are publicly listed firms, they must comply with the requirements of published accounting standards when preparing their annual financial statements. Accordingly, as this thesis investigates compliance with accounting standards that guide the disclosure of related party transactions only annual reports are analysed to measure disclosure, which is discussed in the next section.

4.4.3 Measure of disclosure

Content analysis studies have documented numerous ways to measure the level of disclosure within annual reports. Marston and Shrives (1991) as well as Hassan and Marston (2019) discuss the construction of a disclosure index which collects information from firm annual reports as one such measure of disclosure. Hassan and Marston (2019) consider the index a research tool which measures the amount of information reported by a specific firm in line with an extensive list of selected items of information. Further, they describe how a disclosure index can be used to indicate compliance with regulations such as mandated accounting standards or Stock Exchange Listing requirements to measure the level of disclosure in a firm's financial reports.

Additionally, Marston and Shrives (1991) discuss that one of the most important aspects of constructing a disclosure index is to determine its usefulness as a measure of disclosure. They propose that this is "critically dependent on the selection of items to be included in the index" (p.195) and that the measuring device meets the criteria of reliability and validity. They further acknowledge that although the validity of disclosure indexes cannot

be accepted without question, as no better method for measuring disclosure has been developed it has become accepted and used by many researchers (Trotman & Bradley 1981; Deegan & Rankin 1996; Gray et al. 1995; Haniffa & Cooke 2005; Glaum, Schmidt, Street & Vogel 2013). As the aim of this thesis is to investigate the level of related party disclosures within the annual reports of firms publicly listed in Brazil, Russia, India and South Africa, a disclosure index was considered the most appropriate measure of disclosure. A discussion of the process undertaken to construct the disclosure index is provided in the next section.

4.4.4 Disclosure index checklist construction

The basis for data collection was the construction of a comprehensive disclosure index checklist. Most researchers adapt existing indexes to meet their own needs and research situation. This does, however, lead to a lack of direct comparison across research projects, but Marston and Shrives (1991) argue that as "there is no theory of financial reporting for the 'international capital market operator' and it is extremely difficult to obtain an internationally agreed perception of disclosure items" (p.198) researchers are quite content to employ different indexes for different projects. The procedure used for constructing the disclosure checklist in this thesis is consistent with prior compliance research including Street and Bryant (2000), Street and Gray (2001), Glaum and Street (2003), and Glaum et al. (2013).

The construction of a disclosure index can be difficult and will always involve the subjective judgements of the individual researcher. In my thesis, the disclosure index developed is based on the mandatory requirements of IAS 24 and was constructed after a

thorough review of IAS 24's disclosure requirements in the mandated version of the standard applicable in 2001, 2006 and 2014, the three sample years examined.

Although the checklist is based on required disclosures, in each version of the standard, some judgements regarding the content of the index were still necessary. Particularly this occurred when reviewing the 2003 version of IAS 24 as in this year the standard was substantially modified. At first glance, it appeared that a number of disclosure requirements were eliminated from the earlier version of the standard. After careful consideration though, it was concluded that some requirements were not removed but rather reworded. A more detailed discussion regarding how this issue was resolved is provided in a subsequent paragraph.

To minimise the impact of subjectivity on the construction of the disclosure index, I initially examined the specific disclosure requirements of each version of IAS 24 used in the thesis to determine the meaning of each disclosure item. This analysis was then discussed, in detail, with my supervisors to confirm that all the disclosure items included in the index were valid and reflected the underlying requirements of the standard. As a final indicator that all the identified disclosures were included, a comparison of the checklist was made against the related party transaction note included in the illustrative IFRS/IAS consolidated financial accounts prepared by PricewaterhouseCoopers for each year. Once the disclosure index was completed, I undertook a pilot study to establish the applicability of the index to my thesis (refer to Section 4.4.5 below).

Table 4.2 presents a list of the total combined related party disclosures mandated in IAS 24 in each version of the standard. The checklist included details of 49 required disclosure

Table 4.2: Related Party Disclosures Mandated in the 2014 Version of IAS 24 *Related Party Disclosures* Unless Otherwise Stated.

#	IAS 24 Disclosure Requirements	Reference
1	Relationship between parent and subsidiary	IAS 24 para 13
2	Name of parent company	IAS 24 para 13
3	Name of ultimate parent if different to the parent	IAS 24 para 13
4	Name of the next most senior parent if no parent or ultimate parent exists	IAS 24 para 13
5	If the compensation of key management personnel (KMP) is disclosed	IAS 24 para 17
6	Total compensation paid to KMP	IAS 24 para 17
7	Total short-term employee benefits paid to KMP	IAS 24 para 17(a)
8	Total post-employment benefits paid to KMP	IAS 24 para 17(b)
9	Total other long-term employee benefits paid to KMP	IAS 24 para 17(c)
10	Total employee termination benefits paid to KMP	IAS 24 para 17(d)
11	Total share-based payments paid to KMP	IAS 24 para 17(e)
12	Total service fee paid to a management firm who provides KMP services	IAS 24 para 18A*(new 2014)*
13	Details of any related party (RP) transactions	IAS 24 para 18
14	Nature of the related party relationship when a RP transaction occurs	IAS 24 para 18
15	Amount of any RP transactions	IAS 24 para 18(a)
16	Amount of outstanding balances including commitments with related parties	IAS 24 para 18(b)
17	Details of the terms and conditions of the RP transactions	IAS 24 para 18(b)(i)
18	If the outstanding balance with a RP is secured	IAS 24 para 18(b)(i)
19	Nature of the consideration to be provided when an outstanding balance is settled	IAS 24 para 18(b)(i)
20	Details of any guarantees given or received for the outstanding balance	IAS 24 para 18(b)(i)
21	Provisions for doubtful debts related to the amount of outstanding balances	IAS 24 para 18(c)
22	Expense recognised in the period in respect of bad or doubtful debts due from related parties	IAS 24 para 18(d)
23	Details of items 15-22 for the parent company	IAS 24 para 19(a)
24	Details of items 15-22 for firms with joint control or significant influence over the firm	IAS 24 para 19(b)
25	Details of items 15-22 for subsidiaries	IAS 24 para 19(c)
26	Details of items 15-22 for associates	IAS 24 para 19(d)
27	Details of items 15-22 for joint ventures in which the firm is a joint venturer	IAS 24 para 19(e)
28	Details of items 15-22 for key management personnel of the firm or its parent	IAS 24 para 19(f)
29	Details of items 15-22 for other related parties	IAS 24 para 19(g)
30	*Transactions with directors*	*IAS 24 para 18 (2001)*
31	*Total remuneration paid to directors*	*IAS 24 para 18 (2001)*
32	*Total borrowings provided to directors*	*IAS 24 para 18 (2001)*
33	*Details if transactions with subsidiaries have occurred*	*IAS 24 para 18 (2001)*
34	*Details of significant intercompany transactions with subsidiaries*	*IAS 24 para 18 (2001)*
35	*Borrowing balances with subsidiaries*	*IAS 24 para 18 (2001)*
36	*Details if transactions with associates have occurred*	*IAS 24 para 18 (2001)*
37	*Details of significant intercompany transactions with associates*	*IAS 24 para 18 (2001)*
38	*Borrowing balances with associates*	*IAS 24 para 18 (2001)*
39	*Volume of all RP transactions as either an amount or appropriate proportion*	*IAS 24 para 23(a)(2001)*
40	*Amounts or appropriate proportions of outstanding items with RPs*	*IAS 24 para 23(b)(2001)*
41	*Details of pricing policies used for RP transactions*	*IAS 24 para23(c)(2001)*
42	Details regarding if RP transactions are on terms equivalent to arm's length transactions	IAS 24 para 23
43	Details that RP transactions are equivalent to arm's length is substantiated	IAS 24 para 23
44	Aggregate amount of similar RP transactions	IAS 24 para 24
For Government-related Firms (Exempt from items 13-22)(new requirements in 2014)		
45	Name of the government	IAS 24 para 26(a)
46	The nature of relationship between the reporting firm and the government	IAS 24 para 26(a)
47	Nature and amount of each individually significant RP transaction	IAS 24 para 26(b)(i)
48	A quantitative indication of the RP transactions	IAS 24 para 26(b)(ii)
49	A qualitative indication of the RP transactions	IAS 24 para 26(b)(ii)

items described in the three versions of the standard[34]. The final checklist resulted in the total number of disclosures mandated in 2001 as 16; while in 2006, 31 items were identified; and in 2014, 37 disclosure items were required by the standard[35]. During the preparation of the disclosure checklist, due to IAS 24 being revised and reissued twice during the period covered by the three sample years of the thesis, some overlap among a number of disclosure items became evident. I sometimes found that disclosure items required in earlier versions of the standard disappeared from the reissued standard. However, a closer inspection of the reissued standard revealed that the disclosure item was actually not removed but rather reworded. That is, on several occasions seemingly deleted items were found to be present in the reissued standard but in a different guise. For example, paragraph 23(a) of the 2001 version of the IAS 24 required:

> "an indication of the volume of the transactions (related party), either as an amount or appropriate proportion." (Item 39 Table 4.2)

The revision of the standard in 2003 saw this specific disclosure paragraph deleted. However, a new disclosure requirement was included as paragraph 18(a) that requested firms to disclose the following in relation to each related party transaction they entered into during the period covered by the financial statements:

> "…At a minimum, disclosures shall include: the amount of the transactions." (Item 15 Table 4.2)

[34] Each version of the standard, as part of the disclosure requirements, also included 12 examples of related party transactions. Although these are considered as disclosures in each standard they were ignored when the checklist was created because they were not regarded as actual disclosures but, rather, as a guideline to help firms recognise events that would be considered transactions with related parties.

[35] Appendices A to D provide details of each disclosure item mandated in the applicable related party disclosure standard in any of the three years examined in my thesis for each country, and also which items appear in my four disclosure indexes.

As such, it can be concluded that the 2001 disclosure item was not eliminated from IAS 24 but, rather, was still a disclosure requirement simply expressed in a different format in the 2003 version of the standard. To avoid duplicating a reworded disclosure item in the disclosure index, a careful review of the disclosure requirements of the applicable standard each year was undertaken so that for each sample year only those mandated disclosure items for that year were included in the final disclosure index checklist.

4.4.5 Pilot study

A pilot study was used to determine the effectiveness of the disclosure index constructed for my thesis. This was completed by analysing the annual reports of the five firms comprising the pilot study. Each firm's complete annual report was read to ascertain how and where related party transactions were disclosed by each firm in this report. It was anticipated that the related party disclosures would be found in the notes to the financial statements under related party transactions or similar heading (e.g. Related Party Note). However, from this investigation it was discovered that related party transaction disclosures also appeared under different headings in the notes to the financial statements. For example, intercompany loan balances were often included in the trade and other receivables note. Related party transactions were also presented as part of the narrative sections of the annual report, outside the financial statements, such as in the director's report, management's annual review, and the remuneration report. For example, details of compensation paid to key management personnel were often disclosed in the director's report and/or the remuneration report, as well as summarised in the related party note.

After the pilot study, the procedure adopted in the main study to code related party transactions not only focused on the related party note but also encompassed the other

documents mentioned above as well as the entire annual accounts. Once all related party transactions were identified, they were coded in line with the disclosure index constructed. Any issues that arose from this coding were handled as reported earlier in this section.

4.5 Data Collection Method

Data on related party transactions was collected from the English-language annual reports and consolidated financial statements of each firm in the final sample for all three years studied[36]. All other financial information was also collected from these annual accounts, except market capitalisation which was downloaded from Datastream. English-language annual reports were accessed from Mergent Online and/or the firms' website. A PDF version of each firm's annual report was downloaded when it was available, together with a printed version of the report. Both were used to hand-collect data to measure the dependent, independent and control variables.

To manually hand-collect the data, each firm's English annual report was read in full and all related party disclosures found were highlighted and coded according to the disclosure index checklist described earlier. The entire annual reports were reviewed as the results of the pilot study suggested that details of related party transactions appear throughout the report, not only in the related party note. To guarantee that all related party disclosures were captured after reading each firm's annual report in its entirety, when a PDF version of the annual report was available the "find and replace" function was used to search the

[36] When analysing each firm's annual report, it was noted that the financial year end differs in each of the BRIS countries: Brazil has a 31st March year-end, Russia, a 31st December year-end, India, a 30th April year-end, and South Africa, a 31st December year-end. For the purpose of this thesis, the different year ends do not make a substantive difference to the data collection or the results reported, as the applicable date of the related party transaction disclosure standard for each period examined is the 1st January.

words “related, related party(ies), subsidiaries, associates, key management personnel and share ownership”. This procedure assured the author that all disclosed related party transactions were discovered and coded.

4.5.1 Collection of data

To address the research question of this thesis, as discussed earlier, disclosures of related party transactions were hand-collected from the annual reports of each firm in the sample. The disclosures were collected for each sample year, in line with the disclosure index checklist constructed to determine the level of disclosure. Cooke (1989) explains that there are two approaches to scoring items on a disclosure index to capture levels of disclosure. One is to create a scale of disclosure by counting the number of words it takes to describe a disclosed item. Another approach, which allows the total disclosure score to be additive is to use a dichotomous process, whereby an item is scored zero if not disclosed and one if disclosed. This method was adopted in my thesis with some modifications for non-applicability and partial disclosure. Each checklist item was coded as: (0) if not disclosed at all; (1) if fully disclosed; (1/2) if partially disclosed; and, (NA) if the item was “not applicable” to the firm. To explain the coding process, an example of each score is provided below based on the requirements of paragraph 23 of IAS 24 which states the following:

> “Disclosures that related party transactions were made on terms equivalent to those that prevail in arm’s length transactions are made…” (Item 42 Table 4.2)

A disclosure item was considered not disclosed and therefore coded “0” if the item was not present in the annual accounts of a firm. In relation to Item 42 in Table 4.2 in my

disclosure index, if a firm did not provide a comment regarding the terms on which related party transactions were undertaken the disclosure was scored “0”.

For a firm to score “1”, representing full disclosure of a mandatory item, all the key elements of the item had to be reported in the financial statements. Again, based on Item 42 (Table 4.2), if a firm provided a detailed explanation that related party transactions were all performed at arm’s length, a firm was considered complying with the disclosure and a score of “1” was recorded. For example, Klabin S.A, a Brazilian firm, in its 2014 annual report described transacting with a subsidiary as follows:

> “purchase of timber at usual market prices and on normal terms and conditions” as well as “loans raised in usual market conditions” (p.40).

As this comment fully complied with the disclosure requirements of Item 42 in Table 4.2 it was scored “1”.

In some instances, it was discovered that insufficient information was provided about a specific disclosure item, but it was still reported in the financial statements. In this situation, rather than code the item as a non-disclosure, and therefore “0”, it was considered partially disclosed and coded as a “1/2”. An example of such a disclosure as per Item 42 (Table 4.2), as detailed above, relates to the detail provided by firms when describing the terms of trade with related parties. On some occasions, it was found that the terms and conditions of each related party transaction were only provided for outstanding loan transactions but not for normal trading transactions hence the firm’s disclosure for this item was coded as a partial disclosure; that is, a score of 1/2. For example, Oceana Ltd, a South African firm, in its 2014 annual report only described the

terms and conditions of their financing activities with its subsidiaries and joint ventures although the firm reported undertaking administration services with these entities. The firm's related party note included the following:

> "Loan accounts between wholly owned group companies in South Africa are interest-free. Other loan accounts bear interest at rates similar to rates levied by banks" (p.45).

As this comment did not fully comply with the disclosure requirements of Item 42 in Table 4.2, it was scored "1/2".

For a disclosure item to be considered not applicable, I made a judgement based on indicative notes and discussions in the annual report. This score was adopted as it was considered unjust to penalise a firm for non-disclosure when a specific item was not relevant to it. So, rather than coding the disclosure item as "0" (non-disclosure), it was coded as "NA" (not applicable). Cooke (1992) suggests that this procedure may introduce a level of judgement into the scoring process. He also argues however, that it will provide a more accurate disclosure score than simply using a dichotomous method. An example of an item repeatedly found to be considered "not applicable" was paragraph 13 of IAS 24. The paragraph details the following:

> "... A firm shall disclose the name of its parent…" (Item 2 Table 4.2)

If a firm did not have a parent, that is, it was the parent firm itself, this disclosure item was scored "not applicable". This was generally determined by reviewing the ownership interests of shareholders. For example, ITC Ltd, an Indian company, reported the following in its 2001 annual report:

> "35.43% of shares are owned by banks, financial institutions, insurance companies and mutual funds" (p.18).

This comment suggested that the firm didn't have a parent but was the parent firm itself, hence Item 2 in Table 4.2 was coded "NA". As a result of this "not applicable" score, all other related party disclosures about the firm's parent were then also coded as "not applicable". For instance, Item 23 in Table 4.2 requires a firm to disclose numerous details relating to related party transactions with their parent. This item was also coded "not applicable" for ITC Ltd in 2001.

Extreme care was taken to ensure that the coding of each item was done correctly. Before the checklist was completed for each firm, a review of the entire annual report including management's annual review was made to confirm that all potential related party transactions were disclosed in the annual report before concluding that a "0" for non-disclosure was warranted.

A disclosure score was calculated for each individual firm, for each year, by adding the scores as per the disclosure checklist. All disclosure items were equally weighted as all items were considered as important as each other (Marston & Shrives 1991). The adoption of an unweighted index is justified, as the focus of my thesis is to understand compliance with the disclosure requirements of a mandated accounting standard, and not the importance placed on disclosures by different users of financial information (Cooke 1992). Also, Chow and Wong-Boren (1987) note that the use of a weighted or unweighted index did not substantially impact the results of their study. The disclosure score was then used to measure four proxies of disclosure, each expressed as a percentage of required

applicable disclosure items for each firm. The procedures used to determine the four proxies of disclosure is described in the next section.

4.6 Measurement of the Dependent Variable

The dependent variable, compliance with the disclosure requirements of the applicable related party disclosure standard, was measured using four proxies of disclosure, all derived from the disclosure index checklist. The four proxies were labelled as follows: ***TOTAL DISCLOSURE, MOVING TARGET DISCLOSURE, COMMON DISCLOSURE,*** and ***NO TO YES DISCLOSURE*** and were each calculated as a percentage: the total number of required disclosures reported divided by the total applicable required disclosures**.** Each proxy provides information about a different aspect of a firm's level of compliance with the required related party transaction disclosures as per the applicable related party disclosure standard. The four proxies will now be discussed.

4.6.1 TOTAL DISCLOSURE

The first proxy of related party transactions disclosure, ***TOTAL DISCLOSURE,*** was determined as the total disclosure score expressed as a percentage of total required disclosures applicable to each firm. The total required disclosures represented all related party disclosures required by IAS 24; that is, an aggregation of all disclosures across the three years covered by the disclosure checklist. There are 49 such items. In 2001, 41 disclosure items were prescribed and in 2006 and 2014 this was reduced to 37 items[37]. The number of total disclosures was higher in 2001 in comparison to the other two years because after the 2003 modifications made to IAS 24, which were significant, a number

[37] See Appendices A.1, B.1 and D.1 for a list of disclosure items included in this proxy of disclosure.

of disclosure items were condensed. For example, specific disclosures in relation to subsidiaries, included in the 2001 version of the standard, which were originally three, were removed and replaced with a general disclosure requirement that covered all types of related party transactions not simply those unique to subsidiaries[38]. Therefore, due to the revision of IAS 24, the number of disclosure items varies across the three years but in substance the disclosures are actually equivalent in each year. ***TOTAL DISCLOSURE*** is the maximum attainable score by a firm. The measurement of this proxy enabled an understanding of whether disclosure increased over time.

As the ***TOTAL DISCLOSURE*** proxy measures the maximum possible disclosures, collectively, across the three years of my thesis, it incorporates not only the mandated requirements individually required in 2001, 2006 and 2014, but also those disclosures introduced in a subsequent version of the standard. This means that firms which don't disclose the non-mandated items each year, will be unduly penalised for non-disclosure. In order to avoid unfairly penalising firms for such non-disclosure, I develop three subsets of this proxy in an attempt to better understand the disclosure behaviour of the firms in my sample. The first subset is ***MOVING TARGET DISCLOSURE***, which is discussed next, then ***COMMON DISCLOSURE*** and finally ***NO TO YES DISCLOSURE.***

4.6.2 MOVING TARGET DISCLOSURE

The second proxy of related party transactions disclosure, ***MOVING TARGET DISCLOSURE,*** was based on the specifically required disclosures of IAS 24 in each year covered in the thesis; that is at 2001, 2006 and 2014. As the disclosure requirements of

[38] See Items 33 to 35 in Table 4.2. These items were required disclosures, specifically in relation to subsidiaries, included in the 2001 version of IAS 24 but were replaced with one item, Item 25 in Table 4.2, in 2006 and 2014. See also my discussion of this issue in Section 4.4.4.

the standard at each date were different, the number of required disclosure items varies across the three years. In 2001, IAS 24 had 16 applicable disclosure items; in 2006, it required 31 disclosures; and in 2014, 37 related party disclosures were mandatory[39]. Based on the mandatory disclosures required in each sample year, a disclosure score was calculated for each firm in each of the three years which was expressed as a percentage of the required disclosures applicable to each firm in that year.

Measuring firms' disclosure of related party transactions in this way should provide knowledge about whether firms change their reporting behaviour when a new or revised applicable disclosure requirement becomes mandatory. That is, do firms improve their compliance with disclosure requirements over time? Or do they continue to prepare their financial reports based on previous practice and therefore non-compliance with the new standard occurs? Furthermore, measuring this dependent variable allows me to understand if the firms in my sample become better at complying with a mandatory accounting standard over time and if mandatory adoption of IFRS makes a difference to disclosure compliance. The next proxy of disclosure discussed is ***COMMON DISCLOSURE*** which is a subset of ***MOVING TARGET DISCLOSURE*** as it looks at those disclosures that consistently appear in each version of IAS 24 investigated.

4.6.3 COMMON DISCLOSURE

The third proxy of related party transactions disclosure comprises the prescribed related party disclosures which are common across all three versions of the standard. To be included in ***COMMON DISCLOSURE,*** a disclosure item had to be consistently mandated in each year of the thesis. In total, there were 12 common disclosure items

[39] Refer to Appendices A.2, B.2 and D.2 for a for a list of disclosure items included in this proxy of disclosure.

required in IAS 24[40]. ***COMMON DISCLOSURE*** was reported as a percentage and calculated by dividing the number of common disclosures reported by the required applicable common disclosures for each firm. This proxy of disclosure provides a constant benchmark and should indicate if a firm becomes better at complying with the same disclosure requirements over time. If this proxy increased across each sample year, it is a good indication that a learning effect occurs, which is important when examining compliance with mandated accounting disclosures.

4.6.4 NO TO YES DISCLOSURE

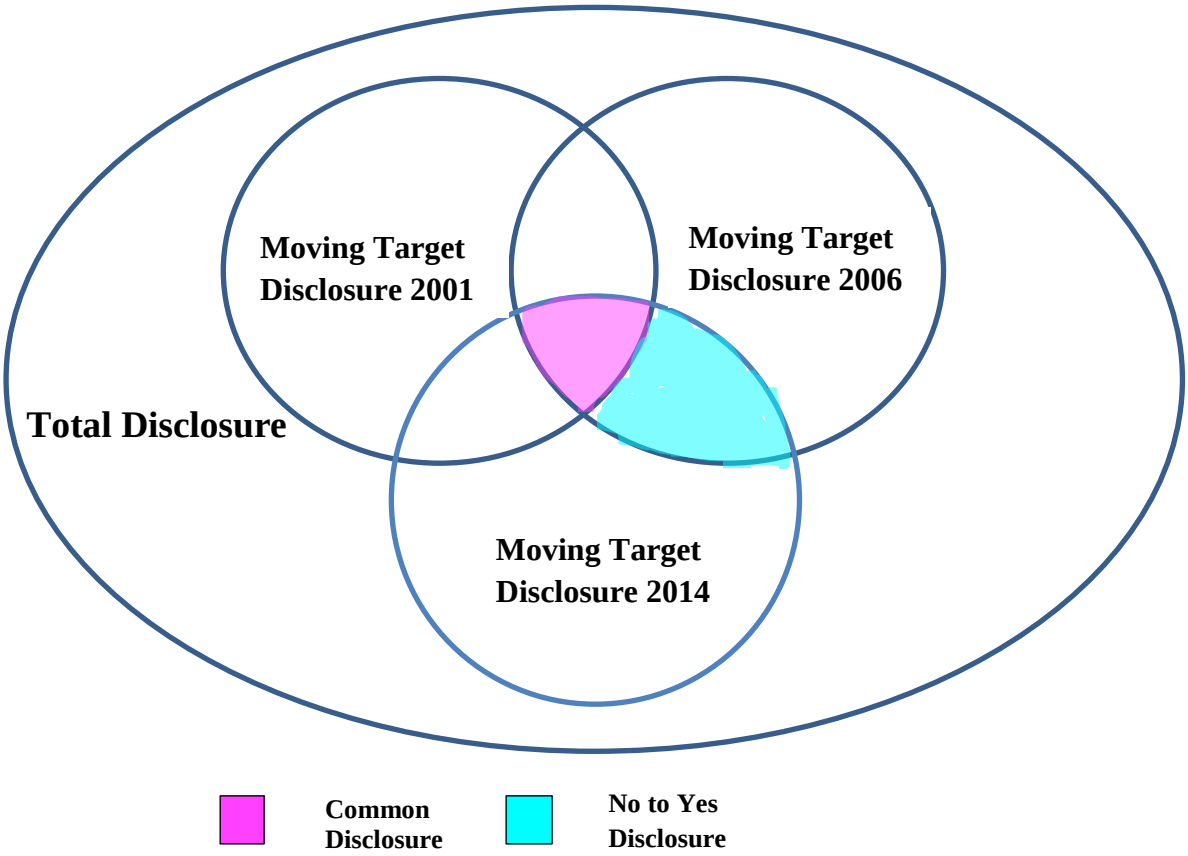
Finally, the last proxy of disclosure is ***NO TO YES DISCLOSURE*** which is also a subset of ***MOVING TARGET DISCLOSURE*** as it reflects the new disclosures required in 2006 and 2014 not previously required in 2001. It is measured as those disclosure items that were not mandated by the standard in 2001 but were newly required disclosures in either 2006 or 2014. A total of 25 disclosures were identified as meeting this criterion[41]. This variable captured whether a firm complied with genuinely new requirements and/or anticipated a mandated disclosure and complied with it voluntarily prior to the disclosure being prescribed by the standard. Most such instances occurred between 2001 and 2006. It is hoped that this would enable an understanding of whether firms anticipated disclosure requirements prior to becoming mandatory, thus voluntarily disclosing them.

In summary, each of the four proxies used to measure compliance with the disclosure requirements of the applicable related party disclosure standard were developed from the disclosure checklist to understand if disclosure of related party transactions improved or if firms' compliance with accounting standards' disclosure requirements increases over

[40] See Appendices A.3, B.3 and D.3 for a list of disclosure items included in this proxy of disclosure.
[41] Refer to Appendices A.4, B.4 and D.4 for a list of disclosure items included in this proxy of disclosure.

time. Each proxy emphasises a particular aspect of disclosure. ***TOTAL DISCLOSURE*** is an overall indicator of compliance with related party transaction disclosures as measured by the disclosure index. ***MOVING TARGET DISCLOSURE*** measures if firms' compliance with the disclosure requirements of each version of the standard improves over time. ***COMMON DISCLOSURE*** measures if firms get better at disclosing the same mandatory items over time and finally, ***NO TO YES DISCLOSURE*** is used to indicate if early voluntary disclosure of related party transactions occurs. Figure 4.2 depicts the association between the four proxies of related party transaction disclosure.

Figure 4.2: Proxies of Related Party Transaction Disclosures



4.7 Comparison of Related Party Disclosure Standards

In calculating each proxy of disclosure, the basis for measuring related party disclosures were not always IAS 24. In some instances, firms prepared annual accounts using US GAAP or their country's local GAAP, which may have differed from IAS 24, particularly in earlier years. This situation was evident in numerous firms in Brazil, Russia and India. To address this issue, new disclosure index checklists were constructed based on the disclosure requirements of the US accounting standard SFAS No. 57 *Related Party Disclosures* or each country's applicable local GAAP. These alternative indexes have no discernible impact on the pattern of overall results, as discussed in Chapter 6 Section 6.7. The impact of this issue on each country is explained next.

4.7.1 Brazil

As discussed earlier in this chapter, 30 Brazilian firms were included in the final sample. In 2001, 26 of the Brazilian firms prepared financial information using Brazilian GAAP and four prepared financial information based on US GAAP requirements. In 2006, the number of firms preparing financial statements based on US GAAP had increased to six and the remaining 24 prepared Brazilian GAAP financial accounts. By 2014, as Brazil had adopted IFRS as their national GAAP, all the Brazilian firms in the sample presented their annual reports in accordance with IFRS.

Because several Brazilian firms prepared financial information based on US GAAP in 2001 and 2006, to measure the level of disclosure for these firms, the initial disclosure index checklist was adapted to meet the disclosure requirements of SFAS No. 57 or ASC

850[42] for each relevant year. This was necessary because the initial index was constructed from IAS 24's mandated related party disclosures. The differences between IAS 24 and US GAAP are explained in Section 4.7.5. For those Brazilian firms that prepared their financial information based on Brazilian GAAP in 2001 and 2006, as Brazilian GAAP was equivalent to IAS 24 in these years, the original disclosure index was used to determine the level of related party disclosures[43]. Therefore, measuring the related party disclosures for each of the four proxies of disclosure investigated was based on the disclosure checklist applicable to each Brazilian firm as determined by the basis of preparation reported in their annual reports.

4.7.2 Russia

The final sample consisted of 24 Russian firms as detailed in section 4.3. From this sample, in 2001, 12 firms prepared annual accounts based on IAS 24 requirements, three firms used Russian GAAP and the remaining nine firms prepared accounts using US GAAP. In 2006, 16 firms presented financial statements in line with the requirements of IAS 24, two based on Russian GAAP and seven used US GAAP. By 2014 only three firms reported their financial information using US GAAP, the remainder had all adopted IFRS for external financial reporting except for one firm that continued to use Russian GAAP.

[42] In 2008, the FASB issued the new FASB Accounting Standards Codification (ASC) which restructured the existing US GAAP pronouncements into about 90 accounting topics. This meant that the previous prefix of the US accounting standards, SFAS, was replaced with ASC and all the accounting standards were renumbered. As a result, SFAS 57 became known as ASC 850. A review of the re-numbered standard revealed that ASC 850 was equivalent to SFAS 57. For the purposes of the thesis, I will refer to the US standard on related party disclosures as SFAS 57.

[43] See Chapter 2 Section 2.4.1 for a detailed discussion of the issue.

To measure the four proxies of disclosure for each Russian firm, related party disclosure data was hand-collected based on the accounting standards adopted by each firm as disclosed in their annual report. To facilitate the data collection, the original disclosure index checklist developed based on IAS 24 was modified to incorporate the requirements of US GAAP or Russian GAAP as required. As described in Chapter 2 Section 2.4.2, Russian GAAP did not differ substantially from IAS 24 in 2001 or 2006 and as Russia adopted IFRS from 2012, it was assumed that Russian GAAP was equivalent to IAS 24 throughout the three sample years examined. Consequently, it was not necessary to develop a disclosure index based on Russian GAAP. However, a new disclosure index based on US GAAP was constructed. The applicable disclosure index checklist was then used to collect data for each year in accordance with the basis of preparation acknowledged by each individual firm in their 2001, 2006 and 2014 annual reports. The differences between IAS 24 and US GAAP are explained below in Section 4.7.5

4.7.3 India

There are 50 Indian firms in the final sample of firms examined in this thesis, as discussed previously in this chapter. In 2001, 48 firms presented annual accounts using Indian accounting standards (AS) and only two prepared accounts based on US GAAP. All 50 firm's financial statements were presented in accordance with Indian accounting standards in 2006 and all firm's annual accounts in 2014 were prepared using Indian GAAP which it is assumed were the converged Indian Accounting Standards known as Ind AS[44].

[44] As detailed in Chapter 2 Section 2.4.3, although India has not yet adopted IFRS, the Indian Accounting Standards (Ind AS) applicable in India are extensively converged with IFRS, a process that commenced in 2007.

A comparison of the Indian accounting standard AS 18 with the applicable IAS 24 in 2001 and 2006 revealed that the related party disclosure requirements of each standard differed. Accordingly, the hand-collection of these disclosures for each Indian firm in these two years was based on a revised disclosure index checklist, which complied with the disclosure requirements of Indian accounting standard AS 18. Because, by 2014 Indian accounting standards were considered converged with IFRS, in this year the collection of related party transaction disclosures was based on the original disclosure index checklist which was in accordance with IAS 24's disclosure requirements[45].

4.7.4 South Africa

All 47 South African firms in the sample prepared their financial statements using South African GAAP in 2001 and IFRS in 2006 and 2014. As South Africa adopted IFRS on 1 January 2005, and the study by Nobes (2001) showed no variation between South African accounting standards and IAS 24 in 2001, it was assumed that the disclosure requirements of IAS 24 were applicable to all South African firms each year. Accordingly, the measurement of the four proxies of disclosure for each firm was based on the disclosure requirements of IAS 24 and the original disclosure index checklist constructed from that standard.

4.7.5 Review of the differences between the related party disclosure standards

From the above discussion, the dependent variable was measured using four proxies of disclosure which were calculated using a disclosure index checklist that was based on either IAS 24, SFAS No. 57 or AS 18. As Brazilian GAAP was considered equivalent to

[45] Although the convergence process continues, many of India's original national accounting standards were converged with IFRS by 2010, including AS 18 *Related Party Disclosures*, as it was initially expected that the converged standards would be applicable from 1st April 2011 (ICAI 2018).

IAS 24, a disclosure index based on Brazilian GAAP was not required. As the differences between Russian GAAP and IAS 24 were considered minor a disclosure index checklist based on Russian GAAP was not necessary.

To determine which disclosure index was appropriate for each firm, the basis of preparation note in the annual report was reviewed each year. This review revealed that the basis of preparation was not always consistent from year to year for the same firm. There were numerous reasons why this occurred including firms listing or delisting in the US throughout the period of the research, but predominantly it was due to jurisdictions mandating IFRS as their national accounting standards during the period 2001 to 2014.

SFAS No. 57 was initially issued by FASB in 1982 and was reformatted in 2008 after a minor revision relating to the disclosure of deferred and/or current tax expense with affiliates. When IAS 24 was compared to SFAS No. 57 in 2001, the major differences highlighted were firstly, that IAS 24 requires a statement of the relationship between parent and subsidiary – Item 1 in Table 4.2 – but SFAS No. 57 does not. Secondly, the requirement that related party disclosures with directors, subsidiaries and associates as per IAS 24 (see Items 30-38 in Table 4.2) requested more details than the same disclosures in SFAS No. 57. Finally, SFAS No.57 details the need to specifically disclose transactions with the controlling parent, the nature of the consideration to be provided when a related party transaction is settled and details regarding if related party transactions were on terms equivalent to arm's length. Each of these requirements was not included in the 2001 version of IAS 24.

In 2006, the variation between the two standards was minimal as IAS 24 was substantially expanded and revised in 2003. This revision resulted in IAS 24 being more closely aligned with the disclosure requirements of SFAS No. 57. The main difference was IAS 24 prescribed more specific details surrounding outstanding balances between related parties. For example, details about whether the balance was secured, guaranteed or if a provision for doubtful debts was provided had to be disclosed (see Items 18, 20-22 in Table 4.2). Also, IAS 24 still required a statement about the relationship between parent and subsidiary, which, SFAS No. 57 lacks. After the revision of IAS 24 in 2013, the major difference between the two standards remained the same as described above as well as IAS 24 now requiring additional disclosures for government-related firms that SFAS No. 57 does not mention (see Items 45-49 in Table 4.2).

Indian accounting standard AS 18 governed the disclosure of related party transactions in India in 2001 and 2006. The comparison of IAS 24 with AS 18 in 2001, showed the following differences: AS 18 required the disclosure of any write-offs relating to outstanding balances with related parties (see Items 21 and 22 in Table 4.2) which IAS 24 did not. Further, IAS 24 prescribed specific detailed disclosures of transactions with subsidiaries and associate firms – Items 33-38 in Table 4.2 – AS 18 requires such disclosures but does not differentiate subsidiary and associate firms from other related parties. The final distinction between the standards was the requirement of IAS 24 to provide a statement regarding the pricing policies adopted when transactions with related parties occurred which AS 18 did not mention (see Item 41 in Table 4.2).

As detailed in Section 4.2, IAS 24 underwent a major revision in 2003, as a result the differences between the two standards increased. IAS 24 now required disclosure of the

parent or ultimate parent firm name (see Items 2-4 in Table 4.2), additional details regarding compensation to key management personnel (see Items 7-11 in Table 4.2), more specific details regarding outstanding loans between related parties (see Items 16-20 in Table 4.2) and that related party transactions be separately disclosed for a number of specific related parties as detailed in Items 23-29 in Table 4.2. Finally, IAS 24 required a statement that related party transactions were undertaken as arm's length transactions and if this statement was substantiated as per items 43 and 44 in table 4.2. In 2007, the ICAI announced that all Indian Accounting Standards were to be converged with IFRS and as a result AS 18 was reissued as Ind AS 24. This standard was equivalent to IAS 24 hence there were no disclosure differences between the standards in 2014.

4.7.6 Effect of firms using different related party disclosure standards

Based on the previous discussion, three disclosure index checklists were constructed and used for the hand-collection of my data because not all firms in my final sample prepared financial statements based on IAS 24 in each year[46]. Although this may imply that each of my disclosure indexes are quite diverse, in fact they are not as the differences between the standards were minimal. Appendices A to D detail each disclosure index checklist developed for each proxy of disclosure by country. The index is based on IAS 24 for Brazil, Russia and South Africa and AS 18 and Ind AS 24 for India. Appendix E details the disclosure index checklist based on US GAAP. To ensure that the use of a different checklist did not impact the regression results, each country's regressions were re-run excluding those firms whose basis of preparation was US GAAP and the results are discussed in detail in Chapter 6 Section 6.7.

[46] Details of the number of firms in Brazil, Russia and India that did not prepare their financial statements using IAS 24 are provided earlier in this Chapter in Sections 4.7.1 to 4.7.3

4.8 Measurement of the Independent Variables

To test each of the hypotheses developed in the previous chapter, several regressions were run for each country for each proxy of disclosure. Each regression included numerous independent variables and three control variables. These were mostly collected from the individual firms' published English-language annual reports at the three sample years of the thesis; 2001, 2006 and 2014.

The independent test variables were measured as a dichotomous variable, coded '1' if the variable was present in the firm, and '0' if not present. These variables were: whether each country had adopted IFRS *(MANDATEIFRS);* three year dummies, *Yr2001*, *Yr2006* and *Yr2014* with *Yr2006* used as the base case; if firms were audited by a Big 4 or 5 auditor *(BIG4/5)*[47]; if they had an audit committee *(AUDITCOM)*; if they were listed on a foreign capital market *(FORLIST);* if they had outstanding capital market debt *(OUTDEBT);* and their ownership concentration *(OWNCONCEN)* which was measured using the following five proxies; if they had one or more shareholders holding greater than 20% of their issued shares *(CLOSELYHELD);* if they had government control *(GOVTCONTROL);* if they had family control *(FAMCONTROL);* if they had a major controlling shareholder other than the government or family *(OTHCONTROL);* and finally, if the firms and their subsidiaries owned shares in each other; that is, had cross shareholdings *(CROSSSHARES).* Table 4.3 details each independent variable, how it was measured, and where it was sourced.

[47] During the years covered by the thesis, the large audit firms went from five to four, due to the failure of Arthur Andersen. In the case of India, some of the audit firms were found to be affiliates of the *BIG4/5*. These audit firms were coded as *BIG4/5* for the purposes of my thesis.

Table 4.3: Independent Variable Definition & Data Collection Method

Variable	Measurement	Data Source
Mandatory IFRS adoption *(MANDATEIFRS)*	1 if IFRS adopted by the firm, 0 otherwise	IFRS Foundation and Annual Report
Year Dummies	*Yr2001*=1, 0 otherwise; *Yr2006*=1, 0 otherwise; *Yr2014*=1, 0 otherwise; with *Yr2006* as the base case	IFRS Foundation
Big 4 or 5 Auditor *(BIG4/5)*	1 if firm is audited by a Big 4 or 5 auditor, 0 otherwise	Annual Report
Audit Committee (*AUDITCOM)*	1 if firm has an audit committee, 0 otherwise	Annual Report
Foreign Listing *(FORLIST)*	1 if firm listed on a foreign stock exchange, 0 otherwise	Annual Report
Outstanding Debt *(OUTDEBT)*	1 if firm has outstanding debt in a local or foreign capital market, 0 otherwise	Annual Report
Ownership Concentration:		
Shareholder >20% *(CLOSELYHELD)*	1 if firm has one or more shareholders holding > 20% of the issued shares, 0 otherwise	Annual Report
Government Control *(GOVTCONTROL)*	1 if firm has government control, 0 otherwise	Annual Report
Family Control *(FAMCONTROL)*	1 if firm has family control, 0 otherwise	Annual Report
Other Control *(OTHCONTROL)*	1 if firm has a major controlling shareholder other than the government or family, 0 otherwise	Annual Report
Cross Shareholding *(CROSSSHARES)*	1 if cross shareholdings exist within the group, 0 otherwise	Annual Report

4.9 Measurement of the Control Variables

The three control variables included in each regression were firm size, level of leverage and return on assets. Firm size (*SIZE)* was measured as an index based on market capitalisation and total assets. Firms were ranked in each country based on each measure of size, and for each firm the average of these two ranks was calculated. Each firm's

average rank was then used as the *SIZE* measure for the sample firms in each country[48]. Leverage *(LEV)* was calculated as the ratio of total debt to total equity. Return on assets *(ROA)* is net income after tax divided by total assets. Details regarding how each control variable was measured and where it was sourced are given in Table 4.4.

Table 4.4: Control Variable Definition & Data Collection Method

Variable	Measurement	Data Source
Firm Size *(Size)*	Index of the average of each firm's rank based on market capitalisation and total assets	Datastream
Leverage *(LEV)*	Leverage was calculated as total liabilities divided by total equity	Annual Report
Return on Assets *(ROA)*	Return on Assets was calculated as net profit after tax divided by total assets	Annual Report

4.10 Summary of the Chapter

In this Chapter, the research methodology used in the thesis was discussed. The next Chapter presents the descriptive statistics for each dependent, independent and control variable.

[48] The technique for measuring firm size is similar to Glaum et al. (2013) who used the following three proxies: total assets, number of employees and market capitalisation. Each company in the sample was ranked based on these three proxies and the mean of the ranks used as the measure of firm size. In this thesis, I use two proxies; total assets and market capitalisation, due to the lack of data availability on number of employees.

CHAPTER 5: RESULTS – DESCRIPTIVE STATISTICS

5.1 Introduction

In this Chapter, I discuss the descriptive statistics of the dependent variable as measured by the four proxies of disclosure, together with the independent and control variables across the three sample years and the four countries examined in the thesis. Sections 5.2 to 5.5 present the descriptive statistics for the four proxies of the dependent variable, respectively, and the descriptive statistics for each independent variable are provided in Section 5.6. Section 5.7 presents the control variables' descriptive statistics and a summary of all descriptive results are detailed in Section 5.8. A summary of the Chapter is presented in Section 5.9.

Table 5.1 presents the descriptive statistics for the four proxies of the dependent variable: Model 1: ***TOTAL DISCLOSURE****;* Model 2: ***MOVING TARGET DISCLOSURE***; Model 3: ***COMMON DISCLOSURE***; and Model 4: ***NO TO YES DISCLOSURE*** – measured for each sample year, 2001, 2006 and 2014, in the four sample countries, Brazil, Russia, India and South Africa. The results are discussed in the following sub-sections for each dependent variable.

Table 5.1: Descriptive Statistics – Dependent Variable Proxies (Measure of Disclosure)

PANEL A Model 1: TOTAL DISCLOSURE

	Brazil			Russia			India			South Africa		
	2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
# firms	30	30	30	24	24	24	50	50	50	47	47	47
Mean (raw score)	13.63	12.30	19.18	9.94	13.67	15.88	14.00	16.83	18.24	12.84	16.85	17.34
Mean (%)	41.47	41.52	62.14	30.38	44.21	50.63	47.40	56.10	60.43	38.12	58.25	60.22
St. Dev.	0.10	0.10	0.94	0.15	0.15	0.09	0.10	0.07	0.07	0.10	0.09	0.08
Min (%)	19.44	23.81	40.63	0.00	0.00	36.36	20.00	43.33	45.00	17.19	37.50	42.86
Max (%)	56.67	66.67	82.14	58.97	62.50	68.57	71.43	77.78	80.00	54.29	75.81	77.42
# Max Applicable Items	39	35	36	41	37	37	36	36	36	36	32	32

PANEL B Model 2: MOVING TARGET DISCLOSURE

	Brazil			Russia			India			South Africa		
	2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
# firms	30	30	30	24	24	24	50	50	50	47	47	47
Mean (raw score)	9.92	11.78	19.17	7.23	11.92	15.88	8.02	8.71	18.20	10.13	16.81	17.42
Mean (%)	60.83	42.15	61.91	42.13	42.30	50.63	70.92	79.19	60.46	63.23	60.20	60.49
St. Dev.	0.15	0.09	0.09	0.27	0.14	0.09	0.10	0.01	0.07	0.15	0.09	0.08
Min (%)	31.25	23.81	40.63	0.00	0.00	36.36	42.50	50.00	45.00	28.13	38.89	42.86
Max (%)	81.25	63.33	79.31	81.25	61.29	68.57	81.82	100.00	80.00	87.50	78.33	77.42
# Max Applicable Items	16 (22)*	31	36	16 (22)*	31	37	11 (21)*	11	37	16	31	32

***** The 21 & 22 required disclosure items relate to the firms which used US GAAP to prepare their financial information.

Table 5.1: Descriptive Statistics – Dependent Variable Proxies (Measure of Disclosure) continued

PANEL C Model 3: COMMON DISCLOSURE

	Brazil			Russia			India			South Africa		
	2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
# firms	30	30	30	24	24	24	50	50	50	47	47	47
Mean (raw score)	8.08	8.15	11.57	7.19	8.38	10.15	8.26	9.45	9.75	6.36	10.28	10.46
Mean (%)	63.44	63.73	87.86	52.00	59.93	69.08	73.10	83.22	86.11	53.01	85.64	87.15
St. Dev.	0.13	0.13	0.10	0.33	0.25	0.16	0.11	0.08	0.07	0.11	0.09	0.82
Min (%)	33.30	36.36	68.18	0.00	0.00	36.36	36.36	56.82	68.18	29.17	58.33	66.67
Max (%)	75.00	100.00	100.00	100.00	91.67	91.67	81.82	100.00	100.00	70.83	100.00	100.00
#Max Applicable Items		12 (22)*			12 (22)*			11(21)*			12	

PANEL D Model 4: NO TO YES DISCLOSURE

	Brazil			Russia			India			South Africa		
	2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
# firms	30	30	30	24	24	24	50	50	50	47	47	47
Mean (raw score)	4.42	4.60	7.63	3.13	5.54	5.69	5.94	7.79	8.45	2.71	6.60	6.96
Mean (%)	25.94	26.41	43.20	17.23	28.83	31.01	30.27	41.71	44.52	15.12	38.89	41.32
St. Dev.	0.15	0.16	0.12	0.13	0.19	0.16	0.13	0.09	0.12	0.10	0.12	0.12
Min (%)	8.33	0.00	15.00	0.00	0.00	0.00	8.33	23.53	14.29	0.00	12.50	12.50
Max (%)	76.92	69.23	64.71	43.48	57.14	60.87	62.50	65.63	73.68	36.84	63.16	63.16
# Max Applicable Items	23	24	24	25	25	25	25	24	25	20	20	20

*The 21 & 22 common disclosure items relate to the firms which used US GAAP to prepare their financial information.

5.2 Model 1: *TOTAL DISCLOSURE*

As discussed in Chapter 4 Section 4.6.1, ***TOTAL DISCLOSURE*** measures the total disclosure score, based on all required related party transaction disclosures in IAS 24 across the three sample years divided by the total required related party transaction disclosures applicable to each firm[49]. The total raw disclosure score and the mean, standard deviation, minimum and maximum for ***TOTAL DISCLOSURE*** are reported for each country in 2001, 2006 and 2014 in Table 5.1 Panel A.

5.2.1 Brazil

In 2001, Brazilian firms complied with Brazilian GAAP or the US accounting standard SFAS No. 57 *Related Party Disclosures* and by 2014 all Brazilian firms complied with IAS 24[50]. The total maximum applicable disclosures were 39 for Brazilian firms which occurred in 2001. The mean raw score was 13.63 in 2001, which was higher than the score in 2006; however, the mean raw score increased considerably from 12.30 in 2006 to 19.18 in 2014[51]. The mean percentage disclosure score, ***TOTAL DISCLOSURE***, was almost the same in 2001 and 2006 at 41.47% and 41.52% respectively but increased in 2014 to 62.14% (refer to Table 5.1 Panel A).

[49] The number of total required disclosures in IAS 24 in 2001 were 41 items and, in 2006 and 2014, it was 37 items. Not all items were applicable to all firms in each country; hence, the number of applicable items varied between 22 and 39. See Chapter 4 Section 4.5.1 for a discussion of how the number of applicable items was determined for each year in each country.

[50] For more details about this breakdown see Chapter 4 Section 4.7.1

[51] The decline in the raw disclosure score from 2001 to 2006 occurred because the total required disclosures dropped from 41 to 37 hence most firms' disclosure decreased as less disclosures were required by the applicable standard. However ***TOTAL DISCLOSURE*** remained relatively unchanged , i.e. from 41.47% to 41.52%, because although the total applicable disclosures also decreased from 2001 to 2006 for most firms, this decrease was lower in percentage terms than was the fall in the raw disclosure scores for most firms in my sample. For example, the raw disclosure for BRF (a Brazilian firm) fell from 11.5 in 2001 to 10 in 2006, but as the total disclosures applicable to this company also decreased from 35 to 29 items, **TOTAL DISCLOSURE** for the company increased from 32.86% (11.5/35) to 34.48% (10/29).

5.2.2 Russia

Across the three sample years of my thesis, Russian firms disclosed related party transactions based on IAS 24 or SFAS No. 57[52]. The total maximum applicable disclosures for Russian firms were 41, which was in 2001. Table 5.1 Panel A reports a steady increase in the mean raw disclosure scores across the three years. The table also indicates that the average ***TOTAL DISCLOSURE*** rose from 30.38% in 2001 to 44.21% in 2006 and to 50.63% in 2014. Accordingly, across the three sample years, Russian firm's disclosure of related party transactions improved with 2014 showing the highest level of disclosure.

5.2.3 India

In 2001 and 2006, Indian firms complied with AS 18, the Indian GAAP that governed the disclosure requirements of related party transactions or SFAS No. 57[53]. By 2014, Indian firms were complying with Ind AS 24, the Indian accounting standard which was converged with IAS 24 by 2010. The total maximum applicable disclosure items for Indian firms were 36 in each sample year. Table 5.1 Panel A shows that Indian firms' mean raw disclosure and ***TOTAL DISCLOSURE*** improved each year, the former from 14.00 in 2001 to 18.24 in 2014 and the latter from 47.40% in 2001 to 60.43% in 2014.

5.2.4 South Africa

All South African firms report their related party transaction disclosures based on IAS 24 in each of the three sample years of my thesis. The total maximum applicable disclosure items for the South African firms was highest in 2001, at 36. The raw disclosure score

[52] For more details about this breakdown see Chapter 4 Section 4.7.2
[53] For more details about this breakdown see Chapter 4 Section 4.7.3

reported in Table 5.1 Panel A indicates that South African firm's disclosure of related party transactions improved significantly from 2001 to 2006 and only slightly from 2006 to 2014. The Table also shows that the average ***TOTAL DISCLOSURE*** improved from 2001 to 2006 and continued to increase in 2014 with average disclosure being 38.12% in 2001, 58.25% in 2006 and 60.22% in 2014.

5.3 Model 2: *MOVING TARGET DISCLOSURE*

MOVING TARGET DISCLOSURE measures the disclosure of related party transactions, based on the applicable related party accounting standard, which are specifically required at each year covered in my thesis; 2001, 2006 and 2014, for each firm (refer to Chapter 4 Section 4.6.2 for a more detailed discussion). As the disclosure requirements of the mandated standard were different in each sample year, the number of required disclosure items varied across years. In cases where IAS 24 is the applicable accounting standard, 16 disclosure items were required in 2001, 31 were required in 2006 and in 2014, 37 items were required[54]. The mean, standard deviation, minimum and maximum ***MOVING TARGET DISCLOSURE*** are presented for each country and each sample year in Table 5.1 Panel B.

5.3.1 Brazil

Table 5.1 Panel B reports that in 2001, the average raw score for Brazilian firms was 9.92 increasing to 11.78 in 2006 and 19.17 in 2014. However, the mean ***MOVING TARGET DISCLOSURE*** was 60.83% in 2001, decreasing to 42.15% in 2006 and then improving

[54] As IAS 24 was not applicable in all three years in each country, this disclosure proxy was measured in a number of different ways. Brazil, Russia and India each had a number of firms that prepared accounts using US GAAP, and in 2001 and 2006 the applicable accounting standard in India was AS 18. See Chapter 4 Sections 4.7.1 to 4.7.4 for a detailed discussion of how this variable was measured for each year in each country.

again in 2014 to 61.91%. The ***MOVING TARGET DISCLOSURE*** was thus lower in 2006 compared to 2001, although the raw score rose slightly, because the actual required disclosures in the standard increased substantially between these two years (from 16 in 2001 to 31 in 2006), but the reported raw disclosures by Brazilian firms only showed a minor increase.

5.3.2 Russia

Table 5.1 Panel B shows that the mean ***MOVING TARGET DISCLOSURE*** changes slightly from 42.13% in 2001 to 42.30% in 2006 but then increases to 50.63% in 2014 for Russian firms. However, the mean raw disclosure score increases across the three years. As discussed for Brazil, there was a notable increase in the disclosure requirements of the standard from 2001 to 2006, which meant that although the raw disclosure score improved, it did not increase at the same rate as the number of required disclosures. In relation to the minimum disclosure, in 2014 for the first time all Russian firms provide some form of related party transaction disclosures.

5.3.3 India

Table 5.1 Panel B indicates that the mean, minimum and maximum ***MOVING TARGET DISCLOSURE*** are higher in 2006 than 2001, but all these statistics decline from 2006 to 2014. Despite this, the average raw disclosure score is very similar from 2001 to 2006 and there is a considerable increase in 2014. This variation may be explained by Indian firms using AS 18 for the first two years of my thesis and applying Ind AS 24, which was converged with IAS 24, from 2010. The converged standard mandated 37 disclosure requirements in 2014 compared to AS 18, which mandated only 11 requirements in 2001

and 2006, meaning that the denominator to calculate ***MOVING TARGET DISCLOSURE*** rose at a faster rate by 2014 than the actual reported disclosures.

5.3.4 South Africa

Table 5.1 Panel B reports that the mean raw disclosure score improves over time, but the mean ***MOVING TARGET DISCLOSURE*** decreases from 63.23% in 2001 to 60.20% in 2006 and to 60.49% in 2014. This variability in the ***MOVING TARGET DISCLOSURE*** measure can be explained by the increase in the raw scores being proportionately lower than the increase in the required disclosures in 2006 and 2014.

5.4 Model 3: *COMMON DISCLOSURE*

As described in Chapter 4 Section 4.6.3, ***COMMON DISCLOSURE*** measures a firm's reported total common disclosures divided by the applicable common disclosures for each firm. The common related party transaction disclosures are those requirements that are consistently present in each version of the applicable standard in 2001, 2006 and 2014. The number of disclosure items common across the three years applicable to all firms which prepared their financial statements using IAS 24, is 12 in Brazil, Russia and South Africa, and 11 in India if they prepared their accounts based on AS 18 and Ind AS 24[55]. As the number of required common disclosures remained constant and applicable across the three periods for each firm, ***COMMON DISCLOSURE*** represents the raw disclosure score as a percentage of the common items. The mean, standard deviation, minimum and maximum ***COMMON DISCLOSURE*** are presented for each country and each sample year in Table 5.1 Panel C.

[55] For those firms in Brazil, Russia and India that prepared their financial statements using US GAAP, the applicable common disclosures were 22 for Brazilian and Russian firms and 21 for Indian firms.

5.4.1 Brazil

A review of Table 5.1 Panel C indicates that, for Brazilian firms, the average raw disclosure score and ***COMMON DISCLOSURE*** remain relatively constant from 2001 to 2006 but in 2014 a notable improvement is reported – the raw score increases from 8.15 in 2006 to 11.57 in 2014 and ***COMMON DISCLOSURE*** from 63.73% to 87.86%. The minimum and maximum scores also increase across the three years.

5.4.2 Russia

For Russian firms, Table 5.1 Panel C shows that the mean raw disclosure scores and ***COMMON DISCLOSURE*** improve across the three years with the greatest improvement from 2006 to 2014: 8.38 and 59.93% in 2006 to 10.15 and 69.08% in 2014 respectively. Minimum scores increase but the maximum score decreases slightly.

5.4.3 India

As presented in Table 5.1 Panel C the mean, minimum and maximum ***COMMON DISCLOSURE*** score improve across the three sample years for Indian firms as does the raw disclosure score. The average ***COMMON DISCLOSURE*** is 73.10% in 2001, this increases to 83.22% in 2006 and to 86.11 % in 2014.

5.4.4 South Africa

As detailed in Table 5.1 Panel C, for South African firm, the raw disclosure and ***COMMON DISCLOSURE*** variables improve substantially from 2001 (6.36; 53.01%) to 2006 (10.28; 85.64%) but only slightly increase from 2006 to 2014 (10.46; 87.15%). By 2006, one South African firm provides 100.00% disclosure and the minimum disclosure

is 58.33% up from 29.17% in 2001. In 2014, full disclosure continues and the minimum disclosure increases to 66.67%.

5.5 Model 4: *NO TO YES DISCLOSURE*

NO TO YES DISCLOSURE was measured as the number of disclosure items that were not mandated in the 2001 version of IAS 24 but were newly required disclosures in 2006 or 2014, divided by the required applicable disclosure items for each firm as detailed in Chapter 4 Section 4.6.4. ***NO TO YES DISCLOSURE*** is thus a measure of early voluntary adoption of disclosure items that later become mandatorily required. The ***NO TO YES DISCLOSURE*** items were 25 for almost all sample years and countries, except India which has only 24 items in 2001 and 2006. The mean, standard deviation, minimum and maximum ***NO TO YES DISCLOSURE*** are presented for each country and each sample year in Table 5.1 Panel D.

5.5.1 Brazil

For Brazilian firms, Table 5.1 Panel D reports that the mean raw score and the mean ***NO TO YES DISCLOSURE*** are similar in 2001 and 2006 but both improve by 2014, raw score from 4.60 in 2006 to 7.63 in 2014 and ***NO TO YES DISCLOSURE*** from 26.41% in 2006 to 43.20% in 2014.

5.5.2 Russia

Table 5.1 Panel D shows that for Russian firms, both the average raw score and mean ***NO TO YES DISCLOSURE*** strengthen across the three years to 5.69 and 31.01% respectively in 2014. The maximum disclosure occurs in 2014 (60.87%). In each year, at least one firm provides no disclosure.

5.5.3 India

For Indian firms, the mean raw score and mean ***NO TO YES DISCLOSURE*** presented in Table 5.1 Panel D indicate that mean raw scores improve quite a bit from 2001 to 2006 (5.94 to 7.79) as does the mean ***NO TO YES DISCLOSURE*** (30.27% to 41.71%) but do not vary much from 2006 to 2014. The highest maximum disclosure score reported, 73.68% is in 2014 and has increased each year; however, the minimum disclosure increases from 2001 to 2006 but decreases in 2014.

5.5.4 South Africa

Table 5.1 Panel D indicates that the average raw score and mean ***NO TO YES DISCLOSURE*** increase considerably from 2001 (2.71 and 15.12%) to 2006 (6.60 and 38.89%), but the disclosure levels are very similar in 2006 and 2014, for South African firms. The minimum and the maximum disclosures both improve from 2001 to 2006 but remain the same from 2006 to 2014[56].

5.6 Independent Variables

Table 5.2 presents the descriptive statistics for the dichotomous independent variables that were discussed in detail in Chapter 4 Section 4.8. Each independent variable is discussed by country in the following sub-sections.

[56] Two different firms reported the minimum disclosures in 2006 and 2014. However the same firm reported the maximum disclosure in 2006 and 2014.

Table 5.2: Descriptive Statistics – Independent Variables

		Brazil			Russia			India			South Africa		
		2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
		n (%)	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**
# firms		**30**	**30**	**30**	**24**	**24**	**24**	**50**	**50**	**50**	**47**	**47**	**47**
BIG*4/5*	0	1 (3.30)	1 (3.30)	2 (6.70)	3 (12.50)	2 (8.30)	2 (8.30)	21 (42.00)	18 (36.00)	18 (36.00)	4 (8.50)	3 (6.40)	3 (6.40)
	1	29 (96.70)	29 (96.70)	28 (93.30)	21 (87.50)	22 (91.70)	22 (91.70)	29 (58.00)	32 (64.00)	32 (64.00)	43 (91.50)	44 (93.60)	44 (93.60)
AUDITCOM	0	21 (70.00)	10 (33.30)	5 (16.70)	17 (70.50)	8 (33.30)	3 (12.50)	2 (4.00)	-	-	-	-	-
	1	9 (30.00)	20 (66.70)	25 (83.30)	7 (29.20)	16 (66.70)	21 (87.50)	48 (96.00)	50 (100.00)	50 (100.00)	47 (100.00)	47 (100.00)	47 (100.00)
FORLIST	0	11 (36.70)	11 (36.70)	10 (33.30)	15 (62.50)	11 (45.80)	9 (37.50)	32 (64.00)	26 (52.00)	30 (60.00)	37 (78.70)	36 (76.60)	32 (68.10)
	1	19 (63.30)	19 (63.30)	20 (66.70)	9 (37.50)	13 (54.20)	15 (62.50)	18 (36.00)	24 (48.00)	20 (40.00)	10 (21.30)	11 (23.40)	15 (31.90)
OUTDEBT	0	9 (30.00)	5 (16.70)	5 (16.70)	10 (41.70)	7 (29.20)	4 (16.70)	20 (40.00)	22 (44.00)	21 (42.00)	31 (66.00)	37 (78.70)	30 (63.80)
	1	21 (70.00)	25 (83.30)	25 (83.30)	14 (58.30)	17 (70.80)	20 (83.30)	30 (60.00)	28 (56.00)	29 (58.00)	16 (34.00)	10 (21.30)	17 (36.20)

Table 5.2: Descriptive Statistics – Independent Variables continued

		Brazil			Russia			India			South Africa		
		2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
		n (%)	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**	**n (%)**
# firms		**30**	**30**	**30**	**24**	**24**	**24**	**50**	**50**	**50**	**47**	**47**	**47**
OWNERSHIP CONCENTRATION													
CLOSELYHELD	0	11 (36.70)	7 (23.70)	3 (10.00)	1 (4.20)	2 (8.30)	4 (16.70)	10 (20.00)	4 (8.00)	8 (16.00)	17 (36.20)	28 (59.60)	31 (66.00)
	1	19 (63.30)	23 (76.70)	27 (90.00)	23 (95.80)	22 (91.70)	20 (83.30)	40 (80.00)	46 (92.00)	42 (84.00)	30 (63.80)	19 (40.40)	16 (34.00)
GOVTCONTROL	0	25 (83.30)	25 (83.30)	25 (83.30)	12 (50.00)	15 (62.50)	16 (66.70)	38 (76.00)	39 (78.00)	39 (78.00)	47 (100.00)	47 (100.00)	47 (100.00)
	1	5 (16.70)	5 (16.70)	5 (16.70)	12 (50.00)	9 (37.50)	8 (33.30)	12 (24.00)	11 (22.00)	11 (22.00)	-	-	-
FAMCONTROL	0	28 (93.30)	26 (86.70)	28 (93.30)	21 (87.50)	20 (83.30)	20 (83.30)	40 (80.00)	40 (80.00)	40 (80.00)	47 (100.00)	47 (100.00)	47 (100.00)
	1	2 (6.70)	4 (13.30)	2 (6.70)	3 (12.50)	4 (16.70)	4 (16.70)	10 (20.00)	10 (20.00)	10 (20.00)	-	-	-
OTHCONTROL	0	18 (60.00)	16 (53.30)	10 (33.30)	16 (66.70)	15 (62.50)	14 (58.30)	32 (64.00)	25 (50.00)	29 (58.50)	17 (36.20)	28 (59.60)	31 (66.00)
	1	12 (40.00)	14 (46.70)	20 (66.70)	8 (33.30)	9 (37.50)	10 (41.70)	18 (36.00)	25 (50.00)	21 (42.00)	30 (63.80)	19 (40.40)	16 (34.00)
CROSSHARES	0	28 (93.30)	27 (90.00)	29 (96.70)	18 (75.00)	19 (79.20)	18 (75.00)	50 (100.00)	50 (100.0)	50 (100.00)	36 (76.60)	18 (38.30)	17 (36.20)
	1	2 (6.70)	3 (10.00)	1 (3.30)	6 (25.00)	5 (20.80)	6 (25.00)	-	-	-	11 (23.40)	29 (61.70)	30 (63.80)

BIG4/5 is coded 1 if firm is audited by a Big 4 or 5 auditor, 0, otherwise; *AUDITCOM* is coded 1 if firm has an audit committee, 0, otherwise; *FORLIST* is coded 1 if a firm is listed on a foreign stock exchange, 0, otherwise; *OUTDEBT* is coded 1 if firm has outstanding capital market debt in a local or foreign capital market, 0, otherwise; *CLOSELYHELD* is coded 1 if firm has one or more shareholders holding > 20% of issued shares, 0, otherwise; *GOVTCONTROL* is coded 1 if firm has government control, 0, otherwise; *FAMCONTROL* is coded 1 if firm has family control, 0, otherwise; *OTHCONTROL* is coded 1 if firm has a major controlling shareholder other than the government or family, 0, otherwise; *CROSSSHARES* is coded 1 if cross shareholdings exist within the group, 0, otherwise.

5.6.1 Brazil

Table 5.2 indicates that nearly all Brazilian firms were audited by a Big 4 or 5 auditor (*BIG4/5*) in all years. In 2001, only nine firms had an audit committee (*AUDITCOM*) and this increased substantially to 20 in 2006 and 25 in 2014. Also, by 2014, 66.70% of Brazilian firms were listed on a foreign stock exchange (*FORLIST*) and 83.30% had outstanding capital market debt (*OUTDEBT*). Ownership concentration as proxied by *CLOSLEYHELD* increased from 19 firms in 2001 to 27 firms in 2014, whereas the same five firms had government control (*GOVTCONTROL)* across the three sample years. Only a small number of firms reported having family control (*FAMCONTROL)* and the number of firms with a major controlling shareholder (*OTHCONTROL)* increased steadily over time with a total of 20 in 2014. Cross shareholdings (*CROSSHARES*) were reported only by a small number of firms across the three sample years.

5.6.2 Russia

Table 5.2 shows that the majority of Russian firms were audited by a Big 4 or 5 auditor (*BIG4/5*) across the three years. The number of firms that had established an audit committee (*AUDITCOM*) increased from seven (29.20%) in 2001 to 16 (66.70%) in 2006 and 21 (87.50%) in 2014. In 2001, only 37.50% of firms were listed on a foreign exchange (*FORLIST*), this increased to 62.50% in 2014. Fourteen Russian firms had debt outstanding in a capital market (*OUTDEBT*) in 2001 and by 2014 most Russian firms had outstanding debt (20 out 24 firms). The level of ownership concentration varied across the three sample years for each proxy. For example, most Russian firms had at least one shareholder that had a shareholding of 20% or more (*CLOSELYHELD). GOVTCONTROL* decreased over the three years from 12 firms (50.00%) in 2001 to eight firms (33.30%) in 2014. The remaining three proxies *FAMCONTROL*, *OTHCONTROL*

and *CROSSHARES* remained relatively constant each year, with only a small number of firms having these forms of ownership concentration.

5.6.3 India

Table 5.2 shows that over half of the Indian firms were audited by a Big 4 or 5 auditor (*BIG4/5*) across the three sample years (58.00% in 2001 and 64.00% in 2006 and 2014)[57]; however, relative to the other countries, these numbers were quite low. For example, by 2014, more than 90.00% of firms in Brazil, Russia and South Africa had a Big 4 or 5 auditor. In 2001, only two Indian firms did not have an audit committee (*AUDITCOM*) and by 2006, and thereafter, all firms had an audit committee. During the three sample years, less than half of the Indian firms were listed on a foreign exchange (*FORLIST*) but more than half had outstanding capital market debt (*OUTDEBT*). Ownership concentration as proxied by *CLOSELYHELD* shows that at least 80.00% of Indian firms had closely held shareholdings and around 22.00% of firms had *GOVTCONTROL* in each sample year. 20.00% of the sample firms had *FAMCONTROL*, though the firms with family control were not the same each year, and *OTHCONTROL* varied across the three years, increasing from 36.00% in 2001 to 50.00% in 2006 and then decreasing in 2014 to 42.00%. No Indian firms had cross shareholdings (*CROSSHARES*) throughout the three sample years.

5.6.4 South Africa

Table 5.2 reports that in all three sample years, a Big 4 or 5 auditor (*BIG4/5*) audited over 90.00% of South African firms and all firms had an audit committee (*AUDITCOM*). By

[57] It should be noted that in India, some of the auditors coded as *BIG4/5* were affiliates of the Big 4 or 5 audit firms. It is assumed that if an affiliate of a Big 4/5 audits a firm, it is as if the Big 4/5 firm has done so.

2014, the number of firms listed on a foreign capital market (*FORLIST*) had risen to 15 (31.90%) and those with debt outstanding on a capital market (*OUTDEBT*) also went up to 17 out of 47 firms (36.20%). Ownership concentration as proxied by *CLOSELYHELD* decreased from 63.80% in 2001 to 34.00% in 2014. No South African firm had government (*GOVTCONTROL*) or family (*FAMCONTROL*) control[58]. On the other hand, *CROSSHARES* shows that, over time, more firms were owned by other firms in the same corporate group (23.40% in 2001 and 63.80% in 2014).

In summary, Table 5.2 reports that a large majority of firms in Brazil, Russia and South Africa had Big 4 or 5 auditors (*BIG4/5*) across the three sample years, but just over half of the Indian firms. By 2006, all Indian and South African firms had an audit committee (*AUDITCOM*) and over 90.00% of firms in Brazil and Russia. All countries had some firms listed on a foreign capital market (*FORLIST*) across the three sample years and by 2014, more than half of the firms in Brazil and Russia were listed on a foreign market[59].

A large proportion of firms in Brazil, Russia and India had outstanding debt on a capital market (*OUTDEBT*) each year; however, this was not the case in South Africa. More than 80.00% of firms in Russia and India had at least one shareholder that owned greater than 20% of the outstanding shares *(CLOSELYHELD*) each year, and by 2014 this existed in 90.00% of Brazilian firms. In South Africa, however, there was a decreasing trend of closely held share ownership. Only a small number of firms in Brazil, Russia and India had government control (*GOVTCONTROL*) or family control (*FAMCONTROL)* and

[58] Since *CLOSELYHELD* comprises government, family, and other controls, *OTHCONTROL* equals *CLOSELYHELD* for South African firms. *CROSSHARES* because it is a dichotomous variable is not a subset of *CLOSELYHELD.*

[59] Some Brazilian firms were listed in the US, UK and Spain while a few Russian firms were listed in either the US or UK.

neither type of control existed in South African firms. Russia had the greatest number of firms with government control, while India had the highest percentage of family control and South Africa the highest percentage of firms with cross shareholdings, while India had no firms with such shareholdings and Brazil and Russia had only a very small number. In short, these descriptive statistics indicate that factors hypothesised to impact compliance with disclosure standards vary across countries, suggesting that a country-by-country analysis of the hypotheses would be beneficial.

5.7 Control Variables

Based on the prior literature, I control for the following three firm-specific variables: firm size (in US$M), level of leverage and return on assets as discussed in Chapter 4 Section 4.9. Table 5.3 presents mean, standard deviation, minimum and maximum of each of these control variables, country by country and by each sample year examined in my thesis.

Table 5.3: Descriptive Statistics – Control Variables

		Brazil			Russia			India			South Africa		
		2001	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**	**2001**	**2006**	**2014**
# firms		**30**	**30**	**30**	**24**	**24**	**24**	**50**	**50**	**50**	**47**	**47**	**47**
SIZE													
Market Cap (US$m)	Mean	751	3,654	7,817	3,494	29,663	14,381	1,291	6,472	10,646	771	3,960	3,960
	St. Dev.	1,100	5,251	17,488	4,300	59,592	20,420	2,078	8,780	11,778	1,497	6,053	6,383
	Min	32	212	18	10	157	96	67	463	22	18	145	283
	Max	4,484	24,320	96,645	10,516	264,284	78,374	10,178	42,106	46,702	8,118	27,880	35,375
Total Assets (US$m)	Mean	6,452	11,544	31,770	6,890	19,956	32,664	1,520	3,376	10,658	924	2,267	3,574
	St. Dev.	6,821	12,609	29,210	15,519	41,109	60,917	2,346	5,525	14,690	1,164	3,028	4,891
	Min	242	416	1,626	16	312	68	126	142	245	9	60	69
	Max	26,405	60,954	116,489	76,647	201,724	261,508	11,345	26,977	71,445	6,293	14,246	26,049
LEV													
Debt/Equity%	Mean	160.36	162.42	196.97	122.15	93.99	113.61	115.60	130.85	165.29	125.92	156.20	151.51
	St. Dev.	113.87	131.66	179.59	177.07	76.04	197.90	92.15	79.81	135.37	95.90	153.92	119.11
	Min	35.92	53.32	18.58	5.80	6.26	-317.32	12.54	24.10	11.38	5.02	21.21	21.59
	Max	532.91	767.78	767.78	669.11	266.86	550.46	463.85	415.14	590.67	450.60	709.82	607.80
ROA													
NPAT/Total Assets %	Mean	3.90	7.19	4.45	10.07	10.99	0.55	11.26	12.51	8.43	8.90	11.99	7.18
	St. Dev.	7.33	5.23	5.78	9.20	8.40	10.24	10.32	8.66	8.48	8.82	7.93	7.16
	Min	-24.51	-2.12	-4.29	-16.75	1.46	-16.75	-5.64	-0.97	-7.67	-4.33	-1.54	-3.11
	Max	16.21	20.99	25.84	39.86	30.69	26.76	62.93	30.80	36.26	39.68	31.28	29.79

SIZE is the average rank of total assets US$ and market capitalisation US$; *LEV* is the ratio of total liabilities to total equity; *ROA* is the ratio of net profit after tax to total assets.

5.7.1 Brazil

The mean market capitalisation and total assets *(SIZE)* of the Brazilian firms grew considerably from 2001 to 2014, reflecting a substantial growth in the size of the Brazilian firms across the three sample years. Average leverage (*LEV*) in Brazilian firms is very similar in 2001 and 2006 (160.36% and 162.42%, respectively) and increases to 196.97% in 2014. The lowest level of leverage reported in 2001 is 35.92% and the highest is 767.78% reported in 2006 and 2014[60]. Brazilian firms' average return on assets (*ROA)* improves from 2001 (3.90%) to 2006 (7.19%) and then decreases in 2014 (4.45%) and, as a number of firms' report operating losses, minimum *ROA* is negative each year.

5.7.2 Russia

On average, Russian firms grew in size from 2001 to 2006 as represented by both market capitalisation and total assets (*SIZE*). However, from 2006 to 2014, average market capitalisation decreases considerably, although average total assets increase. As market capitalisation is measured in US dollars the significant drop observed can be explained by the substantial fall of the Russian Ruble against the US dollar during the period. The Russian Ruble more than halved against the US dollar which meant that although market capitalisation increased significantly in Russian Rubles, it fell in US dollars. The same fall did not occur in total assets however, because while US dollar total assets improve, the growth in total assets in Rubles is much greater compared to the growth in market capitalisation in Russian Rubles[61]. The reported leverage *(LEV)* of Russian firms fluctuates across the three years with minimum leverage of -317.32% reported in 2014

[60] The highest reported leverage ratio was 1201.10% in 2006 but, as this was considered an outlier, it was winsorized to the next lowest value of 767.78% to minimise the impact on the regression results.
[61] To determine if the size of the Russian firm increased over the period 2006 to 2014 based on Russian Rubles, I reviewed the value of total assets and market capitalisation in Russian local currency in 2006 and 2014. This showed that both these variables had notable increases during this period.

due to large carry forward losses by one Russian firm[62]. The average *ROA* is similar in 2001 and 2006 but falls in 2014 because a number of Russian firms' report operating losses in 2014.

5.7.3 India

Table 5.3 shows that Indian firms became larger over the three sample years as both the market capitalisation and total assets *(SIZE)* increase over time. Indian firms' mean leverage *(LEV)* increases over time from 115.60% in 2001 to 165.29% in 2014, yet the lowest reported leverage occurs in 2014 being 11.38%[63][64]. The highest *ROA* measured for Indian firms is in 2001 (62.93%) and the lowest ROA is reported in 2014 (-7.67%) due to reported losses.

5.7.4 South Africa

The average size *(SIZE)* of South African firms is comparatively larger in 2006 than 2001 based on both market capitalisation and total assets but is constant (market capitalisation) or slightly bigger (total assets) in 2014. The mean leverage *(LEV)* is the smallest in 2001 (125.92%) but is similar in 2006 and 2014 (156.20% and 151.51%, respectively). South African firm's *ROA* varies across the three sample years and in each year negative *ROA* is reported as some firms have operating losses.

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[62] One Russian firm reported a leverage ratio of -2156.41% in 2014 due to excessive hedge reserve losses, this was considered an outlier so was winsorized to the next lowest value of -317.32% to avoid any bias that may result. The same Russian firm had a leverage ratio of 1321.60% in 2001 which was also an outlier and was winsorized to the next lowest value of 669.11% to minimise the impact on the regression results.

[63] In addition, one Indian firm reported a leverage ratio of 2987.50% due to a very low equity balance as a result of large carry forward losses and negative FCTR. As this was considered an outlier, it was winsorized to the next lowest value of 590.67% to ensure that there was no bias caused to the regression results.

[64] I acknowledge that there are a number of possible ways of dealing with outliers; e.g. winsorizing or trimming. I consider winsorizing the more appropriate as trimming would decrease an already small sample size and would make interpretation of my results difficult. Conversely, if I kept the outliers (unadjusted) in my sample, I would risk them overly impacting my results, given my already small sample sizes for each country.

A number of disclosure compliance studies include industry as an independent variable as it is considered a variable that may impact disclosure. As the size of my sample per country is small, very little variation in industry is observed in each country, which precludes the inclusion of industry as an explanatory variable. Table 5.4 reports the distribution of the constant sample firms by industry and country based on the GICS codes used in the Compustat Global database.

Table 5.4: Distribution of Sample Firms by Industry and Country

	Brazil		**Russia**		**India**		**South Africa**	
	N	***%***	***N***	***%***	***N***	***%***	***N***	***%***
Industry								
Energy	1	3.34	8	33.34	5	10.00	2	4.25
Materials	9	30.00	5	20.83	11	22.00	12	25.53
Industrial	3	10.00	3	12.50	10	20.00	10	21.28
Apparel/leisure	6	20.00	3	12.50	5	10.00	8	17.02
Food & Beverage	4	13.33	-	-	7	14.00	10	21.27
Health	-	-	-	-	5	10.00	3	6.38
Technology	-	-	-	-	2	4.00	1	2.13
Telecommunications	3	10.00	3	12.50	1	2.00	1	2.13
Utilities	4	13.33	2	8.33	4	8.00	-	-
Total # Firms	**30**		**24**		**50**		**47**	

In summary, across the four countries in each of 2001, 2006 and 2014, Russia had the largest market capitalisation and total assets and either South Africa or Brazil the smallest[65]. Financial leverage was the highest in Brazil each year and the lowest in India in 2001 and in Russia in 2006 and 2014. The movement in average leverage varied across firms within each country and across the three years. Indian firms have the highest

[65] As discussed earlier, market capitalisation in Russia may have been impacted by the movement in the US dollar to Russian Ruble exchange rates between 2006 and 2014.

average *ROA* each year and Brazilian firms have the lowest in 2001 and 2006 with Russia having the lowest in 2014. All countries report negative *ROA* across all or most sample years.

5.8 Summary of the Chapter

Chapter 5 presented the descriptive statistics for each dependent, independent and control variable. The next chapter discusses the findings from the regressions performed to test each of the hypotheses developed in Chapter 3.

CHAPTER 6: RESULTS – REGRESSION ANALYSIS

6.1 Introduction

In this Chapter, the results of testing the hypotheses developed in Chapter 3 Section 3.6 are discussed. In order to test hypotheses 1 to 6, which focus on firm-specific factors, four regressions are developed for each country to test the four proxies used to measure related party disclosure[66]: Model 1: ***TOTAL DISCLOSURE***, Model 2: ***MOVING TARGET DISCLOSURE***, Model 3: ***COMMON DISCLOSURES***, and Model 4: ***NO TO YES DISCLOSURE***[67]. Results of each model tested for each country are reported in separate tables. A regression to test if country of domicile impacts compliance is also examined. At this point, it should be noted that the results being reported in this Chapter are statistical associations and do not imply causality. Sections 6.2 to 6.5 present the regression results for the four sample countries; Brazil, Russia, India, and South Africa, respectively, while Section 6.6 provides the regression results for the cross country comparison. Section 6.7 and 6.8 provide the results of the additional analysis undertaken. A summary of the Chapter is presented in Section 6.9.

6.2 Brazil

To test each of the *four* proxies of disclosure for Brazil, the following regression was used.

$$\boldsymbol{BRAZIL\ COMPLIANCE = \alpha + \beta_1 Yr2001 + \beta_2 Yr2014 + \beta_3 AUDITCOM + \beta_4 FORLIST + \beta_5 OUTDEBT + \beta_6 OWNCONCEN + \beta_7 SIZE + \beta_8 LEV + \beta_9 ROA + \varepsilon}$$

[66] As mentioned previously in Chapter 1 Section 1.4, the terms compliance and disclosure are used interchangeably throughout this thesis.
[67] Refer to Chapter 4 Section 4.6 for a detailed description of each measure.

BRAZIL COMPLIANCE is measured using, by turns, the four proxies of disclosure discussed in Chapter 4 Section 4.6 and all independent and control variables included are as defined in Chapter 4 Section 4.8 and 4.9 respectively. The following independent variables, *BIG 4/5* and one of the *OWNCONCEN* proxy, *CROSSHARES*, are not included in the regressions for Brazil as there was very little variation in these variables across the firms in the final Brazil sample[68] (as reported in Chapter 5, Table 5.2) Therefore, the hypotheses tested for Brazil are: H1a (IFRS adoption); H1b (Learning effect); H3 (Audit committee); H4 (Foreign listing); H5 (Outstanding capital market debt); and, H6 (ownership concentration): specifically, *CLOSELYHELD* (H6a), *GOVTCONTROL* (H6b), *FAMCONTROL* (H6c), and *OTHCONTROL* (H6d). In order to focus on the impact of each *OWNCONCEN* proxy, they are included in each regression one at a time, resulting in four regression versions per each model.

Table 6.1 Panels A to D presents the results of the regressions tested for each model in Brazil (with four versions) based on the hypotheses developed in Chapter 3 Section 3.6. *Yr2006* is included in the constant so does not appear explicitly in the results. To determine if multicollinearity between the independent variables is a concern for each of the models, I calculate the variance inflation factors (VIF) for each variable and maximum VIF is reported for each model. As the VIF's for each model are well below the critical value of 10, multicollinearity is unlikely to seriously affect any of the regressions performed[69].

[68] Of the 90 Brazilian firm-years in the final sample, 86 firm-years had a Big 4 or 5 auditor and 84 firm-years had no cross shareholdings.

[69] The variance inflation factors (VIF) are calculated to test for multicollinearity between the independent variables. This test verifies that all independent variables are independent of each other. Hair, Black, Babin, Anderson and Tathum (2006) report that when VIF values of each independent variable is less than 10, multicollinearity will not be a problem.

Table 6.1: Results of Regression Analyses – Brazil

	Panel A				***Panel B***			
	Model 1: TOTAL DISCLOSURE				***Model 2: MOVING TARGET DISCLOSURE***			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.358	0.369	0.385	0.373	0.370	0.362	0.365	0.359
Yr2001	0.033	0.030	0.028	0.032	**0.228*****	**0.230*****	**0.227*****	**0.229*****
Yr2014	**0.197*****	**0.200*****	**0.199*****	**0.198*****	**0.196*****	**0.194*****	**0.194*****	**0.194*****
AUDITCOM	**0.069*****	**0.067*****	**0.067*****	**0.071*****	**0.085*****	**0.086*****	**0.082*****	**0.084*****
FORLIST	0.016	0.019	0.019	0.017	0.003	0.001	0.002	0.001
OUTDEBT	**0.043***	0.039	0.040	**0.043***	0.048	0.049	0.047	0.048
CLOSELYHELD	0.019				-0.012			
GOVTCONTROL		0.024				-0.009		
FAMCONTROL			-0.029				-0.014	
OTHCONTROL				0.008				0.003
SIZE	-0.001	-0.002	-0.002	-0.002	-0.001	-0.001	-0.001	-0.001
LEV	**-0.016****	**-0.015****	**-0.016****	**-0.015****	**-0.018****	**-0.019****	**-0.018****	**-0.018****
ROA	-0.006	0.001	0.003	-0.001	0.169	0.165	0.165	0.164
N	89	89	89	89	89	89	89	89
Adjusted R^2	0.639	0.640	0.640	0.638	0.484	0.484	0.484	0.483
F stat	**18.524*****	**18.611*****	**18.612*****	**18.393*****	**10.282*****	**10.267*****	**10.278*****	**10.253*****
Max VIF	1.980	1.887	1.788	1.763	1.980	1.887	1.788	1.763
# Applicable index	22-39	22-39	22-39	22-39	16-36	16-36	16-36	16-36

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

Table 6.1: Results of Regression Analyses – Brazil continued

	Panel C				*Panel D*			
	Model 3: COMMON DISCLOSURE				***Model 4: NO TO YES DISCLOSURE***			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.632	0.590	0.579	0.591	0.213	0.256	0.317	0.285
Yr2001	0.027	0.033	0.033	0.030	0.021	0.004	0.004	0.015
Yr2014	**0.247*****	**0.240*****	**0.241*****	**0.244*****	**0.151*****	**0.163*****	**0.158*****	**0.160*****
AUDITCOM	**0.069****	**0.067****	**0.065****	**0.065****	0.040	0.028	0.038	0.049
FORLIST	-0.030	-0.038	-0.037	0.034	0.030	0.045	0.044	0.039
OUTDEBT	0.049	0.052	0.050	0.048	0.025	0.007	0.018	0.026
CLOSELYHELD	-0.054				**0.085****			
GOVTCONTROL		-0.025				**0.132*****		
FAMCONTROL			0.017				**-0.082***	
OTHCONTROL				-0.054				0.009
SIZE	-0.001	0.000	0.000	0.000	-0.003	-0.003	**-0.005****	**-0.005****
LEV	-0.013	-0.014	-0.013	-0.012	-0.015	-0.009	-0.015	-0.015
ROA	0.154	0.135	0.133	0.141	-0.109	-0.081	-0.074	-0.081
N	89	89	89	89	89	89	89	89
Adjusted R^2	0.481	0.469	0.468	0.471	0.422	0.466	0.407	0.386
F stat	**10.160*****	**9.749*****	**9.686*****	**9.814*****	**8.224*****	**9.631*****	**7.790*****	**7.216*****
Max VIF	1.980	1.887	1.788	1.763	1.980	1.887	1.788	1.763
# Applicable index	12-22	12-22	12-22	12-22	15-24	15-24	15-24	15-24

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

6.2.1 Model 1: TOTAL DISCLOSURE

The results of the four regressions tested for Model 1: ***TOTAL DISCLOSURE*** are reported in Table 6.1 Panel A[70]. The results indicate that the *F statistic* for each regression is significant *(p<0.01)* and the adjusted R^2 reported are between 63.8% and 64.0% for each regression suggesting that the independent variables investigated explain a substantial percentage of the variation in the total disclosure score. Overall, the regression results indicate that the adoption of IFRS *(Yr2014)*, the existence of an audit committee (*AUDITCOM*) and in two versions (versions 1 and 4), outstanding capital market debt *(OUTDEBT)* are significantly associated with the level of detail disclosed about related party transactions.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

The IFRS adoption hypothesis (H1a) predicts that, after the mandatory adoption of IFRS, a country's compliance with accounting standards will improve significantly hence, a positive association between IFRS adoption and compliance with the disclosure requirements of related party disclosure standards is expected. This is because it is argued that mandatory adoption of IFRS *per se* will encourage firms to improve their compliance with accounting standards. In Brazil, the adoption of IFRS for firms with publicly traded debt or equity became mandatory for financial reporting years ending 31 December 2010. Since *Yr2006* is the base case in the regressions, I expect to find a significantly positive coefficient for *Yr2014* for H1a to be supported.

[70] Model 1: ***TOTAL DISCLOSURE***, is measured as the disclosure score a percentage of the total applicable related party disclosures required in all three versions of IAS 24 examined in my thesis. For a detailed discussion of how this proxy of disclosure is measured see Chapter 4 Section 4.6.1

Another implication relating to the use of accounting standards to prepare financial statements is described in the learning effect hypothesis H1b. This hypothesis is developed on the premise that firstly if firms continue to use an accounting standard over several years, they will become better at complying with its requirements and secondly if firms continue to disclose related party transactions they will become better at the disclosure. Both arguments suggest that a learning effect could occur. For Model 1: ***TOTAL DISCLOSURE***, the second argument is relevant as this model is based on total required mandated disclosures across the three years examined in my thesis and not the requirements of the same standard across the years. This association suggests that I would expect disclosure to improve from 2001 to 2006 as well as from 2006 to 2014 due to the learning effect. As *Yr2006* is the base case in my regression, I would expect a significantly negative coefficient for *Yr2001* and a significantly positive coefficient for *Yr2014*[71].

The regression results reported in Table 6.1 Panel A indicate that the level of related party disclosures are not significantly different in 2001 from 2006, the base case, as the coefficient for *Yr2001* is not significant. This result suggests that Brazilian firms did not improve their disclosure of related party transactions from 2001 to 2006. However, the coefficient for *Yr2014* is positive and significant, indicating an improvement in compliance from 2006 to 2014 *(β=0.197; $p<0.01$ in the first version of model 1 and similarly in the other three versions)* as expected. As Brazil adopted IFRS in 2010, it may be concluded that the mandatory adoption of IFRS does make a difference to Brazilian

[71] In the case of Brazil, both H1a and H1b could be supported if significant increases in disclosure are observed from 2001 to 2006 and 2006 to 2014. If that were the case, it would be necessary to test whether the absolute value of the *Yr2001* coefficient is significantly different from the *Yr2014* coefficient. If the *Yr2014* coefficient is significantly larger than the absolute *Yr2001* coefficient, then both H1a and H1b would be supported. If there is no significant difference between the coefficients for *Yr2001* and *Yr2014*, then H1a is ruled out and H1b is supported. However, I do not observe this pattern of results for Brazil so there is no need to test for significant differences between *Yr2001* and *Yr2014* coefficients.

firms' compliance with accounting standards. As the regression results don't show a continuous improvement in disclosure from 2001 to 2014, it is contended that the learning effect is not influencing the disclosure of related party transactions in Brazil. H1a is therefore supported but not H1b.

H3: Audit Committee *(AUDITCOM)*

H3 predicts a positive relationship between compliance with the disclosure requirements of accounting standards and the existence of an audit committee. As predicted, Table 6.1 Panel A shows a positive and significant association between *AUDITCOM* and ***TOTAL DISCLOSURE*** *(β*=0.069; *p<0.01 in the first version of model 1 and similarly in the other three versions*). This association suggests that the existence of an audit committee encourages Brazilian firms to comply with the disclosure requirements of accounting standards. H3 is therefore supported.

H4: Foreign Listing *(FORLIST)*

H4 predicts that there is a positive association between a firm's compliance with the disclosure requirements of accounting standards and being listed on a foreign capital market. The regression results reported indicate that the coefficients for *FORLIST* are positive but not significant. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

H5 predicts a positive association between outstanding capital market debt and compliance with the disclosure requirements of accounting standards. The regression results report a positive and significant association for *OUTDEBT* and ***TOTAL DISCLOSURE*** when the ownership concentration proxy used is *CLOSELYHELD*

(version 1: β=0.043; p<0.10) and *OTHCONTROL (version 4: β=0.043; p<0.10)* but is not significant for the two other proxies. The significant results imply that firms with outstanding debt in a capital market will report more related party transaction disclosures potentially due to the greater and stronger regulatory requirements of these markets. H5 is therefore partially supported.

H6: Ownership Concentration *(OWNCONCEN)*

H6 predicts that there is an association between ownership concentration and the disclosure levels of related party transactions. As mentioned earlier, four proxies for *OWNCONCEN* were used for Brazil: *CLOSELYHELD* (H6a), *GOVTCONTROL* (H6b), *FAMCONTROL* (H6c), and *OTHCONTROL* (H6d). None of the proxies of ownership concentration is significant and, therefore, H6 is not supported.

Control Variables *(SIZE, LEV, ROA)*

Table 6.1 Panel A also reports the coefficients and significance of the control variables. *SIZE* and *ROA* are both insignificant, while *LEV* is significantly negative across all versions of the regression.

6.2.2 Model 2: MOVING TARGET DISCLOSURE

Table 6.1 Panel B shows that the *F statistic* is significant *(p<0.01)* for all four regressions tested for Model 2: ***MOVING TARGET DISCLOSURE***[72] and the adjusted R^2 reported for each regression is about 48.4% indicating that 48.4% of the total variability in compliance is accounted for by the independent variables investigated. Overall, the

[72] ***MOVING TARGET DISCLOSURE*** is measured as the disclosure score as a percentage of the applicable related party disclosures required at each point in time examined in this thesis, that is at 2001, 2006 and 2014. For a detailed discussion of how this proxy of disclosure is measured see Chapter 4 Section 4.6.2.

regression results show that *Yr2001*, *Yr2014* and the existence of an audit committee *(AUDITCOM*) are significantly associated with firms' compliance with the mandated disclosure requirements of the standard in force at each point in time.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

The IFRS adoption hypothesis (H1a) predicts the coefficient for *Yr2014* to be significantly positive and the learning effect hypothesis (H1b) predicts a significantly negative coefficient for *Yr2001* but a significantly positive coefficient for *Yr2014*.

The regression results reported in Table 6.1 Panel B show that the coefficient for *Yr2001* is positive and significant, implying that the disclosure of related party transactions is significantly higher in 2001 compared to 2006, the base case *(β=0.228; p<0.01 in the first version of model 2 and similarly in the other three versions).* This is contrary to prediction for both H1a and H1b. One possible reason for this result, as mentioned in Chapter 5 Section 5.3.1, is because although the raw disclosure score measured for Brazilian firms in this model increased from 2001 to 2006, the actual required disclosures in the standard increased substantially more during this period, so that the total percentage disclosure score was lower in 2006 compared to 2001.

Table 6.1. Panel B also reports that the coefficients for *Yr2014* are positive and significant indicating that compliance in 2014 improves significantly from 2006 to 2014 (*β=0.196; p<0.01 in the first version of model 2 and similarly in the other three versions).* These results can be potentially explained by the mandatory adoption of IFRS by Brazil in 2010. As discussed for Model 1, it is unlikely that the learning effect is explaining my results

as there is not a continual improvement in disclosure throughout the period. H1a is therefore supported but not H1b.

H3: Audit Committee *(AUDITCOM)*

Consistent with the regression results for Model 1: ***TOTAL DISCLOSURE***, Table 6.1 Panel B also reports a positive and significant association for *AUDITCOM (β=0.085; $p<$ 0.01 in the first version of model 2 and similarly in the other three versions).* H3 is therefore supported.

H4: Foreign Listing *(FORLIST)*

The regression results reported in this model show that the coefficients for *FORLIST* are in the predicted direction but are not significant, consistent with results reported for Model 1: ***TOTAL DISCLOSURE***. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

The regression results reported in Table 6.1 Panel B show that while the association is in the predicted direction, it is not significant for any of the versions. H5 is therefore not supported for Model 2: ***MOVING TARGET DISCLOSURE***.

H6: Ownership Concentration *(OWNCONCEN)*

Consistent with the results for Model 1: ***TOTAL DISCLOSURE***, four proxies used to test the association between ownership concentration and compliance are not significant. H6 is again not supported.

Control Variables *(SIZE, LEV, ROA)*

Table 6.1 Panel B also reports the coefficients and significance of the control variables. *SIZE* and *ROA* are insignificant, and *LEV* is significantly negative.

6.2.3 Model 3: COMMON DISCLOSURE

Table 6.1 Panel C shows that the *F statistic* is significant *($p<0.01$)* for all four regressions analysed for ***COMMON DISCLOSURE***[73] and the adjusted R^2 reported for each regression suggests that the independent variables investigated explain between 46.8% and 48.1% of the variation in disclosure compliance. Overall, the regression results reveal that the year of adoption *(Yr2014)* and audit committee *(AUDITCOM)* significantly affect compliance with the mandated disclosure requirements, which are identical, in each of the three years examined in my thesis.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1a predicts the coefficient for *Yr2014* to be significantly positive as Brazil adopted IFRS in 2010 and H1b predicts a significantly negative *Yr2001* coefficient and a significantly positive *Yr2014* coefficient.

Since ***COMMON DISCLOSURE*** is determined based on the same disclosures required in 2001, 2006 and 2014, the total required disclosures are uniform over time, accordingly this model is the most appropriate to test H1b, the learning effect hypothesis previously discussed. This is because if a learning effect is influencing firms' compliance with the disclosure requirements of a standard, over time I expect firms to become better at

[73] ***COMMON DISCLOSURE*** measures the disclosure score as a percentage of the related party disclosures that were required in all of the mandated versions of IAS 24 in 2001,2006 and 2014. For a detailed discussion of how this proxy of disclosure is measured see Chapter 4 Section 4.6.3.

complying with it and at disclosing related party transactions. This is simply because they are complying with and reporting the same items over a number of years hence gaining an improved understanding of the standard's disclosure requirements so applying and complying with them better.

The regression results presented in Table 6.1 Panel C show that the coefficient for *Yr2001* is not significant, whereas the coefficient for *Yr2014* is significantly positive *(β=0.247; p<0.01 in the first version of model 3 and similarly in the other three versions)*. As Brazil made IFRS adoption mandatory in 2010, it appears from these results that Brazilian firms improve compliance with accounting standards after the mandatory adoption of IFRS and the learning effect is not important. The learning effect result is unexpected as the ***COMMON DISCLOSURE*** model specifically tests whether firms learn to comply with and disclose identical items better the longer they do so. Once again, H1a is supported but not H1b.

H3: Audit Committee *(AUDITCOM)*

Consistent with the regression results reported for Models 1 and 2, *AUDITCOM* is positive and significant *(β=0.069; p< 0.05 level in the first version of model 3 and similarly in the other three versions)*. H3 is therefore supported.

H4: Foreign Listing *(FORLIST)*

Consistent with the regression results reported for Models 1 and 2, *FORLIST* is not significant. H4 is not supported.

H5: Outstanding capital market debt *(OUTDEBT)*

Consistent with the regression results reported for Model 2, *OUTDEBT* is in the predicted direction but not significant. H5 is therefore not supported.

H6: Ownership Concentration *(OWNCONCEN)*

As previously discussed, it is predicted that *OWNCONCEN* is associated with compliance. Consistent with the results reported for Models 1 and 2, all four proxies of *OWNCONCEN* are not significant. H6 is therefore not supported.

Control Variables *(SIZE, LEV, ROA)*

Table 6.1 Panel C also reports the coefficients and significance of the control variables, which are all insignificant.

6.2.4 Model 4: NO TO YES DISCLOSURE

Table 6.1 Panel D indicates that the *F statistic* is significant *($p<0.01$)* for all four regressions tested for ***NO TO YES DISCLOSURE***[74] and the adjusted R^2 reported for each regression suggests that the independent variables investigated explain between 38.6% and 46.6% of the variation in the level of compliance with the disclosure requirements of accounting standards. Overall, the regression results suggest that IFRS adoption *(Yr2014)* and three of the *OWNCONCEN* proxies, *CLOSELYHELD, GOVTCONTROL* and *FAMCONTROL,* explain firms voluntarily disclosing a new disclosure requirement prior to it becoming mandatory.

[74] ***NO TO YES DISCLOSURE*** measures compliance as the disclosure score as a percentage of the related party disclosures that were not mandated in 2001 but were newly required disclosures in either 2006 or 2014. For a detailed discussion of how this disclosure proxy is measured see Chapter 4 Section 4.6.4.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1a predicts the coefficient for *Yr2014* to be significantly positive and H1b predicts a significantly negative coefficient for *Yr2001* and a significantly positive coefficient for *Yr2014*.

For Model 4: ***NO TO YES DISCLOSURE***, the disclosure score is determined based on the new disclosures required in 2006 or 2014, not previously required in 2001; that is, ***NO TO YES DISCLOSURE*** measures if firms are voluntarily disclosing details of related party transactions that are not yet mandatory. If such voluntary disclosure is occurring in 2001, I anticipate that from 2001 to 2006 as well as from 2006 to 2014, there will not be a major increase in compliance with these ***NO TO YES DISCLOSURE*** requirements of the applicable related party disclosure standard. Firms may be voluntarily engaging in such disclosures to appear transparent in their reporting of related party transactions.

Table 6.1 Panel D indicates that the coefficient for *Yr2001* is insignificant for each version of the regression but, the coefficient for *Yr2014* is positive and significant ($\beta = 0.151$; $p < 0.01$ *in the first version of model 4 and similarly in the other three versions)* indicating an improvement in disclosure from 2006 to 2014 which can be linked to Brazil's IFRS adoption in 2010 rather than a learning effect. H1a is therefore supported and H1b is not supported. Further, the results suggest that the early voluntary adoption of later-mandated disclosure items has not occurred.

H3: Audit Committee *(AUDITCOM)*

The coefficient for *AUDITCOM* is positive but insignificant for all four versions, which is contrary to regression results reported for Models 1, 2 and 3. H3 is not supported for Model 4: ***NO TO YES DISCLOSURE***.

H4: Foreign Listing *(FORLIST)*

Consistent with the regression results reported for all the previous models, *FORLIST* is insignificant. H4 is not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Consistent with the regression results reported for Models 2 and 3, Table 6.1 Panel D shows that the coefficient for *OUTDEBT* is not significant. H5 is therefore not supported.

H6: Ownership Concentration *(OWNCONCEN)*

Contrary to results reported for Models 1 to 3, which show no significant association between *OWNCONCEN* and related party transaction disclosures, three of the *OWNCONCEN* proxies are significantly associated with ***NO TO YES DISCLOSURE***. Table 6.1 Panel D reports a positive and significant association between *CLOSELYHELD* (H6a) and disclosure compliance ($\beta = 0.085$ $p < 0.05$). This implies that firms with closely held share ownership voluntarily disclose related party transactions. One reason for this may be that firms want to exhibit transparency when disclosing related party transactions to show that they are not exploiting minority shareholders.

Similarly, Table 6.1 Panel D also shows a positive and significant association between *GOVTCONTROL* (H6b) and disclosure ($\beta = 0.132$ $p < 0.01$). This association suggests

that firms with government control disclose related party transaction details prior to the disclosures becoming mandatory. This could be due to the increased public scrutiny afforded such firms as their operating activities impact government economic policy. To minimise this scrutiny, they voluntarily disclose detailed related party transactions.

On the other hand, there is a negative and a marginally significant association *(β=-0.082 $p<0.10$*) between *FAMCONTROL* (H6c) and disclosure. The negative association suggests that family-controlled firms disclose fewer related party transactions. A possible explanation for this may be that firms enter into related party transactions with the intention of expropriating a firm's resources away from minority shareholders to themselves; that is, they undertake related party transactions considered *tunnelling* transactions which they prefer not to disclose[75]. H6a, H6b, and H6c are all supported.

Control Variables *(SIZE, LEV, ROA)*

Table 6.1 Panel D also reports the coefficients and significance of the control variables. Only *SIZE* is significant, and negative, in regression versions three and four.

6.2.5 Overall summary for Brazil

The overall results of the regressions tested by model and hypothesis for Brazil are provided in Table 6.2. In summary, H1a is supported for all four models and all four versions within each model, indicating that Brazilian firms' compliance with the disclosure requirements of the applicable related party disclosure standards improve significantly after the mandatory adoption of IFRS, which occurred in 2010. The existence of an audit committee (H3) is significantly associated with disclosure and

[75] For a detailed discussion of *tunnelling* type related party transactions see Chapter 2 Section 2.2.1

compliance in all models except Model 4: ***NO TO YES DISCLOSURE***. H5 is partially supported for Model 1: ***TOTAL DISCLOSURE*** and, finally, H6a, H6b and H6c are supported for Model 4: ***NO TO YES DISCLOSURE***.

Table 6.2: Summary of Results for Brazil

Hypothesis	Predicted Sign	Model 1 *TOTAL DISCLOSURE*	Model 2 *MOVING TARGET DISCLOSURE*	Model 3 *COMMON DISCLOSURE*	Model 4 *NO TO YES DISCLOSURE*
H1a: IFRS adoption	+	Supported	Supported	Supported	Supported
H1b: Learning Effect	+	Not supported	Not supported	Not supported	Not supported
H2: Auditor	+	NA	NA	NA	NA
H3: Audit Committee	+	Supported	Supported	Supported	Not supported
H4: Foreign Listing	+	Not supported	Not supported	Not supported	Not supported
H5: Outstanding Capital Market Debt	+	Partially supported	Not supported	Not supported	Not supported
H6: Ownership Concentration					
H6a: Closely Held Shares	+/-	Not supported	Not supported	Not supported	Supported (+)
H6b: Government Control	+/-	Not supported	Not supported	Not supported	Supported (+)
H6c: Family Control	+/-	Not supported	Not supported	Not supported	Supported (-)
H6d: Other Control	+/-	Not supported	Not supported	Not supported	Not supported
H6e: Cross Shareholding	+/-	NA	NA	NA	NA

6.3 Russia

To test each of the four proxies of disclosure for Russia, the following regression was used.

$$\boldsymbol{RUSSIAN\ COMPLIANCE = \alpha + \beta_1 Yr2001 + \beta_2 Yr2014 + \beta_3 BIG4/5 + \beta_4 AUDITCOM + \beta_5 FORLIST + \beta_6 OUTDEBT + \beta_7 OWNCONCEN + \beta_8 SIZE + \beta_9 LEV + \beta_{10} ROA + \varepsilon}$$

RUSSIAN COMPLIANCE is measured using the four proxies of disclosure discussed in Chapter 4 Section 4.6 and all independent and control variables included are as defined in Chapter 4 Section 4.8 and 4.9 respectively. For Russia, unlike the other three BRIS countries, all the independent variables measured are included in the regressions. Accordingly, all the hypotheses developed in Chapter 6 Section 3.6 are tested for Russia, including the five proxies used for *OWNCONCEN* (i.e. H6a to H6e) and their results are reported in Table 6.3 Panels A to D.

6.3.1 Model 1: TOTAL DISCLOSURE

Table 6.3 Panel A reports that the five regressions tested for Model 1: ***TOTAL DISCLOSURE*** are highly significant in explaining the level of related party transaction disclosures. In all five versions, the *F statistics* are significant *(p<0.01)* and the adjusted R^2 for each regression is between 38.1% and 47.0% indicating that this amount of the total variability in the total disclosure score is accounted for by the independent variables examined. Overall, the regression results show that for Russia, *Yr2001*, firms having a Big 4 or 5 *(BIG 4/5)* auditor, being listed on a foreign capital market *(FORLIST)* (though in the opposite direction to the prediction) and having government *(GOVTCONTROL)* or family (*FAMCONTROL)* control significantly affect compliance with disclosure requirements.

Table 6.3: Results of Regression Analyses – Russia

	Panel A					*Panel B*				
	Model 1: TOTAL DISCLOSURE					*Model 2: MOVING TARGET DISCLOSURE*				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	
Constant	0.366	0.323	0.345	0.366	0.362	0.362	0.307	0.344	0.372	0.359
Yr2001	**-0.140*****	**-0.150*****	**-0.143*****	**-0.140*****	**-0.142*****	-0.018	-0.030	-0.019	-0.015	-0.018
Yr2014	0.039	0.050	0.027	0.038	0.038	0.050	0.067	0.036	0.052	0.047
Big4/5	**0.124****	**0.142*****	**0.140*****	**0.123****	**0.117****	**0.142***	**0.173****	**0.166****	**0.151****	**0.129***
AUDITCOM	0.036	0.025	0.040	0.036	0.037	0.021	0.010	0.029	0.024	0.027
FORLIST	**-0.076****	**-0.067****	**-0.060***	**-0.075****	**-0.075****	-0.081	-0.070	-0.063	**-0.084***	-0.081
OUTDEBT	-0.013	-0.018	-0.010	-0.013	-0.012	-0.036	-0.042	-0.032	-0.035	-0.033
CLOSELYHELD	0.001					0.018				
GOVTCONTROL		**0.076****					**0.108****			
FAMCONTROL			**-0.127*****					**-0.151****		
OTHCONTROL				0.005					-0.011	
CROSSHARES					0.027					0.062
SIZE	0.001	0.001	0.003	0.001	0.001	0.000	0.000	0.003	0.000	0.001
LEV	0.001	0.001	0.004	0.001	0.004	0.006	0.006	0.009	0.006	0.011
ROA	-0.245	-0.183	**-0.327****	-0.251	-0.238	-0.363	-0.276	**-0.463****	-0.351	-0.350
N	71	71	71	71	71	71	71	71	71	71
Adjusted R^2	0.381	0.442	0.470	0.382	0.387	0.091	0.181	0.180	0.092	0.111
F stat	**5.378*****	**6.635*****	**7.287*****	**5.383*****	**5.476*****	**1.714***	**2.567*****	**2.562*****	**1.717***	**1.891***
Max VIF	1.740	1.764	1.757	1.778	1.743	1.740	1.764	1.757	1.778	1.743
# App. index	22-41	22-41	22-41	22-41	22-41	16-37	16-37	16-37	16-37	16-37

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

Table 6.3: Results of Regression Analyses – Russia continued

	Panel C					Panel D				
	Model 3: COMMON DISCLOSURE					Model 4: NO TO YES DISCLOSURE				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.537	0.445	0.492	0.527	0.499	0.377	0.259	0.339	0.386	0.371
Yr2001	-0.098	**-0.122***	-0.109	-0.107	-0.110	**-0.144*****	**-0.172*****	**-0.150*****	**-0.149*****	**-0.145*****
Yr2014	0.050	0.069	0.037	0.061	0.045	0.007	0.036	-0.009	0.025	0.008
Big4/5	**0.267*****	**0.280*****	**0.268*****	**0.268*****	**0.221****	0.049	**0.086***	0.063	0.070	0.047
AUDITCOM	0.007	-0.018	0.004	-0.003	0.003	0.001	-0.028	0.004	-0.005	-0.003
FORLIST	**-0.155****	**-0.135****	**-0.131****	**-0.157****	**-0.146****	**-0.108****	**-0.083****	**-0.083****	**-0.118*****	**-0.106****
OUTDEBT	-0.014	-0.025	-0.014	-0.017	-0.014	-0.051	**-0.064***	-0.048	-0.052	-0.052
CLOSELYHELD	-0.048					-0.018				
GOVTCONTROL		**0.123****					**0.188*****			
FAMCONTROL			**-0.142***					**-0.174*****		
OTHCONTROL				-0.055					**-0.093****	
CROSSHARES					0.100					-0.012
SIZE	0.002	0.001	0.004	0.001	0.002	0.002	0.001	0.004	0.001	0.001
LEV	-0.013	-0.013	-0.011	-0.014	-0.005	-0.005	-0.005	-0.002	-0.006	-0.006
ROA	**-0.570***	-0.462	**-0.655****	-0.494	**-0.538***	**-0.358***	-0.201	**-0.468****	-0.240	**-0.358***
N	71	71	71	71	71	71	71	71	71	71
Adjusted R^2	0.199	0.254	0.236	0.208	0.224	0.222	0.526	0.354	0.291	0.222
F stat	**2.769*****	**3.422*****	**3.192*****	**2.867*****	**3.045*****	**3.024*****	**8.875*****	**4.894*****	**3.919*****	**3.026*****
Max VIF	1.740	1.764	1.757	1.778	1.743	1.740	1.764	1.757	1.778	1.743
# App. index	12-22	12-22	12-22	12-22	12-22	15-25	15-25	15-25	15-25	15-25

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

It is predicted in H1a that there is a positive association between IFRS adoption and compliance with the standards that govern related party disclosures. In Russia, a federal law was passed in 2010 requiring all Russian firms with listed securities in Russia to prepare consolidated financial statements using IFRS from 2012[70]. Since *Yr2006* is included as the base case, to support H1a, I therefore expect to find a significantly positive coefficient for *Yr2014*.

H1b addresses how the continued use of accounting standards and the continued reporting of related party transactions implies that firms become better at complying with the standards or become better at disclosing the transactions due to a learning effect. This suggests that as *Yr2006* is the base year, I expect a significantly negative coefficient for *Yr2001* and a significantly positive coefficient for *Yr2014*[71].

The regression results presented in Table 6.3 Panel A show the coefficient for *Yr2001* is significant and negative *(β=-0.140; $p<0.01$ in the first version of model 1 and similarly in the other four versions)*. This result suggests that disclosure is higher in 2006 compared to 2001, which may be explained by the influence of the learning effect on compliance. However, this learning effect doesn't continue from 2006 to 2014 as the results show that *Yr2014* is positive but not significant. The latter results also suggest that the mandatory

[70] For a more detailed discussion of how Russia implemented the adoption of IFRS see Chapter 2 Section 2.4.2

[71] In the case of Russia, both H1a and H1b could be supported if significant increases in disclosure are observed from 2001 to 2006 and 2006 to 2014. If that were the case, it would be necessary to test whether the absolute value of the *Yr2001* coefficient is significantly different from the *Yr2014* coefficient. If the *Yr2014* coefficient is significantly larger that the absolute *Yr2001* coefficient, then both H1a and H1b would be supported. If there is no significant difference between the coefficients for *Yr2001* and *Yr2014*, then H1a is ruled out and H1b is supported. However, we do not observe this pattern of results for Russia so there is no need to test for significant differences between *Yr2001* and *Yr2014* coefficients.

adoption of IFRS in Russia, which occurred during this period, is not influencing compliance. Thus, it may be concluded, that, in Russia, the mandatory adoption of IFRS and the learning effect do not seem to make a difference to compliance with the disclosure requirements of accounting standards. H1a and H1b are therefore not supported.

H2: Auditor *(BIG4/5)*

H2 predicts a positive association between a firm's compliance with the disclosure requirements of accounting standards and being audited by a Big 4 or 5 auditor. As predicted, the results presented in Table 6.3 Panel A show that *BIG4/5* is positive and significant *(β=0.124; p<0.05 in the first version of model 1 and similarly in the other four versions)*. H2 is therefore supported.

H3: Audit Committee *(AUDITCOM)*

H3 predicts a positive relationship between disclosure and the presence of an audit committee. While Table 6.3 Panel A shows a positive coefficient for *AUDITCOM*, it is not significant. H3 is therefore not supported.

H4: Foreign Listing *(FORLIST)*

H4 predicts a positive association between a firm's disclosure of related party transactions and being listed on a foreign capital market. Regression results reported in Table 6.3 Panel A indicate that the coefficients for *FORLIST* are significant but in the opposite direction to that predicted *(β=-0.076; p<0.05 in the first version of model 1 and similarly in the other four versions)*. This implies that if Russian firms are listed on a foreign share market they disclose fewer related party transactions rather than more. This result is contrary to existing literature and I am unable to be explain why it occurs. H4 is not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

H5 predicts a positive relationship between the level of compliance with the disclosure requirements of accounting standards and the existence of outstanding debt in a capital market. Table 6.3 Panel A reports no significant association between *OUTDEBT* and compliance. H5 is therefore not supported.

H6: Ownership Concentration *(OWNCONCEN)*

H6 predicts that there is an association between the disclosure of related party transactions and ownership concentration. The following five proxies for *OWNCONCEN* were tested for Russia: *CLOSELYHELD* (H6a); *GOVTCONTROL* (H6b); *FAMCONTROL* (H6c); *OTHCONTROL* (H6d); and, *CROSSHARES* (H6e). Of the five proxies, only *GOVTCONTROL* (H6b) and *FAMCONTROL* (H6c) are significantly associated with ***TOTAL DISCLOSURE*** (versions 3 and 4), the former being positive and the latter negative *($\beta=0.076$; $p<0.05$ and $\beta=-0.127$; $p<0.01$* respectively*)*. The significant association between government control and disclosure could be explained by such firms wanting to be transparent and demonstrating accountability when reporting related party transactions as these firms may impact government economic policy. On the other hand, the negative association between family control and disclosure may suggest that in countries that are considered emerging economies, as is Russia, firms with family control do not disclose related party transactions because they may be used opportunistically to expropriate resources away from minority shareholders. H6b and H6c are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

The coefficients and significance of the control variables are also reported in Table 6.3 Panel A. All control variables are not significant except *ROA*, which is negatively significant only for version 3.

6.3.2 Model 2: MOVING TARGET DISCLOSURE

The regression results for Model 2: ***MOVING TARGET DISCLOSURE*** are presented in Table 6.3 Panel B. They show that the *F statistic* is significant for all five regressions tested. The adjusted R^2 reported for each regression is relatively low between 9.1% and 18.1%, indicating that the independent variables examined explain only some of the variability in compliance. Overall, the regression results show that the type of auditor *(BIG 4/5)*, being listed on a foreign capital market *(FORLIST)* (in the opposite direction to the prediction, for regression version 4 only) and the ownership concentration proxies *GOVTCONTROL* and *FAMCONTROL* provide some explanation for the level of compliance with mandated disclosure requirements measured for Russian firms.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

Table 6.3 Panel B reports that the coefficients for *Yr2001* and *Yr2014* are not significant, suggesting neither the mandatory adoption of IFRS nor the learning effect are associated with disclosure compliance. H1a and H1b are therefore not supported.

H2: Auditor *(BIG4/5)*

Consistent with regression results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *BIG 4/5* are positive and significant in all five versions of Model 2

(*β=0.142; p<0.10 in the first version of model 2 and similarly in the other four versions).* H2 is therefore supported.

H3: Audit Committee *(AUDITCOM)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *AUDITCOM* are positive but not significant. H3 is not supported.

H4: Foreign Listing *(FORLIST)*

In line with the results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *FORLIST* are negative, which is in opposite direction to the expectation. *FORLIST*, however is significant only in version 4 when *OWNCONCEN* is proxied by *OTHCONTROL* (*β=-0.084; p<0.10).* H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *OUTDEBT* are negative and not significant. H5 is not supported.

H6: Ownership Concentration *(OWNCONCEN)*

The association between *OWNCONCEN* and compliance is significant for two of the proxies: *GOVTCONTROL (Version 2)* and *FAMCONTROL (Version 3) (β=0.108; p<0.05 and β=-0.151; p<0.05 respectively)*. These results are consistent with those reported for Model 1: ***TOTAL DISCLOSURE***. H6b and H6c are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

In Table 6.3 Panel B, the coefficients reported for all three control variables are insignificant for all versions of Model 2: ***MOVING TARGET DISCLOSURE*** except *ROA*, which is negatively significant only for version 3.

6.3.3 Model 3: COMMON DISCLOSURE

The regression results presented in Table 6.3 Panel C for Model 3: ***COMMON DISCLOSURE*** report the *F statistic* and the adjusted R^2 for each of the five regressions tested. All *F statistics* are significant $(p<0.01)$ and the adjusted R^2 show that the variability in compliance explained by the independent variables examined is between 19.9% and 25.4%. Overall, the regression results indicate that being audited by a Big 4 or 5 auditor (*BIG 4/5)*, being listed on a foreign capital market *(FORLIST)* (though in opposite direction to the prediction) and the ownership concentration proxies *GOVTCONTROL* and *FAMCONTROL* are associated with the disclosure requirements which were common across all three sample years.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1a predicts a positive coefficient for *Yr2014*, whereas H1b predicts a negative coefficient for *Yr2001* and a positive coefficient for *Yr2014*. As the total disclosures required for Model 3: ***COMMON DISCLOSURE*** are consistent across the three sample years of my thesis, that is, they are identical disclosures, this model is the most relevant to test H1b. This is because the longer firms apply the same disclosure requirements of a standard, the better they should understand them and thus comply with them. Table 6.3 Panel C shows that the coefficients for *Yr2001* are negative as predicted, but not

significant except in version 2, and *Yr2014* is not significant for all versions. In line with both Models 1 and 2, H1a and H1b are not supported.

H2: Auditor *(BIG4/5)*

The coefficients for *BIG 4/5* are in the predicted direction and significant *(β=0.267; p<0.01 in the first version of model 3 and similarly in the other four versions)*. H2 is therefore supported.

H3: Audit Committee *(AUDITCOM)*

Consistent with the regression results reported for Models 1 and 2, the coefficients for *AUDITCOM* are not significant. H3 is therefore not supported.

H4: Foreign Listing *(FORLIST)*

In line with the results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *FORLIST* are all significantly negative, which is in the opposite direction to that predicted *(β=-0.155; p<0.05 in the first version of model 3 and similarly in the other four versions)*. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Consistent with the regression results reported for Model 1 and Model 2, the coefficients for *OUTDEBT* are negative and not significant. H5 is not supported.

H6: Ownership Concentration *(OWNCONCEN)*

Consistent with the regression results reported for Models 1 and 2, only two of the proxies for *OWNCONCEN* are significant: *GOVTCONTROL (version 2, β=0.123; p<0.05)* is

positively associated with ***COMMON DISCLOSURE*** and *FAMCONTROL* (*version 3*, *β=-0.142*; *p<0.10)*, is negatively associated with ***COMMON DISCLOSURE***. H6b and H6c are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

In Table 6.3 Panel C, the coefficients reported *SIZE* and *LEV* are both insignificant, while *ROA* is significantly negative for versions 1, 3 and 5.

6.3.4 Model 4: NO TO YES DISCLOSURE

Table 6.3 Panel D reports that the five regressions tested for Model 4: ***NO TO YES DISCLOSURE*** are all highly significant in explaining the level of related party transaction disclosures. The *F statistics* are significant *(p<0.01)* for all versions. The adjusted R^2 reported for each regression vary from 22.2% to 52.6%, indicating that this percentage of the total variation in disclosure is accounted for by the independent variables investigated. The results reported show that *Yr2001*, having a Big 4 or 5 auditor (*BIG4/5)* (version 2 only), being listed on a foreign capital market *(FORLIST)* (though in the opposite direction to prediction) and the ownership concentration proxies *GOVTCONTROL*, *FAMCONTROL* and *OTHCONTROL* provide some explanation why Russian firms voluntarily disclose information about related party transactions prior to the requirements being made mandatory.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

The IFRS adoption hypothesis (H1a) predicts a positive association between the year following IFRS adoption and disclosure, *Yr2014* in Russia. As in the other models, a significant positive coefficient for *Yr2014* is expected. H1b predicts an improvement in

disclosure from 2001 to 2006, and from 2006 to 2014. This expectation holds for Model 4: ***NO TO YES DISCLOSURE.***

In addition, for Model 4: ***NO TO YES DISCLOSURE***, firms may voluntarily disclose details of related party transactions even when they are not mandatory. One reason for this may be because they want to appear to be transparent in their reporting of these types of transactions. If voluntary disclosure is occurring, it is anticipated there will be no difference in the level of disclosure across the three sample years.

Table 6.3 Panel D shows significant negative coefficients for *Yr2001 (β= -0.144; p< 0.01 in the first version of model 4 and similarly in the other four versions)* and insignificant coefficients for *Yr2014*. These results imply that the adoption of IFRS may not be influencing Russian firms' disclosure of related party transactions nor is the learning effect. Therefore, both H1a and H1b are not supported. In addition, there appears to be no substantial voluntary early adoption of later-mandated disclosure items because *Yr2001* is significantly negative implying an increase in disclosure from 2001 to 2006.

H2: Auditor *(BIG4/5)*

In contrast with the regression results reported for the previous three models, the coefficients for *BIG 4/5* are not significant, though in the predicted direction, except for Version 2 when *OWNCONCEN* is proxied by *GOVTCONTROL (β=0.086*; *p<0.10).* H2 is therefore only partially supported.

H3: Audit Committee *(AUDITCOM)*

Consistent with the regression results reported for the previous three models, the coefficients for *AUDITCOM* are insignificant. H3 is not supported.

H4: Foreign Listing *(FORLIST)*

Consistent with results reported for Models 1and 3 and version 4 of Model 2, *FORLIST* is negative and significant. This negative association is in the opposite direction to that predicted. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

The coefficient for *OUTDEBT* is negatively significant only in version 2 when ownership concentration is proxied by *GOVTCONTROL* $(\beta=-0.064;\ p<0.10)$ which is in the opposite direction to that predicted. H5 is therefore not supported.

H6: Ownership Concentration *(OWNCONCEN)*

Consistent with the regression results reported for all the previous models, *GOVTCONTROL* is positive and significant $(\beta=0.188;\ p<0.01)$ and *FAMCONTROL* is negative and significant $(\beta=-0.174;\ p<0.01)$. In addition, *OTHCONTROL* is also negative and significant $(\beta=-0.093;\ p<0.05)$, implying that when Russian firms have a major controlling shareholder who is not the government or a family, they disclose fewer related party transactions. These major controlling shareholders may have little or no interest in disclosing these transactions as they are able demand information they need directly from the firms and they have no interest in maintaining their reputation. H6a, H6b and H6c are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

In Table 6.3, Panel D, the coefficients reported for *SIZE* and *LEV* are not significant, while *ROA* is significant and negative in three of the five regressions tested.

6.3.5 Overall summary for Russia

A summary of results for Russia are presented in Table 6.4. Overall in Russia, being audited by a Big 4 or 5 auditor (H2) has a positive association with all versions of each proxy of disclosure except ***NO TO YES DISCLOSURE***; in this model, only version two shows a positive association. In addition, ownership concentration (as proxied by *GOVTCONTROL* (H6b), *FAMCONTROL* (H6c) and *OTHCONTROL* (H6d)) provides some explanation for the level of compliance by Russian firms with the related party disclosure requirements of the applicable accounting standard.

Table 6.4 Summary of Results for Russia

Hypothesis	Predicted Sign	Model 1 *TOTAL DISCLOSURE*	Model 2 *MOVING TARGET DISCLOSURE*	Model 3 *COMMON DISCLOSURE*	Model 4 *NO TO YES DISCLOSURE*
H1a: IFRS adoption	+	Not supported	Not supported	Not supported	Not supported
H1b: Learning Effect	+	Not supported	Not supported	Not supported	Not supported
H2: Auditor	+	Supported	Supported	Supported	Partially supported
H3: Audit Committee	+	Not supported	Not supported	Not supported	Not supported
H4: Foreign Listing	+	Not supported	Not supported	Not supported	Not supported
H5: Outstanding Capital Market Debt	+	Not supported	Not supported	Not supported	Not supported
H6: Ownership Concentration					
H6a: Closely Held Shares	+/-	Not supported	Not supported	Not supported	Not supported
H6b: Government Control	+/-	Supported (+)	Supported (+)	Supported (+)	Supported (+)
H6c: Family Control	+/-	Supported (-)	Supported (-)	Supported (-)	Supported (-)
H6d: Other Control	+/-	Not supported	Not supported	Not supported	Supported (-)
H6e: Cross Shareholding	+/-	Not supported	Not supported	Not Supported	Not supported

6.4 India

To test each of the four proxies of disclosure for India, the following regression was used.

$$\boldsymbol{INDIAN\ COMPLIANCE = \alpha + \beta_1 Yr2001 + \beta_2 Yr2014 + \beta_3 BIG4/5 + \beta_4 FORLIST + \beta_5 OUTDEBT + \beta_6 OWNCONCEN + \beta_7 SIZE + \beta_8 LEV + \beta_9 ROA + \varepsilon}$$

INDIAN COMPLIANCE is measured using the four proxies of disclosure discussed in Chapter 4 Section 4.6 and all independent and control variables included are as defined in Chapter 4 Section 4.7 and 4.8 respectively. The following variables, *AUDITCOM* and the *OWNCONCEN* proxy *CROSSHARES*, are not included in the above regression as there was very little or no variation in these two variables across the firms in the final India sample as shown in Chapter 5 Table 5.2[72].

Furthermore, as India has yet to adopt IFRS, hypothesis H1a is not applicable; however, a convergence project has been in place since 2007 and, accordingly, the Indian accounting standard on related party disclosures has been substantially converged with IAS 24 since 2010. The equivalent Indian accounting standard is similar to IAS 24 and the differences that exist don't affect the Indian firms examined in my thesis[73]. Based on this discussion, it may be argued that the convergence project may increase compliance with Indian accounting standards, and consequently, there may be a positive association between *Yr2014* and compliance. However, H1a assumes that IFRS adoption *per se* will have a positive impact on compliance, so H1a is not tested for India. Therefore, the hypotheses to be tested for India are: H1b (Learning effect); H2 (Auditor); H4 (Foreign listing); H5 (Outstanding capital market debt); H6 (Ownership concentration), proxied by *CLOSELYHELD* (H6a), *GOVTCONTROL* (H6b), *FAMCONTROL* (H6c), and

[72] Of the 150 Indian-firm years in the final sample, 148 firm-years had an audit committee and no firm-years had cross shareholdings.
[73] For a detailed discussion of the major differences between the standards see Chapter 4 Section 4.7.5.

OTHCONTROL (H6d). The results for the four regression versions tested for India for each model are reported in Table 6.5 Panels A to D and are discussed model by model in the following section.

Table 6.5: Results of Regression Analyses – India

	Panel A				*Panel B*			
	Model 1: TOTAL DISCLOSURE				***Model 2: MOVING TARGET DISCLOSURE***			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.558	0.528	0.555	0.554	0.792	0.722	0.751	0.749
Yr2001	**-0.087*****	**-0.085*****	**-0.086*****	**-0.088*****	**-0.090*****	**-0.083*****	**-0.084*****	**-0.089*****
Yr2014	**0.044*****	**0.046*****	**0.044*****	**0.044*****	**-0.188*****	**-0.183*****	**-0.184*****	**-0.186*****
BIG4/5	-0.013	-0.002	-0.014	-0.008	-0.025	-0.014	-0.026	-0.013
FORLIST	0.012	0.021	0.013	0.014	0.016	**0.031***	0.022	0.025
OUTDEBT	**0.033****	**0.034****	**0.032****	**0.033****	**0.068*****	**0.068*****	**0.066*****	**0.068*****
CLOSELYHELD	0.004				**-0.050****			
GOVTCONTROL		0.027				0.031		
FAMCONTROL			0.000				-0.006	
OTHCONTROL				-0.016				**-0.041****
SIZE	-0.001	-0.001	-0.001	-0.001	0.000	0.001	0.000	0.001
LEV	0.004	0.004	0.004	0.003	-0.001	-0.003	-0.002	-0.003
ROA	0.051	0.061	0.049	0.058	0.075	0.055	0.045	0.065
N	149	149	149	149	149	149	149	149
Adjusted R^2	0.348	0.356	0.348	0.353	0.477	0.463	0.457	0.479
F stat	**9.833*****	**10.136*****	**9.824*****	**10.046*****	**16.105*****	**15.255*****	**14.911*****	**16.239*****
Max VIF	1.479	1.839	1.463	1.462	1.479	1.839	1.463	1.462
# Applicable index	36	36	36	36	11-37	11-37	11-37	11-37

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

Table 6.5: Results of Regression Analyses – India continued

	Panel C				*Panel D*			
	Model 3: COMMON DISCLOSURE				***Model 4: NO TO YES DISCLOSURE***			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.794	0.741	0.766	0.761	0.442	0.397	0.464	0.747
Yr2001	**-0.105*****	**-0.099*****	**-0.100*****	**-0.105*****	**-0.114*****	**-0.115*****	**-0.117*****	**-0.115*****
Yr2014	**0.030***	**0.033****	**0.032***	**0.030***	0.025	0.026	0.023	0.024
BIG4/5	**-0.028***	-0.019	**-0.030****	-0.014	-0.028	0.004	-0.020	**-0.038***
FORLIST	**0.029***	**0.040****	**0.032****	**0.037****	-0.021	-0.003	-0.019	-0.028
OUTDEBT	**0.068*****	**0.067*****	**0.064*****	**0.068*****	0.014	0.022	0.021	0.015
CLOSELYHELD	**-0.038***				0.037			
GOVTCONTROL		0.023				**0.075*****		
FAMCONTROL			0.014				**-0.061*****	
OTHCONTROL				**-0.046*****				0.033
SIZE	0.001	**0.001***	0.001	**0.001****	**-0.002****	-0.001	**-0.002****	**-0.002*****
LEV	0.005	0.004	0.003	0.003	0.008	0.009	0.012	0.010
ROA	0.110	0.095	0.077	0.111	-0.029	0.029	0.028	-0.023
N	149	149	149	149	149	149	149	149
Adjusted R^2	0.409	0.398	0.396	0.431	0.265	0.289	0.290	0.267
F stat	**12.468*****	**11.940*****	**11.842*****	**13.565*****	**6.959*****	**7.740*****	**7.758*****	**7.046*****
Max VIF	1.479	1.839	1.463	1.462	1.479	1.839	1.463	1.462
# Applicable index	11-21	11-21	11-21	11-21	15-25	15-25	15-25	15-25

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

6.4.1 Model 1: TOTAL DISCLOSURE

Table 6.5 Panel A reports that the four regressions tested for Model 1: ***TOTAL DISCLOSURE*** are highly significant in explaining the level of related party transaction disclosures. In both models, the *F statistics* are significant *($p<0.01$)* and the adjusted R^2 are between 34.8% and 35.6%, indicating that the independent variables explain a notable percentage of the variation in the total disclosure score. Overall, the regression results show that the years investigated, *Yr2001* and *Yr2014*, and firms having outstanding capital market debt *(OUTDEBT)* significantly affect the disclosure levels of related party transactions by Indian firms.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

As mentioned above, H1a is not tested for India. H1b predicts that disclosure of related party transactions increases due to a learning effect from the continued reporting of these transactions. Therefore, as *Yr2006* is the base case in my regression, I expect a significantly negative coefficient for *Yr2001* and a significantly positive coefficient for *Yr2014*.

Table 6.5 Panel A presents the results of the four regressions tested. As predicted, *Yr2001* is significant and negative (*β=-0.087*; *$p<0.01$ in the first version of model 1 and similarly for the other three versions).* In addition, *Yr2014* is significant and positive as predicted *(β=0.044*; *$p<0.01$ in the first version of model 1 and similarly for the other three versions).* These results suggest that Indian firms' disclosure of related party transactions improves the longer they disclose them, which is consistent with a learning effect. H1b is therefore supported.

H2: Auditor *(BIG4/5)*

H2 predicts a positive association between a firm's compliance with the disclosure requirements of accounting standards and being audited by a Big 4 or 5 auditor. The results presented in Table 6.5 Panel A show that coefficients for *BIG4/5* are negative, but not significant. H2 is therefore not supported.

H4: Foreign Listing *(FORLIST)*

H4 predicts a positive association between *FORLIST* and ***TOTAL DISCLOSURE***. Table 6.5 Panel A shows that while coefficients for *FORLIST* are positive, they are not significant. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

H5 predicts that the existence of outstanding capital market debt is positively associated with ***TOTAL DISCLOSURE***. Table 6.5 Panel A shows positive and significant coefficients for *OUTDEBT* as predicted ($\beta=0.033$; $p<0.05$ *in the first version of model 1 and similarly for the other three versions)*. H5 is therefore supported.

H6: Ownership Concentration *(OWNCONCEN)*

H6 predicts an association between ownership concentration and ***TOTAL DISCLOSURE***. The four proxies for *OWNCONCEN* used for India: *CLOSELYHELD* (H6a), *GOVTCONTROL* (H6b), *FAMCONTROL* (H6c), and *OTHCONTROL* (H6d) are all not significant. H6 is therefore not supported.

Control Variables *(SIZE, LEV, ROA)*

The coefficients and significance of the control variables are also reported in Table 6.5 Panel A. All three control variables are insignificant in each of the four regressions.

6.4.2 Model 2: MOVING TARGET DISCLOSURE

The regression results presented in Table 6.5 Panel B for Model 2: ***MOVING TARGET DISCLOSURE***, report the *F statistic* and the adjusted R^2 for each of the four regressions tested for this model. All *F statistics* are significant ($p<0.01$) and the adjusted R^2 show that the variability in disclosure compliance explained by the independent variables examined is between 45.7% and 47.9%. Overall, the regression results indicate that the years examined *(Yr2001, Yr2014)*, being listed on a foreign capital market *(FORLIST)*, firms having outstanding capital market debt *(OUTDEBT)* and the ownership concentration proxies, *CLOSELYHELD* and *OTHCONTROL*, are significantly associated with compliance with the mandated disclosure requirements of AS18 and Ind AS 24.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

As previously mentioned, H1a is unable to be tested in India. H1b suggests that compliance increases over time due to firms continuing to use and comply with an accounting standard; that is a learning effect is occurring. The regression results reported in Table 6.5 Panel B show that, as predicted, the coefficients for *Yr2001* are negative and significant ($\beta=-0.090$; *$p<0.01$ in the first version of model 1 and similarly for the other three versions)*. The coefficients for *Yr2014* are also significantly negative, which is not in the predicted direction, indicating that compliance is worse in 2014 compared to 2006 *($\beta=-0.188$; $p<0.01$ in the first version of model 1 and similarly for the other three versions)*. One explanation for this could be that from 2010 Indian firms commenced

using the converged Ind AS 24, which had substantially more disclosure requirements than AS 18 (required disclosures increased from 11 in AS 18 to 37 in Ind AS 24). Although the average raw disclosure score increased for Indian firms from 2006 to 2014 (refer to Chapter 5, Table 5.1 Panel B), this increase was proportionately lower than the increase in Ind AS 24's required disclosures accordingly ***MOVING TARGET DISCLOSURE*** decreased. Nevertheless, H1b is not supported.

H2: Auditor *(BIG4/5)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *BIG4/5* are negative and insignificant. H2 is not supported.

H4: Foreign Listing *(FORLIST)*

FORLIST is in the predicted direction but insignificant for all regressions except for regression version 2 when *OWNCONCEN* is proxied by *GOVTCONTROL* ($\beta=0.031$; $p<0.10$), suggesting that being listed on a foreign capital market impacts compliance with AS 18 and Ind AS24. H4 is therefore partially supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

The regression results presented in Table 6.5 Panel B show a positive and significant association between *OUTDEBT* and ***MOVING TARGET DISCLOSURE*** ($\beta=0.068$; *$p<0.01$ in the first version of model 1 and similarly for the other three versions)*. This is consistent with the results reported for Model 1: ***TOTAL DISCLOSURE***. H5 is therefore supported.

H6: Ownership Concentration *(OWNCONCEN)*

Of the four *OWNCONCEN* proxies, *CLOSELYHELD* and *OTHCONTROL* are negative and significant (*β=-0.050*; *p<0.05 and β=-0.041*; *p<0.05 respectively)*. The negative association suggests that Indian firms that have a dominant shareholder with a controlling interest prefer not to disclose related party transactions as they may be opportunistically using them to transfer resources away from minority shareholders to benefit themselves. H6a and H6d are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

The coefficients and significance of the control variables are also reported in Table 6.5 Panel B. All three control variables are insignificant.

6.4.3 Model 3: COMMON DISCLOSURE

Table 6.5 Panel C for Model 3: ***COMMON DISCLOSURE*** reports the *F statistic* and the adjusted R^2 for each of the four regressions tested for this model. All *F statistics* are significant (*p<0.01)* and the adjusted R^2 show that the variability in disclosure compliance explained by the independent variables examined is between 39.6% and 43.1%. Overall, the regression results indicate that most of the test variables, except the ownership concentration proxies, *GOVTCONTROL* and *OTHCONTROL*, are associated with improved compliance with the common disclosure requirements of the related party disclosure standards used by Indian firms across all three sample years.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

Also, as noted earlier, the learning effect hypothesis (H1b) predicts an improvement in compliance due to the continued used of an accounting standard over time. As ***COMMON***

DISCLOSURE means that the total required disclosures are identical across the three sample years examined in my thesis, I expect disclosure compliance will improve over time due to firms complying better with an accounting standard's disclosure requirements the longer they comply with and disclose them.

Table 6.5 Panel C shows coefficients of *Yr2001* to be negative and significant *(β=-0.105; p<0.01 in the first version of model 3 and similarly for the other three versions)* and coefficients of *Yr2014* to be positive and significant *(β=0.030; p<0.10 in the first version of the model and similarly for the other three versions)*. The significant results are consistent with the learning effect. H1b is therefore supported.

H2: Auditor *(BIG4/5)*

Contrary to the prediction, the coefficients for *BIG4/5* are negative and significant when *OWNCONCEN* is proxied by *CLOSELYHELD* and *FAMCONTROL (β=-0.028; p<0.10 and β=-0.030; p<0.05 respectively)*. H2 is therefore not supported.

H4: Foreign Listing *(FORLIST)*

Table 6.5 Panel C shows that *FORLIST* is significantly and positively associated with ***COMMON DISCLOSURE*** (*β=0.029; p<0.10 in the first version of the model and similarly for the other three versions*). This association could be due to the increased disclosure and regulatory demands that foreign capital markets place on foreign firms. H4 is therefore supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Consistent with the results reported for Models 1 and 2, the coefficients for *OUTDEBT* are positive and significant *(β=0.068; $p<0.01$ in the first version of model 3 and similarly for the other three versions)*. H5 is therefore supported.

H6: Ownership Concentration *(OWNCONCEN)*

Two of the four proxies used to measure *OWNCONCEN*: *CLOSELYHELD* and *OTHCONTROL* are significant and negative (*β=-0.038*; *$p<0.10$ and β=-0.046*; *$p<0.01$, respectively)*. H6a and H6d are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

The coefficients and significance of the control variables are also reported in Table 6.5 Panel C. All three control variables are positive, but only *SIZE* is significant when *GOVTCONTROL* and *OTHCONTROL* are used as proxies for ownership concentration.

6.4.4 Model 4: NO TO YES DISCLOSURE

Table 6.5 Panel D for Model 4: ***NO TO YES DISCLOSURE*** report the *F statistic* and the adjusted R^2 for each of the four regressions tested for this model. All *F statistics* are significant (*($p<0.01$)* and the adjusted R^2 show that the variability in disclosure explained by the independent variables examined is between 26.5% and 29.0%. Overall, the regression results indicate that *Yr2001*, *BIG4/5* (in version 4) and two of the ownership concentration proxies, *GOVTCONTROL* and *FAMCONTROL*, are significantly associated with firms disclosing details of related party transactions in advance of them becoming mandatory disclosure requirements.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1b predicts a significantly negative coefficient for *Yr2001* and a significantly positive coefficient for *Yr2014*. For Model 4: ***NO TO YES DISCLOSURE***, I may also find no major improvement in compliance across the three sample years as this model is based on disclosures that are not required in 2001 but are new disclosures in 2006 or 2014. So, this model focusses on whether firms may be voluntarily disclosing details of related party transactions, especially in 2001, before they become mandatory. If this is the case, then I expect no improvement in compliance from 2001 to 2006 and 2006 to 2014.

Table 6.5 Panel D shows coefficients of *Yr2001* to be negative and significant *(β=-0.114; $p<0.01$ in the first version of model 4 and similarly for the other three versions),* however, *Yr2014* is not significant. H1b is therefore not supported. Also, the significant negative coefficient for *Yr2001* is inconsistent with any early voluntary adoption effect.

H2: Auditor *(BIG4/5)*

Table 6.5 Panel D indicates that the coefficient for *BIG4/5* auditor is significant and negative only for version 4 *(β=-0.038; $p<0.10$)* which is contrary to the expectation. H2 is therefore not supported.

H4: Foreign Listing *(FORLIST)*

The regression result reported show the coefficients for foreign listing *FORLIST* are negative and insignificant. H4 is not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Contrary to the results reported for Models 1 to 3, *OUTDEBT* is not significant though it is in the predicted direction.

H6: Ownership Concentration *(OWNCONCEN)*

Two *OWNCONCEN* proxies are significant: *GOVTCONTROL* which has a positive coefficient and *FAMCONTROL* which has a negative coefficient *(β=0.075; p<0.01 and β=-0.061; p<0.01, respectively).* The former results suggest that firms with government control are disclosing details of related party transactions prior to becoming mandatory. This could be explained by a firm's wanting to appear transparent and demonstrating accountability when transacting with related parties. The latter results imply that firms with family control may not be prepared to disclose related party transactions perhaps because they are expropriating resources away from minority shareholders. H6b and H6c are therefore supported.

Control Variables *(SIZE, LEV, ROA)*

The coefficients and significance of the control variables are also reported in Table 6.5 Panel D. *SIZE* is negative and significant in all regressions except version 2. *LEV* and *ROA* are not significant.

6.4.5 Overall summary for India

The results of the regressions tested by model and hypothesis for India are summarised in Table 6.6. Overall, the learning effect is observed for Model 1: ***TOTAL DISCLOSURE*** and Model 3: ***COMMON DISCLOSURE*.** However, the learning effect does not appear to influence compliance with accounting standards for Model 2: ***MOVING TARGET***

DISCLOSURE. This is possibly because of the additional disclosure requirements mandated in Ind AS 24, the converged Indian related party disclosure standard, which meant that ***MOVING TARGET DISCLOSURE*** declined from 2006 to 2014. Further, the learning effect is not supported in Model 4: ***NO TO YES DISCLOSURE***. The existence of outstanding capital market debt (H5) is positively associated with disclosure in the ***TOTAL DISCLOSURE***, ***MOVING TARGET DISCLOSURE*** and ***COMMON DISCLOSURE*** models. In addition, ownership concentration (as proxied by *CLOSELY HELD SHARES* (H6a), *GOVTCONTROL* (H6b), *FAMCONTROL* (H6c) and *OTHCONTROL* (H6d)) provides some explanation for compliance by Indian firms with the related party disclosure requirements of the applicable accounting standard.

Table 6.6 Summary of Results for India

Hypothesis	Predicted Sign	Model 1 *TOTAL DISCLOSURE*	Model 2 *MOVING TARGET DISCLOSURE*	Model 3 *COMMON DISCLOSURE*	Model 4 *NO TO YES DISCLOSURE*
H1a: IFRS adoption	+	NA	NA	NA	NA
H1b: Learning Effect	+	Supported	Not supported	Supported	Not supported
H2: Auditor	+	Not supported	Not supported	Partially supported	Not supported
H3: Audit Committee	+	NA	NA	NA	NA
H4: Foreign Listing	+	Not supported	Partially supported	Supported	Not supported
H5: Outstanding Capital Market Debt	+	Supported	Supported	Supported	Not supported
H6: Ownership Concentration					
H6a: Closely Held Shares	+/-	Not supported	Supported (-)	Supported (-)	Not Supported
H6b: Government Control	+/-	Not supported	Not supported	Not supported	Supported (+)
H6c: Family Control	+/-	Not supported	Not supported	Not supported	Supported (-)
H6d: Other Control	+/-	Not supported	Supported (-)	Supported (-)	Not supported
H6e: Cross Shareholding	+/-	NA	NA	NA	NA

6.5 South Africa

The following regression model was used to test each of the four proxies of disclosure for South Africa.

$$\boldsymbol{SOUTH\ AFRICAN\ COMPLIANCE = \alpha + \beta_1 Yr2001 + \beta_2 Yr2014 + \beta_3 FORLIST + \beta_4 OUTDEBT + \beta_5 OWNCONCEN + \beta_6 SIZE + \beta_7 LEV + \beta_8 ROA + \varepsilon}$$

SOUTH AFRICAN COMPLIANCE is measured using the four proxies of disclosure as discussed in Chapter 4 Section 4.6. The following independent variables are not included in the above regression because, as shown in Chapter 5, Table 5.2, there was little or no variation in these variables across the firms that comprised the final South African sample[74]: *BIG 4/5*, *AUDITCOM* and three of the *OWNCONCEN* proxies, *GOVTCONTROL*, *FAMCONTROL* and *OTHCONTROL*. The hypotheses to be tested for South Africa are: H1a (IFRS adoption); H1b (Learning effect); H4 (Foreign listing); H5 (Outstanding capital market debt); and H6 (Ownership concentration), proxied by *CLOSELYHELD* (H6a) and *CROSSHARES* (H6e). The results of testing the two regression versions for South Africa for each of the four proxies of disclosure are reported in Table 6.7 Panels A to D.

[74] Of the 141 South African firm-years in the final sample, 131 firm-years had a Big 4 or 5 auditor, and all had an audit committee. In addition, no firm had government ownership or family ownership – meaning that *OTHCONTROL* is the same variable as *CLOSELYHELD*. As a result, only *CLOSELYHELD* is tested.

Table 6.7 Results of Regression Analyses – South Africa

	Panel A		***Panel B***		***Panel C***		***Panel D***	
	Model 1: TOTAL DISCLOSURE		***Model 2: MOVING TARGET DISCLOSURE***		***Model 3: COMMON DISCLOSURE***		***Model 4: NO TO YES DISCLOSURE***	
	Version 1	**Version 2**	**Version 1**	**Version 2**	**Version 1**	**Version 2**	**Version 1**	**Version 2**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.623	0.609	0.662	0.645	0.925	0.927	0.396	0.376
Yr2001	**-0.208*****	**-0.194*****	0.025	0.038	**-0.338*****	**-0.334*****	**-0.244*****	**-0.220*****
Yr2014	0.020	0.017	0.000	-0.003	0.009	0.008	0.027	0.022
FORLIST	-0.007	-0.004	-0.012	-0.010	-0.019	-0.019	0.002	0.007
OUTDEBT	-0.016	-0.020	-0.026	-0.030	-0.005	-0.006	-0.017	-0.023
CLOSELYHELD	0.010		0.003		0.012		0.024	
CROSSHARES		**0.034****		**0.035***		0.003		**0.051****
SIZE	0.000	0.000	-0.001	-0.001	**-0.001***	**-0.001***	0.000	0.000
LEV	-0.009	**-0.011***	-0.009	-0.010	**-0.011***	**-0.012***	-0.008	-0.011
ROA	-0.125	-0.155	-0.167	-0.200	**-0.182***	**-0.183***	-0.023	-0.067
N	140	140	140	140	140	140	140	140
Adjusted R^2	0.545	0.557	-0.011	0.010	0.745	0.744	0.511	0.528
F stat	**21.982*****	**23.042*****	0.811	1.175	**52.060*****	**51.816*****	**19.319*****	**20.547*****
Max VIF	1.463	1.551	1.463	1.551	1.463	1.551	1.463	1.551
# Applicable index	32-36	32-36	16-32	16-32	12	12	20	20

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

6.5.1 Model 1: TOTAL DISCLOSURE

Table 6.7 Panel A reports that the two regressions tested for Model 1: ***TOTAL DISCLOSURE*** are both highly significant in explaining the level of related party transaction disclosures. In both regressions, the *F statistics* are significant *(p<0.01)* and the adjusted R^2 are 54.5% and 55.7%, respectively, indicating that the independent variables explain a substantial percentage of the variation in the total disclosure score. Overall, the regression results show that the adoption of IFRS (*Yr2001*) and the existence of cross shareholdings *(CROSSHARES)* significantly affect the disclosure of related party transactions by South African firms.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1a predicts a positive association between IFRS adoption and disclosure compliance with IAS 24's disclosure requirements[75]. From 1 January 2005, the Johannesburg Stock Exchange Listing Requirements required all publicly listed firms in South Africa to apply IRFS when preparing their annual financial reports. As *Yr2006* is the base case in the regression model, a significant negative coefficient for *Yr2001* is therefore expected. H1b also predicts a negative coefficient for *Yr2001* and a positive coefficient for *Yr2014* due to the learning effect that would result in an increase in disclosure across all three years[76].

[75] As all South African firms used either SA GAAP, which was equivalent to IAS 24, or IAS 24 in each sample year, I refer to South African firms as complying with IAS 24.

[76] In the case of South Africa, both H1a and H1b could be supported if significant increases in disclosure are observed from 2001 to 2006 and 2006 to 2014. If that were the case, it would be necessary to test whether the absolute value of the *Yr2001* coefficient is significantly different from the *Yr2014* coefficient. If the *Yr2014* coefficient is significantly smaller that the absolute *Yr2001* coefficient, then both H1a and H1b would be supported. If there is no significant difference between the coefficients for Yr2001 and *Yr2014*, then H1a is ruled out and H1b is supported. However, we do not observe this pattern of results for South Africa so there is no need to test for significant differences between *Yr2001* and *Yr2014* coefficients.

The regression results reported in Table 6.7 Panel A show that, as expected, disclosure improves significantly from 2001 to 2006 for both versions *(β=-0.208; p<0.01 in the first version of model 1 and β=-0.194; p<0.01 in the second version)* suggesting that the mandatory adoption of IFRS in South Africa in 2005 may have influenced South African firms to improve their disclosure of related party transactions. The learning effect, however, does not appear to influence disclosure as the results reported in Table 6.7 Panel A, indicate that the *Yr2014* variable is insignificant in both regressions. H1a is therefore supported, but H1b is not supported.

H4: Foreign Listing *(FORLIST)*

H4 predicts a positive association between disclosure and *FORLIST*. Table 6.7 Panel A shows that *FORLIST* is negative and is insignificant. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

H5 predicts a positive association between disclosure and the existence of outstanding debt in a capital market. The coefficients for *OUTDEBT* are negative and insignificant. H5 is not supported.

H6: Ownership Concentration *(OWNCONCEN)*

H6 predicts that the related party disclosure level is influenced by ownership concentration. The regression results reported in Table 6.7 Panel A indicate that the coefficient for *CLOSELYHELD* is not significant but the coefficient for *CROSSHARES* is positive and significant *(β=0.034; p<0.05).* The latter association could be explained by firms with cross shareholdings, which are expected to enter into related party transactions because of this cross ownership, wanting to appear transparent and

accountable to external shareholders, hence willingly report such transactions. H6e is therefore supported but H6a is not.

Control Variables *(SIZE, LEV, ROA)*

The coefficients and significance of the control variables are also reported in Table 6.7 Panel A. *SIZE* is positive and insignificant, *ROA* is negative and insignificant, and *LEV* is negative and marginally significant in the second version of model 1.

6.5.2 Model 2: MOVING TARGET DISCLOSURE

The regression results for Model 2: ***MOVING TARGET DISCLOSURE*** are reported in Table 6.7 Panel B. The *F statistics* are not significant for both models, indicating that the independent variables included are unable to explain the level of compliance as proxied by ***MOVING TARGET DISCLOSURE***. As noted by Cohen, Cohen, West and Aiken 2003; p.187):

> "If the *F* fails to be significant, no *t* tests [on individual explanatory variables] are performed – all *g* population means are taken to be potentially equivalent, based on the evidence, so that no difference between means can be asserted, whatever value it may yield."

As such, the regression results for individual variables for Model 2: ***MOVING TARGET DISCLOSURE*** will not be pursued further.

6.5.3 Model 3: COMMON DISCLOSURE

Table 6.7 Panel C reports that the two regressions tested for Model 3: ***COMMON DISCLOSURE*** are both highly significant in explaining the level of related party

transaction disclosures as the *F statistics* are significant *($p<0.01$).* The adjusted R^2 reported for each regression suggests that the independent variables investigated explain 74.5% and 74.4%, respectively, of the variation in the level of compliance with these disclosure requirements of IAS 24. Overall, the regression results indicate that, of the test variables, only the adoption of IFRS *(Yr2001)* significantly affects compliance with the same 12 common disclosure items required in each period of my thesis.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1a predicts a positive association between *Yr2001* and ***COMMON DISCLOSURE*** and H1b predicts a negative coefficient for *Yr2001* and a positive coefficient for *Yr2014* based on the learning effect.

Table 6.7 Panel C shows that the disclosure of related party transactions does improve significantly from 2001 to 2006 (*Yr2001*), as expected *(β=-0.338; $p<0.01$ in the first version of model 3 and β=-0.334; $p<0.01$ in the second version)*. One explanation for this improvement may be the mandatory adoption of IFRS by South Africa in 2005. The results also show that the *Yr2014* variable is not significant even though *Yr2001* is significant, for the learning effect hypothesis to be supported, *Yr2014* should also be significant. H1a is therefore supported but not H1b. These results are in line with those reported for Model 1: ***TOTAL DISCLOSURE***.

H4: Foreign Listing *(FORLIST)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE***, the association between *FORLIST* and compliance is insignificant. H4 is not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE***, the coefficients for *OUTDEBT* are negative and not significant. H5 is not supported.

H6: Ownership Concentration *(OWNCONCEN)*

Both *CLOSELYHELD* and *CROSSHARES* are not significant. H6 is therefore not supported.

Control Variables *(SIZE, LEV, ROA)*

Table 6.7 Panel C also reports the coefficients and significance of the control variables. The coefficients reported for all three control variables are negative and marginally significant at the 10% level.

6.5.4 Model 4: NO TO YES DISCLOSURE

Table 6.7 Panel D reports that the two regressions tested for Model 4: ***NO TO YES DISCLOSURE*** are both highly significant in explaining the level of related party transaction disclosures. The *F statistics* are significant *($p<0.01$)* for both models. The adjusted R^2 reported for each regression is 51.1% and 52.8%, respectively, indicating that this percentage of the total variation in disclosure is accounted for by the independent variables investigated. Overall, the adoption of IFRS *(Yr2001)* and cross shareholding (*CROSSHARES*) are significantly associated with ***NO TO YES DISCLOSURE.***

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

Again, H1a predicts a negative coefficient for *Yr2001* and H1b also predicts a negative coefficient for *Yr2001* but a positive coefficient for *Yr2014.* In addition, for Model 4: ***NO***

TO YES DISCLOSURE, firms may voluntarily disclose details of related party transactions because they want to show transparency and accountability for entering into these types of transactions. If the voluntary disclosure occurs in 2001 or 2006, before disclosures become mandatory in either 2006 or 2014, I should find little variance in disclosure levels across these three sample years.

Table 6.7 Panel D shows negative and significant coefficients for *Yr2001 (β= -0.244; p< 0.01 in the first version of model 4 and β= -0.220; p< 0.01 in the second version)* which could be explained by mandatory IFRS adoption in 2005 or by the learning effect. However, the learning effect phenomenon is ruled out because the *Yr2014* variable is insignificant. H1a is therefore supported but H1b is not. The results also suggest that South African firms are not voluntarily disclosing details of related party transactions prior to them becoming mandatory.

H4: Foreign Listing *(FORLIST)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE*** and Model 3: **C*OMMON DISCLOSURE***, the association between *FORLIST* and compliance is not significant. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

Consistent with the regression results reported for Model 1: ***TOTAL DISCLOSURE*** and Model 3: ***COMMON DISCLOSURE*** model, the coefficients for *OUTDEBT* are negative and not significant. H5 is not supported.

H6: Ownership Concentration *(OWNCONCEN)*

The coefficient for *CROSSHARES* is positive and significant *(β=0.051; p<0.05)*. If firms have cross shareholdings it is expected that they would enter into related party transactions and to appear transparent they are keen to disclose details about them which explains the regression results presented. H6e is therefore supported.

Control Variables *(SIZE, LEV, ROA)*

In Table 6.7, Panel D, the coefficients reported for all three control variables are insignificant for both versions of Model 4: ***NO TO YES DISCLOSURE***.

6.5.5 Overall summary for South Africa

A summary of the regression results by model and hypothesis is provided in Table 6.8. Overall, the results of the regressions tested for South Africa indicate that South African firms' compliance with the disclosure requirements of IAS 24 improves significantly from 2001 to 2006, consistent with the increase being linked to the mandatory adoption of IFRS in 2005 and supporting H1a. Further, ownership concentration, as proxied by *CROSSHARES,* provides some explanation for the increased compliance of South African firms with the disclosure requirements of IAS 24 as proxied by ***TOTAL DISCLOSURE*** and ***NO TO YES DISCLOSURE***.

Table 6.8: Summary of Results for South Africa

Hypothesis	Predicted Sign	Model 1 *TOTAL DISCLOSURE*	Model 2 *MOVING TARGET DISCLOSURE*	Model 3 *COMMON DISCLOSURE*	Model 4 *NO TO YES DISCLOSURE*
H1a: IFRS adoption	+	Supported	Model not significant	Supported	Supported
H1b: Learning Effect	+	Not supported		Not supported	Not supported
H2: Auditor	+	NA		NA	NA
H3: Audit Committee	+	NA		NA	NA
H4: Foreign Listing	+	Not supported		Not supported	Not supported
H5: Outstanding Capital Market Debt	+	Not supported		Not supported	Not supported
H6: Ownership Concentration					
H6a: Closely Held Shares	+/-	Not supported		Not supported	Not supported
H6b: Government Control	+/-	NA		NA	NA
H6c: Family Control	+/-	NA		NA	NA
H6d: Other Control	+/-	NA		NA	NA
H6e: Cross Shareholding	+/-	Supported (+)		Not Supported	Supported (+)

6.6 Cross-Country Comparison

As discussed in Chapter 3 Section 3.6.7 the country in which a firm is domiciled has been considered an important factor in determining the level of compliance with accounting standards (Tower, Hancock & Taplin 1999, Al-Shammari et al. 2008, Morris, Susilowati & Gray 2013). To determine if country of origin influences the disclosure of related party transactions two cross-country combined regressions were performed, for each of the four proxies of disclosure used to measure the dependent variable. These regressions included all 453 firms in my final sample and all independent variables. South Africa was used as my base case as it was the only country that applied IAS 24 in each year of my thesis and it was the first country to adopt IFRS - in January 2005. As IFRS is adopted at different time periods for each country, Brazil in 2010, Russia in 2012 and South Africa in 2005 and India is yet to adopt IFRS, the first cross-country combined regression performed included a new independent dichotomous variable which measured the year each country made IFRS mandatory (*MANDATEIFRS).* This variable was coded 1 in each year after a firm's country of domicile made IFRS adoption mandatory and 0 for all remaining years[77]. In this regression, *Yr2001* and *Yr2014* do not appear. This regression allowed H1a mandatory adoption of IFRS to be tested. The following is the first combined country regression tested.

$$\boldsymbol{COMPLIANCE = \alpha + \beta_1 MANDATEIFRS + \beta_2 BIG4/5 + \beta_3 AUDITCOM + \beta_4 FORLIST + \beta_5 OUTDEBT + \beta_6 OWNCONCEN + \beta_7 BRAZIL + \beta_8 RUSSIA + \beta_9 INDIA + \beta_{10} SIZE + \beta_{11} LEV + \beta_{12} ROA + \varepsilon}$$

The second cross-country combined regression included the year dummy variables *Yr2001* and *Yr2014* with the *Yr2006* dummy used as the base case. The specification

[77] Accordingly, this variable was coded 1 for all Brazilian and Russian firms in 2014 and zero in 2001 and 2006 as Brazil adopted IFRS in 2010 and Russia in 2012; coded 0 for all Indian firms; and coded 1 for all South African firms in 2006 and 2014 but zero in 2001 as South Africa adopted IFRS in 2005.

allows the learning effect hypothesis H1b to be tested with the combined data. The following is the second combined country regression tested.

$$\boldsymbol{COMPLIANCE = \alpha + \beta_1 Yr2001 + \beta_2 Yr2014 + \beta_3 BIG4/5 + \beta_4 AUDITCOM + \beta_5 FORLIST + \beta_6 OUTDEBT + \beta_7 OWNCONCEN + \beta_8 BRAZIL + \beta_9 RUSSIA + \beta_{10} INDIA + \beta_{11} SIZE + \beta_{12} LEV + \beta_{13} ROA + \varepsilon}$$

6.6.1 Model 1: TOTAL DISCLOSURE

Table 6.9 presents the results for both regressions discussed above, Panel A for the first regression, and Panel B, for the second regression for Model 1: ***TOTAL DISCLOSURE***[78]. For the sake of brevity, the results for the other three models will not be discussed here but are provided in Appendix F.

In all five versions of both regressions the results indicate that the *F statistics* are significant *($p<0.01$)* and the adjusted R^2 reported are between 42.4% and 45.4% indicating that a notable amount of the total variability in the total disclosure score is accounted for by the independent variables investigated. For the first regression, the overall results indicate that mandatory adoption of IFRS (*MANDATEIFRS)* influences the level of disclosure of related party transactions as does audit committee (*AUDITCOM)* and the ownership concentration proxies *CLOSELYHELD, GOVTCONTROL* and *CROSSHARES.* Additionally, the results indicate that consistently, Russian firms disclose less and Indian firms disclose more related party transaction details than South African firms, and Brazilian firms disclose more in three versions of the model.

[78] Only the results for the ***TOTAL DISCLOSURE*** model are reported in this Chapter however the results for the other models are reported in Appendix F. Overall, the regression results for the remaining three models broadly support the hypotheses as per the results reported for the ***TOTAL DISCLOSURE*** model.

Table 6.9: Cross-Country Comparison for Model 1: *TOTAL DISCLOSURE*

	Panel A					***Panel B***				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.364**	**0.347**	**0.367**	**0.369**	**0.354**	**0.523**	**0.505**	**0.523**	**0.525**	**0.501**
MANDATEIFRS	**0.181*****	**0.181*****	**0.179*****	**0.179*****	**0.173*****					
Yr2001						**-0.111*****	**-0.111*****	**-0.111*****	**-0.110*****	**-0.105*****
Yr2014						**0.065*****	**0.066*****	**0.064*****	**0.064*****	**0.064*****
BIG4/5	0.007	**0.024***	-0.010	0.008	0.007	0.002	0.019	0.005	0.003	0.002
AUDITCOM	**0.052*****	**0.051*****	**0.055*****	**0.057*****	**0.060*****	**0.041****	**0.039****	**0.044*****	**0.046*****	**0.049*****
FORLIS	-0.003	0.003	-0.002	-0.003	-0.003	-0.006	0.001	-0.005	-0.006	-0.005
OUTDEBT	0.011	0.012	-0.013	0.012	0.011	0.009	0.009	0.011	0.010	0.008
CLOSELYHELD	**0.021***					0.017				
GOVTCONTROL		**0.052*****					**0.053*****			
FAMCONTROL			-0.020					-0.024		
OTHCONTROL				-0.001					-0.003	
CROSSHARES					**0.030****					**0.037*****
BRAZIL	0.021	0.018	**0.029***	**0.029***	**0.041****	**-0.041****	**-0.045*****	**-0.033****	**-0.033****	-0.016
RUSSIA	**-0.051*****	**-0.060*****	**-0.038****	**-0.040****	**-0.032***	**-0.113*****	**-0.125*****	**-0.101*****	**-0.104*****	**-0.092*****
INDIA	**0.139*****	**0.138*****	**0.150*****	**0.146*****	**0.157*****	0.019	0.017	**0.031****	**0.026***	**0.044*****
SIZE	**-0.001***	0.000	**-0.001***	**-0.001***	-0.001	**-0.001****	-0.001	**-0.001***	**-0.001***	**-0.001***
LEV	-0.003	-0.002	-0.003	-0.003	-0.003	-0.004	-0.003	-0.004	-0.004	-0.004
ROA	**-0.107***	-0.087	**-0.102***	**-0.101***	**-0.110***	**-0.113***	-0.092	**-0.108***	**-0.106***	**-0.116***
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.428	0.440	0.426	0.424	0.429	0.440	0.454	0.441	0.438	0.446
F stat	**29.143*****	**30.537*****	**28.923*****	**28.695*****	**29.336*****	**28.355*****	**29.954*****	**28.383*****	**28.084*****	**29.034*****
Max VIF	2.556	2.461	2.535	2.421	2.687	2.125	2.037	1.967	1.984	2.303
# App index	22-41	22-41	22-41	22-41	22-41	22-41	22-41	22-41	22-41	22-41

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

Since *Yr2006* is the base case in the second regression, overall the results for this regression show that the disclosure of related party transactions improves from 2001 to 2006 as well as from 2006 to 2014 for all versions of the regression tested suggesting that a learning effect is also occurring, while audit committee (*AUDITCOM)*, government control *(GOVTCONTROL)* and cross shareholdings *(CROSSHARES)* are also significant. Further, the results show that South African firms' disclosure of related party transactions is better than both Brazilian and Russian firms but not - in three versions of the model - Indian firms.

H1a and H1b: IFRS Adoption and Learning Effect *(Yr2001, Yr2014)*

H1a predicts that there is a positive association between the mandatory adoption of IFRS and a country's compliance with the disclosure requirements of accounting standards. This association suggests that the coefficient for *MANDATEIFRS* should be positive and significant. This hypothesis is tested in the first cross-country combined regression (Panel A). H1b predicts that the disclosure of related party transactions increases due to a learning effect from the continued reporting of these transactions; that is, firms will become better at disclosing related party transactions the longer they report them. This association implies that disclosure should increase from 2001 to 2006 and this improvement should persist from 2006 to 2014 due to a learning effect. As *Yr2006* is the base case in my regression, I would expect in Panel B a significantly negative coefficient for *Yr2001* and a significantly positive coefficient for *Yr2014.*

The regression results reported in Table 6.9 Panel A for the first regression indicate that the coefficient for *MANDATEIFRS* is positive and significant for all five versions implying that after the mandatory adoption of IFRS, compliance with the disclosure

requirements of accounting standards improves, as predicted *(β=0.181; p<0.01 in the first version and similarly for the other four versions)*. Therefore, H1a is supported. These results are consistent with the individual country results for Brazil and South Africa discussed in Section 6.2 and Section 6.5 respectively. Table 6.9 Panel B reports that the level of related party disclosures improves significantly from 2001 to 2006 for all five versions of the second regression as the coefficient for *Yr2001* is negative and significant *(β=-0.111; p<0.01 in the first version and similarly for the other four versions)*. Likewise, the coefficient for *Yr2014* is significantly positive suggesting a continued improvement in disclosure from 2006 to 2014 *(β=0.065; p<0.01 in the first version and similarly for the other four versions).* H1b is therefore supported.

H2: Auditor *(BIG4/5)*

H2 predicts a positive relationship between compliance with the disclosure requirements of accounting standards and being audited by a Big 4 or 5 auditor. Table 6.9 Panels A and B reports that *BIG4/5* is positive for all five versions of both regressions but only marginally significant for version 2 of the first regression *(β=0.024; p<0.10).* H2 is partially supported.

H3: Audit Committee *(AUDITCOM)*

H3 predicts a positive association between a firm's compliance with the disclosure requirements of accounting standards and the existence of an audit committee. As predicted, both Panels A and B in Table 6.9 show a positively significant association between *AUDITCOM* and ***TOTAL DISCLOSURE*** for all versions of both regressions *(β=0.052; p<0.01 for the first version in Panel A and* β=0.041; *p<0.05 for the first*

version in Panel B and similarly in the other four versions in Panels A and B). H3 is therefore supported.

H4: Foreign Listing *(FORLIST)*

H4 predicts a positive relationship between compliance with the disclosure requirements of accounting standards and being listed on a foreign capital market. The regression results presented in Table 6.9 Panels A and B suggest that the association between *FORLIST* and compliance is not significant for all regressions. H4 is therefore not supported.

H5: Outstanding Capital Market Debt *(OUTDEBT)*

H5 predicts a positive relationship between compliance and the presence of outstanding debt in a capital market. The coefficients for *OUTDEBT* reported in Table 6.9 Panels A and B are positive and not significant for all regressions. Thus, H5 is not supported.

H6: Ownership Concentration *(OWNCONCEN)*

H6 predicts that there is an association between the disclosure of related party transactions and ownership concentration. All five proxies for *OWNCONCEN* are tested in both the combined country regressions but only *GOVTCONTROL* (H6b) and *CROSSHARE* (H6e) are positive and significantly associated with disclosure in versions 2 and 5 of Panel A and B, *(β=0.052; $p<0.01$ for version 2 Panel A and β=0.030; $p<0.05$ for version 5 Panel A; and β=0.053; $p<0.01$ for version 2 Panel A and β=0.037; $p<0.01$ for version 5, Panel B respectively).* Also, *CLOSELYHELD* is significantly positive but only for version 1 of

Panel A (*β=0.021; p<0.10).* H6b and H6e are therefore supported and H6a is partially supported.

Cross-Country Comparison

The results for the first regression as reported in Table 6.9 Panel A provide some evidence that Brazilian firms disclose more details about related party transactions than South African firms as the coefficient for Brazil is positive but only significant for versions 3 to 5 of the regression *(β=0.029; p<0.10 in version 3 of Panel A and similarly for versions 4 and 5).* South African firms appear to have a higher level of related party transactions than Russian firms *(β=-0.051; p<0.01 in version 1 of Panel A and similarly for the other four versions).* In relation to India, the results presented in Table 6.9 Panel A show that the coefficient for India is always positively significant suggesting that Indian firms disclose more related party transaction details than South African firms *(β=0.139; p<0.01 in version 1 of Panel A and similarly for the other 4 versions).*

As South Africa is my base case, the results reported in Table 6.9 Panel B for the second regression provide some evidence that the disclosure of related party transactions is greater in South Africa compared to Brazil because the coefficient for Brazil is negative for all versions of the regression but significant for versions 1 to 4 only *(β=-0.041; p<0.05 in version 1 of Panel A and similarly for versions 2,3 and 4).* These results for Brazil are inconsistent with those in Panel A. Consistent with Panel A, these results suggest that South Africa's disclosure is better than Russia's, as the coefficient for Russia is significantly negative for all versions of the regression *(β=-0.113; p<0.01 in version 1 of Panel B and similarly for the other four versions).* However, the coefficient for India is positive for all regressions and significant for versions 3 to 5 providing some evidence

that the disclosure of related party transactions by Indian firms is higher than South African firms as was the case for Panel A *(β=0.031; p<0.05 in version 3 of Panel A and similarly for versions 4 and 5).*

Control Variables *(SIZE, LEV, ROA)*

Table 6.9 Panels A and B also report the coefficients and significance of the control variables for all regressions. *SIZE* is significant and negative for all versions of both regressions except versions 2 and 5 in Panel A and version 2 in Panel B. *LEV* is not significant, and *ROA* is significantly negative for all versions in Panel A and Panel B except version 2.

6.6.2 Overall summary of cross-country comparison

A summary of the regression results by model and hypothesis is provided in Table 6.10 which presents the results for all proxies of disclosure although only the results for Model 1: ***TOTAL DISCLOSURE*** is discussed in the previous section. Overall, the results of both regressions tested indicate that the disclosure of related party transactions improves, firstly, subsequent to the mandatory adoption of IFRS by each country consistent with H1a, and secondly, across the three sample years of my thesis, suggesting that a learning effect is occurring (H1b) for all models except ***MOVING TARGET DISCLOSURE***. Additionally, each of the five proxies of ownership concentration provide some evidence that ownership concentration influences the disclosure of related party transactions. Furthermore, the results suggest that South African firms appear to disclose more details of related party transactions than do Russian firms but not Indian firms. In relation to Brazil, the regression testing mandatory adoption of IFRS (H1a) suggests that South

African firms disclose more related party transactions than Brazilian firms, but this is contrary to the results reported for the regression testing a learning effect (H1b).

Table 6.10: Summary of Results for Cross-Country Comparison Regressions

Hypothesis	Predicted Sign	Model 1 *TOTAL DISCLOSURE*	Model 2 *MOVING TARGET DISCLOSURE*	Model 3 *COMMON DISCLOSURE*	Model 4 *NO TO YES DISCLOSURE*
H1a: IFRS adoption	+	Supported	Partially Supported	Supported	Supported
H1b: Learning Effect	+	Supported	Not Supported	Supported	Supported
H2: Auditor	+	Partially Supported	Not Supported	Not supported	Partially Supported
H3: Audit Committee	+	Supported	Partially Supported	Not Supported	Not Supported
H4: Foreign Listing	+	Not Supported	Not Supported	Not Supported	Not Supported
H5: Outstanding Capital Market Debt	+	Not Supported	Not Supported	Not Supported	Not Supported
H6: Ownership Concentration					
H6a: Closely Held Shares	+/-	Partially Supported (+)	Not Supported	Not Supported	Supported (+)
H6b: Government Control	+/-	Supported (+)	Supported (+)	Supported (+)	Supported (+)
H6c: Family Control	+/-	Not Supported	Not Supported	Not Supported	Supported (-)
H6d: Other Control	+/-	Not Supported	Not Supported	Supported (-)	Not Supported
H6e: Cross Shareholding	+/-	Supported (+)	Partially Supported (+)	Supported (+)	Supported (+)

To determine if H1a was supported the first regression tested included mandatory IFRS adoption as '1' after a country had made IFRS mandatory and '0' otherwise. To test H1b, which was used to determine if there was a learning effect across the three years of my thesis, the year variables *Yr2001* and *Yr2014* were included as dummy variables in the second regression. The results for the remaining hypotheses are based on both regressions.

6.7 Additional Analysis Excluding Firms Using US GAAP

In Chapter 4 Section 4.7 I discuss the accounting standards adopted by each firm in each of the four countries which varied among local GAAP, IAS 24 and US GAAP. To investigate whether excluding the firms which prepared their financial statements based on US GAAP influenced the regression results reported, I repeated, by country, the regressions performed for each of the four proxies of disclosure used to measure the dependent variable[85]. The results are discussed by country and by model in the following sections and are presented in Appendix G.

6.7.1 Brazil

In Brazil, a total of seven firms prepared their financial information based on US GAAP across the three years examined in my thesis which reduced my sample from 90 firm years to 69 firm years. When these firms were dropped from my regression analysis the results remained largely similar for each proxy of disclosure. For Model 1: ***TOTAL DISCLOSURE***, H1a was again supported suggesting that the mandatory adoption of IFRS influences the disclosure of related party transactions. Also, H3, if Brazilian firms have an audit committee, is again supported for all versions of the regression. However, H5 the existence of outstanding debt on a capital market is longer supported. All the other hypotheses tested are not supported, as was the case previously.

After performing the regressions for Model 2: ***MOVING TARGET DISCLOSURE*** it is noted that no changes to any of the significant associations occur; therefore, the same hypotheses are supported which are H1a and H3. For Model 3: ***COMMON***

[85] The regressions were re-run for Brazil, Russia and India only as none of the South African firms in my sample prepared their financial statements using US GAAP.

DISCLOSURE the same hypotheses are supported, being H1a and H3, as again the significant associations do not change when the US GAAP companies are removed from my regressions. Finally, for Model 4: ***NO TO YES DISCLOSURE*** the results reported no longer support H6a (*CLOSELYHELD)* and H6c *(FAMCONTROL)* but H1a (*Yr2014)* and H6b *(GOVTCONTROL)* continue to be supported and H3 is now partially supported.

6.7.2 Russia

Russia had the highest number of firms, nine, that prepared their financial statements using US GAAP which, when removed, reduced my sample from 72 firm years to 45 firm years. Overall, the regression results remained relatively unchanged when these nine firms were removed from each regression performed for each proxy of disclosure. For Model 1: ***TOTAL DISCLOSURE***, H2, being audited by a Big 4 or 5 auditor, H6b having government control and H6c having family control are supported as was the case when the US GAAP firms were included in the regression. H4 is now only partially supported and H3, which was previously not supported is now partially supported. The remaining hypotheses are not supported, in line with my earlier results.

For Model 2: ***MOVING TARGET DISCLOSURE***, the variation in my regression results included the coefficient for *Yr2001* becoming positively significant, which is as predicted, suggesting that disclosure in 2006 is greater than 2001. However, as *Yr2014* is not significant, H1a continues to be not supported. H4 being listed on a foreign capital market is no longer partially supported while H2, H6b and H6c continue to be supported. When I re-tested my regressions for Model 3: ***COMMON DISCLOSURE***, H2 and H6c are again supported; however, H4 and H6b, which were previously supported, are no longer supported. All other hypotheses are again not supported. After performing the regressions

for Model 4: ***NO TO YES DISCLOSURE***, H2 continues to be partially supported and H6b and H6c continue to be supported. Additionally, H3 is now partially supported.

6.7.3 India

In India, only two firms prepared their annual accounts based on US GAAP across the three years investigated in my thesis which meant that the total number of firm years fell from 150 to 144. After removing these two firms from my regression, my regression results remained substantially the same as when the firms were included. For Model 1: ***TOTAL DISCLOSURE***, all significance levels remain the same so that H1b, the learning effect and H5, having outstanding debt on a capital market continue to be supported and the remaining hypotheses are not supported in line with my previous results.

For Model 2: ***MOVING TARGET DISCLOSURE*** there is no change to the hypotheses supported except that H4 is no longer partially supported. For Model 3: ***COMMON DISCLOSURE*** there are some small changes to the significant associations when the firms that use US GAAP are excluded from my regression. H1b continues to be supported as does H5, H6a and H6d and H2 continues to be partially supported. However, H4 is now only partially supported and H6b and H6c continue to not be supported.

The final model re-tested in India, Model 4: ***NO TO YES DISCLOSURE*** reports regression results which are very similar to the results reported for the original regressions. H6b and H6c are again supported but H2 is no longer partially supported and H6a is now supported. Therefore, it can potentially be argued that the preparation of financial information based on US GAAP has little influence on the level of disclosure of related party transactions in each of these countries.

6.8 Additional Analysis of Cross-Country Comparison Excluding India

As India is yet to adopt IFRS, to determine if the inclusion of India in my cross-country comparison regressions influenced the results, additional analysis was performed which excluded India from these regressions for each proxy of disclosure[86]. The results for each regression are discussed in the following section and the tables which present the regression results are included in Appendix H.

After conducting the regressions for Model 1: ***TOTAL DISCLOSURE*** the results reported show that the coefficients for the independent variable *MANDATEIFRS* continues to be positive and significant for all five versions as was the case when India was included in the regression hence, H1a is again supported. In addition, the level of related party disclosures improves significantly from 2001 to 2006 and continues to improve from 2006 to 2014, therefore H1b is again supported. However, the existence of an auditor is now positive and significant for most versions of the first regression but not for the second regression at all; so again H2 is partially supported. H3 continues to be supported for all versions of both regressions and H4 is now partially supported but only in version 2 of the first regression. When India is excluded from the first regression, which was previously reported in Table 6.9 Panel A, H5 is supported suggesting that if firms have debt outstanding on a capital market, disclosure of related party transactions improves. As ownership concentration is measured using five proxies, all are tested in both regressions. H6a *CLOSELYHELD* is now supported in both regressions and as reported previously H6b, *GOVTCONTROL* continues to be supported while H6c *FAMCONTROL* and H6d *OTHCONTROL* are not supported. H6e *CROSSHARES* is no longer supported.

[86] The two regressions tested for cross-country comparison are discussed earlier in Section 6.6

Finally, with India excluded from all regressions and with South Africa as my base case, the results for both cross-country comparison regressions suggest that South African firms consistently disclose more related party transactions than Brazilian firms which is in contrast to the earlier results which varied across Panels A and B of Table 6.9. In relation to Russia, as previously reported, the disclosure of related party transactions is higher for South African firms than Russian firms for all regressions. Accordingly, it can be suggested that when India is left out of the regressions. the coefficients for both Brazil and Russia are negatively significant implying that South African firms which prepare their financial statements based on IAS 24 disclose more related party transactions than both the other countries. These results are potentially an explanation for the inconsistency between Panels A and B of Table 6.9, namely that Brazil was better than South Africa in Panel A and worse in Panel B.

For Model 2: ***MOVING TARGET DISCLOSURE***, the results presented are broadly similar to those previously stated for both regressions, as H1a and H4 continue not to be supported. Although H1b and H2 are no longer partially supported, H3 continues to be supported and H5 is now supported. H6a is now supported for both regressions but H6e is no longer supported for the second regression, the results for the remaining hypotheses that tested ownership concentration are consistent with my previous results. After testing both the regressions for Model 3: ***COMMON DISCLOSURE,*** H1a and H1b continue to be supported and H5 is now supported for all versions of both regressions. H2 and H3 are partially supported only for the first regression and H4 is no longer partially supported in either regression. H6c and H6e are now supported, the former for the first regression and the latter for the second regression, all remaining ownership concentration hypotheses tested provide the same results as reported earlier. Finally, for Model 4: ***NO TO YES***

DISCLOSURE, H1a and H1b continue to be supported, H2 continues to be partially supported for both regression and H3 is now partially supported for the first regression. However, H6c is now only supported in the second regression and H6e is no longer supported in either regression but all other ownership concentration hypotheses are supported as was the case when India was included in the regressions. The results for each of the three models discussed above provide some evidence that the disclosure of related party transactions is higher in South Africa than Russia as was the case when India was included in the regressions.

6.9 Summary of the Chapter

Chapter 6 reported the regression results for each of the four proxies of disclosure used to measure the dependent variable in the four countries investigated in my thesis. Overall, the results suggest that for Brazil and South Africa, the mandatory adoption of IFRS significantly influences the compliance of firms with the disclosure requirements of the applicable related party disclosure standard. This is the case for all models in Brazil and Models 1, 3 and 4 for South Africa. The existence of an audit committee results in Brazilian firms improving compliance with accounting standards and disclosing more related party transactions for all models tested except Model 4. In Russia, if firms use a Big 4 or 5 auditor, the disclosure of related party transactions improves for all models except Model 4, but IFRS adoption has no significant impact on compliance. Also in Russia, the existence of government and family control effect the disclosure of related party transactions for each proxy of disclosure. In India, the learning effect and if firms have outstanding debt on a capital market, influence the disclosure of related party transactions for Model 1 and 3 only. Finally, the presence of cross shareholding between

group companies in South Africa, influences the disclosure of related party transactions and compliance with IAS 24.

In relation to the cross-country comparison regressions, the overall results provide some evidence that the mandatory adoption of IFRS influences the disclosure of related party transactions, as does the learning effect. In addition, the regression results imply that having a Big 4 or 5 auditor, the existence of an audit committee, having a substantial shareholder that owns more than 20% of a firm's shares, having government control and cross shareholdings between group companies possibly impact the level of related party transactions disclosed. Finally, the results suggest that South African firms disclose more related party transactions than Russian firms, and they provide some evidence that Indian firms disclose higher levels of related party transactions than South African firms. The results are equivocal whether Brazil is better or worse than South Africa. In relation to the additional analysis undertaken, broadly speaking the results remain relatively similar to those discussed earlier in the chapter, with the notable exception that omitting India removes the inconsistency about whether Brazil is better or worse than South Africa in disclosing related party transactions. Chapter 7, the final chapter of my thesis, provides a summary of my findings, the limitations of my thesis and suggest avenues for future research.

CHAPTER 7: CONCLUSION

7.1 Research Objectives

This thesis investigates the association of several firm-specific factors with the disclosure of related party transactions by publicly listed firms in the emerging markets of Brazil, Russia, India and South Africa (BRIS) using a checklist of disclosure requirements from IAS 24 *Related Party Disclosures* across three years: 2001, 2006 and 2014.

My thesis is developed on the premise that, if firms do not comply with the requirements of accounting standards, they may possibly be withholding relevant financial information from equity markets and their participants. If non-compliance is occurring, it may mean that firms are releasing misleading information and therefore may be hindering the effective operation of capital markets and the decisions made by their participants. Advocates for the global introduction of a single set of high-quality accounting standards, which have the potential to improve comparability and uniformity of financial reporting worldwide, argue that the mandatory adoption of such standards is one way to increase the quality of corporate financial statements around the world. However, a number of researchers have commented that several economic, cultural and political barriers exist, including the enforcement mechanisms used by various countries to ensure compliance with accounting standards, that may in fact hinder the successful implementation of international accounting standards globally.

By observing the largest listed firms in the BRIS countries, I hope to contribute to our understanding of the firm-specific factors, that over time influence compliance with the disclosure requirements of accounting standards. I do this by focusing on the disclosure

of related party transactions and compliance with the accounting standards that govern this disclosure. To measure compliance with these disclosure requirements, I use four proxies for disclosure, ***TOTAL DISCLOSURE, MOVING TARGET DISCLOSURE, COMMON DISCLOSURE*** and ***NO TO YES DISCLOSURE*** each measuring a different aspect of compliance and disclosure**.** I investigate the level of compliance by focussing on a number of firm-specific factors which are: if each of the BRIS countries has adopted IFRS; if there is a learning effect occurring; if firms are audited by a Big 4 or 5 auditor; if firms have an audit committee; if firms are listed on a foreign capital market; if firms have outstanding capital market debt; and if firms have concentrated ownership.

7.2 Summary of Results

My research question focuses on identifying the firm-specific factors, discussed above, associated with an improvement in compliance with the disclosure requirements of accounting standards, with specific reference to related party transactions. At this point, it should be noted that the results being reported in this Chapter are statistical associations and do not imply causality. I find that, overall, the level of disclosure reported and the compliance with related party disclosure accounting standards increases from 2001 to 2006 and from 2006 to 2014 in all four BRIS countries and for each of the four disclosure proxies.

Generally, my results indicate that most firms in my sample provide some disclosure of related party transactions in each sample year. For each of the four proxies of disclosure in all countries, the highest mean raw disclosure score and the highest average percentage disclosure score are reported in 2014. Also, in 2014, Brazil reports the highest average percentage disclosure score for ***TOTAL DISCLOSURE, MOVING TARGET***

DISCLOSURE and ***COMMON DISCLOSURE*** but not ***NO TO YES DISCLOSURE***, India has the highest average disclosure percentage for this proxy.

The regression analysis indicates that each of the firm-specific factors investigated seem to influence firms in each of the four countries but in different ways. After the mandatory adoption of IFRS in both Brazil and South Africa, the level of disclosure of related party transactions improves significantly indicating that, in these countries, the mandatory adoption of IFRS does matter. In India, I find some evidence that a learning effect is occurring suggesting that Indian firms become better at complying with the related party disclosure standards and disclosing related party transactions over time. Also, in Brazil, a country well-known for weak enforcement of accounting standards, I find some evidence of a positive association between disclosure of related party transactions and the existence of an audit committee, a corporate governance technique used to control a firm's management. Additionally, the results provide some evidence that employing a big 4 or 5 auditor encourages firms in Russia to disclose related party transactions suggesting that these audit firms are providing quality audits to Russian firms. Furthermore, in India I find some evidence of a positive association between Indian firms having outstanding debt in a capital market and disclosure of related party transactions.

The independent variable, ownership concentration, is measured using five proxies, each one provides some evidence that the ownership concentration of the firms in my sample is associated with disclosure of related party transactions. This relationship is most evident in Russia, where disclosure is positively associated with government control and negatively associated with family control for each of the four proxies of disclosure. For South Africa, in two of the three models tested, cross shareholdings, within the corporate

group, are positively associated with the disclosure of related party transactions. In the remaining two countries, although each of the proxies used to measure ownership concentration are found to be significant, this varies across the four proxies of disclosure. Several firms in my final sample prepare their financial statements using US GAAP. For robustness, I drop these firms from my sample, to determine if this impacts my results. The additional analysis conducted shows no significant changes to the inferences made from my original results.

As a country's financial reporting framework is said to influence compliance with accounting standards, I conduct two cross-country comparison regressions. The findings of this analysis show a positive association between the mandatory adoption of IFRS and compliance with the disclosure requirements of related party disclosure standards, which is consistent with the previous findings presented for Brazil and South Africa. Furthermore, consistent with the earlier results discussed for India, some evidence is provided that a learning effect is occurring, implying that firms in my sample become better at complying with the disclosure requirements of accounting standards the longer they report them. Again, as was the case in the individual country regressions, a firm's ownership concentration appears to influence compliance with accounting standards and disclosure of related party transactions. Although, the significance and association of the five proxies for ownership concentration varies across each of the four proxies of disclosure, government control is positively associated with compliance and disclosure for all proxies. For robustness, as India has not adopted IFRS during the years covered in my thesis, I exclude it from my cross-country comparison regressions, to conclude if this impacts my results. Additional analysis is performed which indicates that the results presented are broadly similar to those where India is included.

7.3 Implications

There are a number of implications from the results reported in my thesis. First, it provides evidence to regulators that the mandatory adoption of IFRS does influence a country's compliance with the disclosure requirements of accounting standards, especially in Brazil and South Africa. Therefore, the global development and application of accounting standards is contributing to greater and improved disclosure in financial statements around the world particularly in countries where enforcement of accounting standards is generally considered weak. It also provides some evidence that a learning effect is occurring; that is, firms become better at complying with the disclosure requirements of an accounting standard the longer it is applied.

Second, as discussed earlier, the results presented indicate that each of the firm-specific factors investigated appear to affect each country differently. This implies that when identifying the factors that influence a firm's compliance with accounting standards and disclosure of related party transactions, it is important to analyse individual countries separately.

Third, these results indicate that standard setters need to be mindful of different firm-specific factors which influence compliance with mandatory accounting standards in different countries. This is important as de facto harmonisation cannot occur unless these different factors are considered when developing international accounting standards.

Fourth, my thesis adds to the existing literature on compliance with the disclosure requirements of international accounting standards by investigating compliance with the disclosure requirements of related party disclosure accounting standards in the emerging

economies of BRIS which, to date, have not been extensively considered in previous research; much of the research regarding IFRS compliance and disclosure and the impact of these standards on financial reporting has been predominately conducted in European countries and in the Asia-Pacific region. Therefore, the results presented should add to our overall understanding of global IFRS compliance with the disclosure requirements of accounting standards.

Finally, as my thesis was completed as a time-series study, in contrast to most other IFRS compliance studies which look at cross sectional data, it further adds to the existing literature on compliance with accounting standards. A time-series study allowed me to observe if compliance improved over time for the same firms. A further contribution of my thesis to the existing literature relates to the use of four disclosure indexes. This is unique, and the results highlight that the items included in a disclosure index are important as the results reported in my thesis show that the factors that influence disclosure vary across each index.

7.4 Limitations and Suggestions for Future Research

There are several limitations of this thesis which may provide opportunities for future research. Firstly, because the checklist data are hand-collected, only three years of data have been included in my thesis. Even though I chose the specific years for plausible and relevant reasons (refer to the discussion in Chapter 4 Section 4.2), other events may have occurred in any of the four countries in between sample years that could impact the results reported. Further research could collect data for a number of consecutive years and/or

other years to better understand how compliance with the disclosure requirements of related party disclosure standards improves over time.

Secondly, despite using a constant sample of firms across the three sample years and examining the largest publicly listed firms from each of the four countries investigated, my sample size is still relatively small[87]. Future research could include a larger sample of firms from each country to more fully understand how firms comply with the various accounting standards which guide the disclosure of related party transactions and how they disclose such transactions.

Thirdly, existing literature commonly refers to five emerging economies being Brazil, Russia, India, China and South Africa as BRICS. However, my thesis has excluded China because of the time constraints to complete my thesis and the unavailability of English-language annual reports from which to collect the data in the earlier sample year, 2001. To extend my research, future studies could include Chinese firms and extend beyond the sample years of my thesis.

Fourthly, my thesis only considers the quantity of related party transaction disclosures of the firms in my sample and, as such, does not consider the quality and type of related party transactions. Further, an unweighted disclosure index was used which assumes that all disclosures are of equal importance. Future research could include a weighted index based on the quality and type of related party transaction disclosures.

[87] My sample size in each country is small when compared to the total number of listed firms in each country e.g. in the year 2001, the number of listed firms in each country was as follows: Brazil 300; Russia 72; India 2400; South Africa 312. However, when the total market capitalisation of sample firms is considered as a percentage of the total stock market for each country, my sample represents the following percentages: Brazil 33%, Russia 29%, India 65% and South Africa 46%.

Fifthly, my thesis considers only firm-specific factors in detail to determine compliance with related party disclosure standards, mostly disregarding country-specific factors. Future studies could also examine, for example, each country's type of specific enforcement mechanisms applied, its corruption control initiatives and its cultural values to determine if these factors also influence compliance and disclosure with accounting standards.

Finally, my thesis only considers related party transactions *disclosed* by the firms in my final sample. I am unable to examine those transactions which firms do not disclose, either because the firm had no such transactions, or because such transactions were being undertaken opportunistically to transfer wealth away from minority shareholders, or because they were transactions occurring with 'no charge'. To mitigate some of the impact of this limitation, I investigate larger firms which are more likely to engage in related party transactions in BRIS countries and are more willing to disclose them as they tend to be more closely monitored by regulators and investment analysts. Prior research indicates that larger firms are better disclosers overall (Waller & Nasser 1995; Eng & Mak 2003).

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Appendix A

Disclosure Index Checklist – Brazil

A.1: *TOTAL DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?			
2	Does the company disclose the name its parent company?			
3	Does the company disclose the name of its ultimate parent if different to the parent?			
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?			
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*			
6	In total			
7	Total short-term employee benefits			
8	Total post-employment benefits			
9	Total other long-term benefits			
10	Total termination benefits			
11	Total share-based payment			
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?			
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*			
14	The nature of the related party relationship			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
15	Amount of transaction			
16	Amount of outstanding balances including commitments			
17	Details of terms and conditions of the transaction			
18	If the outstanding balance is secured			
19	Nature of the consideration to be provided			
20	Details of any guarantees given or received for the outstanding balance			
21	Provisions for doubtful debts related to the amount of outstanding balances			
22	Expense recognised in the period in respect of bad or doubtful debts			
Does the company disclose details of the related party transactions, detailed in items 14-22, separately for each of the following related parties?				
23	The parent			
24	Entities with joint control or significant influence over the entity			
25	Subsidiaries			
26	Associates			
27	Joint venture in which the entity is a joint venturer			
28	Key management personnel of the entity or its parent			
29	Other related parties			
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
31	Remuneration			
32	Borrowings			
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*			
34	Significant intercompany transactions			
35	Borrowing balances			
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*			
37	Significant intercompany transactions			
38	Borrowing balances			
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion			
40	Amounts or appropriate proportions of outstanding items and			
41	Pricing policies			
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?			
43	Are such terms substantiated?			
44	Are related party transactions of a similar nature disclosed in aggregate?			
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)			
47	Nature and amount of each individually significant transaction			
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent			
49	A qualitative indication of their extent			
	TOTAL ITEMS INCLUDED IN INDEX	41	37	37

TOTAL DISCLOSURE includes all required disclosures across the three sample years of my thesis, but as IAS 24 was reformatted and revised twice during the sample years, disclosure items which appeared to be deleted from the revised version of the standard were rather reworded not deleted. Refer to the discussion in Chapter 4 Section 4.5.1 for more details about this issue.

A.2: *MOVING TARGET DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?	Y	Y	Y
2	Does the company disclose the name its parent company?	N	Y	Y
3	Does the company disclose the name of its ultimate parent if different to the parent?	N	Y	Y
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?	N	Y	Y
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*	N	Y	Y
6	In total	N	Y	Y
7	Total short-term employee benefits	N	Y	Y
8	Total post-employment benefits	N	Y	Y
9	Total other long-term benefits	N	Y	Y
10	Total termination benefits	N	Y	Y
11	Total share-based payment	N	Y	Y
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?	N	N	Y
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*	Y	Y	Y
14	The nature of the related party relationship	Y	Y	Y

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
15	Amount of transaction	N	Y	Y
16	Amount of outstanding balances including commitments	N	Y	Y
17	Details of terms and conditions of the transaction	N	Y	Y
18	If the outstanding balance is secured	N	Y	Y
19	Nature of the consideration to be provided	N	Y	Y
20	Details of any guarantees given or received for the outstanding balance	N	Y	Y
21	Provisions for doubtful debts related to the amount of outstanding balances	N	Y	Y
22	Expense recognised in the period in respect of bad or doubtful debts	N	Y	Y
Does the company disclose details of the related party transactions, detailed in items 14-22, separately for each of the following related parties?				
23	The parent	N	Y	Y
24	Entities with joint control or significant influence over the entity	N	Y	Y
25	Subsidiaries	N	Y	Y
26	Associates	N	Y	Y
27	Joint venture in which the entity is a joint venturer	N	Y	Y
28	Key management personnel of the entity or its parent	N	Y	Y
29	Other related parties	N	Y	Y
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*	Y	N	N

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
31	Remuneration	Y	N	N
32	Borrowings	Y	N	N
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*	Y	N	N
34	Significant intercompany transactions	Y	N	N
35	Borrowing balances	Y	N	N
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*	Y	N	N
37	Significant intercompany transactions	Y	N	N
38	Borrowing balances	Y	N	N
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion	Y	N	N
40	Amounts or appropriate proportions of outstanding items and	Y	N	N
41	Pricing policies	Y	N	N
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?	N	Y	Y
43	Are such terms substantiated?	N	Y	Y
44	Are related party transactions of a similar nature disclosed in aggregate?	Y	Y	Y
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government	N	N	Y

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)	N	N	Y
47	Nature and amount of each individually significant transaction	N	N	Y
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent	N	N	Y
49	A qualitative indication of their extent	N	N	Y
	TOTAL ITEMS INCLUDED IN INDEX	16	31	37

A.3: *COMMON DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
1	Does the company disclose the relationship between parent and subsidiary in the accounts?
5	Does the company disclose the compensation of key management personnel?
6	Is the compensation of key management personnel disclosed in total?
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*
14	The nature of the related party relationship
15	Amount of transaction
16	Amount of outstanding balances including commitments
17	Details of terms and conditions of the transaction
Does the company disclose details of the related party transactions, detailed in items 13-17, separately for each of the following related parties?	
25	Subsidiaries
26	Associates
28	Key management personnel of the entity or its parent
44	Are related party transactions of a similar nature disclosed in aggregate?
	TOTAL ITEMS INCLUDED IN INDEX 12

A.4: *NO TO YES DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
2	Does the company disclose the name its parent company?
3	Does the company disclose the name of its ultimate parent if different to the parent?
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?
Does the company disclose the compensation of key management personnel as follows?	
7	Total short-term employee benefits
8	Total post-employment benefits
9	Total other long-term benefits
10	Total termination benefits
11	Total share-based payment
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?
Does the company disclose the following information for each related party transaction?	
18	If the outstanding balance is secured
19	Nature of the consideration to be provided
20	Details of any guarantees given or received for the outstanding balance
21	Provisions for doubtful debts related to the amount of outstanding balances
22	Expense recognised in the period in respect of bad or doubtful debts

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
Does the company disclose details of the related party transactions, detailed in items 18 to 22, separately for each of the following related parties?	
23	The parent
24	Entities with joint control or significant influence over the entity
27	Joint venture in which the entity is a joint venturer
29	Other related parties
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?
43	Are such terms substantiated?
For Government-related Entities (Exempt from items 18-22)	
Does the company disclose:	
45	Name of the government
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)
47	Nature and amount of each individually significant transaction
For other transactions that are collectively, but not individually significant:	
48	A quantitative indication of their extent
49	A qualitative indication of their extent
	TOTAL ITEMS INCLUDED IN INDEX 25

Appendix B

Disclosure Index Checklist – Russia

B.1: *TOTAL DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?			
2	Does the company disclose the name its parent company?			
3	Does the company disclose the name of its ultimate parent if different to the parent?			
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?			
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*			
6	In total			
7	Total short-term employee benefits			
8	Total post-employment benefits			
9	Total other long-term benefits			
10	Total termination benefits			
11	Total share-based payment			
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?			
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*			
14	The nature of the related party relationship			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
15	Amount of transaction			
16	Amount of outstanding balances including commitments			
17	Details of terms and conditions of the transaction			
18	If the outstanding balance is secured			
19	Nature of the consideration to be provided			
20	Details of any guarantees given or received for the outstanding balance			
21	Provisions for doubtful debts related to the amount of outstanding balances			
22	Expense recognised in the period in respect of bad or doubtful debts			
Does the company disclose details of the related party transactions, detailed in items 14-22, separately for each of the following related parties?				
23	The parent			
24	Entities with joint control or significant influence over the entity			
25	Subsidiaries			
26	Associates			
27	Joint venture in which the entity is a joint venturer			
28	Key management personnel of the entity or its parent			
29	Other related parties			
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
31	Remuneration			
32	Borrowings			
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*			
34	Significant intercompany transactions			
35	Borrowing balances			
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*			
37	Significant intercompany transactions			
38	Borrowing balances			
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion			
40	Amounts or appropriate proportions of outstanding items and			
41	Pricing policies			
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?			
43	Are such terms substantiated?			
44	Are related party transactions of a similar nature disclosed in aggregate?			
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)			
47	Nature and amount of each individually significant transaction			
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent			
49	A qualitative indication of their extent			
	TOTAL ITEMS INCLUDED IN INDEX	41	37	37

TOTAL DISCLOSURE includes all required disclosures across the three sample years of my thesis, but as IAS 24 was reformatted and revised twice during the sample years, disclosure items which appeared to be deleted from the revised version of the standard were rather reworded not deleted. Refer to the discussion in Chapter 4 Section 4.5.1 for more details about this issue.

B.2: *MOVING TARGET DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?	Y	Y	Y
2	Does the company disclose the name its parent company?	N	Y	Y
3	Does the company disclose the name of its ultimate parent if different to the parent?	N	Y	Y
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?	N	Y	Y
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*	N	Y	Y
6	In total	N	Y	Y
7	Total short-term employee benefits	N	Y	Y
8	Total post-employment benefits	N	Y	Y
9	Total other long-term benefits	N	Y	Y
10	Total termination benefits	N	Y	Y
11	Total share-based payment	N	Y	Y
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?	N	N	Y
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*	Y	Y	Y
14	The nature of the related party relationship	Y	Y	Y

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
15	Amount of transaction	N	Y	Y
16	Amount of outstanding balances including commitments	N	Y	Y
17	Details of terms and conditions of the transaction	N	Y	Y
18	If the outstanding balance is secured	N	Y	Y
19	Nature of the consideration to be provided	N	Y	Y
20	Details of any guarantees given or received for the outstanding balance	N	Y	Y
21	Provisions for doubtful debts related to the amount of outstanding balances	N	Y	Y
22	Expense recognised in the period in respect of bad or doubtful debts	N	Y	Y
Does the company disclose details of the related party transactions, detailed in items 14-22, separately for each of the following related parties?				
23	The parent	N	Y	Y
24	Entities with joint control or significant influence over the entity	N	Y	Y
25	Subsidiaries	N	Y	Y
26	Associates	N	Y	Y
27	Joint venture in which the entity is a joint venturer	N	Y	Y
28	Key management personnel of the entity or its parent	N	Y	Y
29	Other related parties	N	Y	Y
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*	Y	N	N

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
31	Remuneration	Y	N	N
32	Borrowings	Y	N	N
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*	Y	N	N
34	Significant intercompany transactions	Y	N	N
35	Borrowing balances	Y	N	N
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*	Y	N	N
37	Significant intercompany transactions	Y	N	N
38	Borrowing balances	Y	N	N
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion	Y	N	N
40	Amounts or appropriate proportions of outstanding items and	Y	N	N
41	Pricing policies	Y	N	N
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?	N	Y	Y
43	Are such terms substantiated?	N	Y	Y
44	Are related party transactions of a similar nature disclosed in aggregate?	Y	Y	Y
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government	N	N	Y

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)	N	N	Y
47	Nature and amount of each individually significant transaction	N	N	Y
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent	N	N	Y
49	A qualitative indication of their extent	N	N	Y
	TOTAL ITEMS INCLUDED IN INDEX	16	31	37

B.3: *COMMON DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
1	Does the company disclose the relationship between parent and subsidiary in the accounts?
5	Does the company disclose the compensation of key management personnel?
6	Is the compensation of key management personnel disclosed in total?
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*
14	The nature of the related party relationship
15	Amount of transaction
16	Amount of outstanding balances including commitments
17	Details of terms and conditions of the transaction
Does the company disclose details of the related party transactions, detailed in items 13-17, separately for each of the following related parties?	
25	Subsidiaries
26	Associates
28	Key management personnel of the entity or its parent
44	Are related party transactions of a similar nature disclosed in aggregate?
	TOTAL ITEMS INCLUDED IN INDEX 12

B.4: *NO TO YES DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
2	Does the company disclose the name its parent company?
3	Does the company disclose the name of its ultimate parent if different to the parent?
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?
Does the company disclose the compensation of key management personnel as follows?	
7	Total short-term employee benefits
8	Total post-employment benefits
9	Total other long-term benefits
10	Total termination benefits
11	Total share-based payment
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?
Does the company disclose the following information for each related party transaction?	
18	If the outstanding balance is secured
19	Nature of the consideration to be provided
20	Details of any guarantees given or received for the outstanding balance
21	Provisions for doubtful debts related to the amount of outstanding balances
22	Expense recognised in the period in respect of bad or doubtful debts

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
Does the company disclose details of the related party transactions, detailed in items 18 to 22, separately for each of the following related parties?	
23	The parent
24	Entities with joint control or significant influence over the entity
27	Joint venture in which the entity is a joint venturer
29	Other related parties
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?
43	Are such terms substantiated?
For Government-related Entities (Exempt from items 18-22)	
Does the company disclose:	
45	Name of the government
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)
47	Nature and amount of each individually significant transaction
For other transactions that are collectively, but not individually significant:	
48	A quantitative indication of their extent
49	A qualitative indication of their extent
	TOTAL ITEMS INCLUDED IN INDEX 25

Appendix C

Disclosure Index Checklist – India

C.1: *TOTAL DISCLOSURE*

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	2006 AS18	2014 Ind AS24
1	Does the company disclose the relationship between parent and subsidiary in the accounts?			
2	Does the company disclose the name its parent company?			
3	Does the company disclose the name of its ultimate parent if different to the parent?			
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?			
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*			
6	In total			
7	Total short-term employee benefits			
8	Total post-employment benefits			
9	Total other long-term benefits			
10	Total termination benefits			
11	Total share-based payment			
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?			
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*			
14	The nature of the related party relationship			

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	2006 AS18	2014 Ind AS24
15	Amount of transaction			
16	Amount of outstanding balances including commitments			
17	Details of terms and conditions of the transaction			
18	If the outstanding balance is secured			
19	Nature of the consideration to be provided			
20	Details of any guarantees given or received for the outstanding balance			
21	Provisions for doubtful debts related to the amount of outstanding balances			
22	Expense recognised in the period in respect of bad or doubtful debts			
Does the company disclose details of the related party transactions, detailed above, separately for each of the following related parties?				
23	The parent			
24	Entities with joint control or significant influence over the entity			
25	Subsidiaries			
26	Associates			
27	Joint venture in which the entity is a joint venturer			
28	Key management personnel of the entity or its parent			
29	Other related parties			

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	2006 AS18	2014 Ind AS24
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*			
31	Remuneration			
32	Borrowings			
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*			
34	Significant intercompany transactions			
35	Borrowing balances			
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*			
37	Significant intercompany transactions			
38	Borrowing balances			
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion			
40	Amounts or appropriate proportions of outstanding items and			
41	Pricing policies			
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?			
43	Are such terms substantiated?			
44	Are related party transactions of a similar nature disclosed in aggregate?			

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	**2006 AS18**	**2014 Ind AS24**
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government			
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)			
47	Nature and amount of each individually significant transaction			
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent			
49	A qualitative indication of their extent			
	TOTAL ITEMS INCLUDED IN INDEX	37	37	37

TOTAL DISCLOSURE includes all required disclosures across the three sample years of my thesis, when AS 18 was converged with IAS 24 in 2010 disclosure items which previously appeared in AS 18 were reworded in the new Ind AS24. To ensure that the reworded items were not duplicated in the total disclosure measure for 2014, I only included the reworded disclosure requirements of Ind AS24. Refer to the discussion in Chapter 4 Section 4.5.1 for more details about this issue.

C.2: *MOVING TARGET DISCLOSURE*

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	2006 AS18	2014 Ind AS24
1	Does the company disclose the relationship between parent and subsidiary in the accounts?	Y	Y	Y
2	Does the company disclose the name its parent company?	N	N	Y
3	Does the company disclose the name of its ultimate parent if different to the parent?	N	N	Y
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?	N	N	Y
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*	N	N	Y
6	In total	N	N	Y
7	Total short-term employee benefits	N	N	Y
8	Total post-employment benefits	N	N	Y
9	Total other long-term benefits	N	N	Y
10	Total termination benefits	N	N	Y
11	Total share-based payment	N	N	Y
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?	N	N	Y
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*	Y	Y	Y
14	The nature of the related party relationship	Y	Y	Y

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	2006 AS18	2014 Ind AS24
15	Amount of transaction	N	N	Y
16	Amount of outstanding balances including commitments	N	N	Y
17	Details of terms and conditions of the transaction	N	N	Y
18	If the outstanding balance is secured	N	N	Y
19	Nature of the consideration to be provided	N	N	Y
20	Details of any guarantees given or received for the outstanding balance	N	N	Y
21	Provisions for doubtful debts related to the amount of outstanding balances	Y	Y	Y
22	Expense recognised in the period in respect of bad or doubtful debts	Y	Y	Y
Does the company disclose details of the related party transactions, detailed above, separately for each of the following related parties?				
23	The parent	N	N	Y
24	Entities with joint control or significant influence over the entity	N	N	Y
25	Subsidiaries	N	N	Y
26	Associates	N	N	Y
27	Joint venture in which the entity is a joint venturer	N	N	Y
28	Key management personnel of the entity or its parent	N	N	Y
29	Other related parties	N	N	Y

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	2006 AS18	2014 Ind AS24
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*	Y	Y	N
31	Remuneration	Y	Y	N
32	Borrowings	Y	Y	N
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*	N	N	N
34	Significant intercompany transactions	N	N	N
35	Borrowing balances	N	N	N
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*	N	N	N
37	Significant intercompany transactions	N	N	N
38	Borrowing balances	N	N	N
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion	Y	Y	N
40	Amounts or appropriate proportions of outstanding items and	Y	Y	N
41	Pricing policies	N	N	N
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?	N	N	Y
43	Are such terms substantiated?	N	N	Y
44	Are related party transactions of a similar nature disclosed in aggregate?	Y	Y	Y

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001 AS18	**2006 AS18**	**2014 Ind AS24**
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government	N	N	Y
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)	N	N	Y
47	Nature and amount of each individually significant transaction	N	N	Y
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent	N	N	Y
49	A qualitative indication of their extent	N	N	Y
	TOTAL ITEMS INCLUDED IN INDEX	11	11	37

C.3: *COMMON DISCLOSURE*

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)
1	Does the company disclose the relationship between parent and subsidiary in the accounts?
5	Does the company disclose the compensation of key management personnel?
6	Is the compensation of key management personnel disclosed in total?
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*
14	The nature of the related party relationship
15	Amount of transaction
16	Amount of outstanding balances including commitments
21	Provisions for doubtful debts related to the amount of outstanding balances
22	Expense recognised in the period in respect of bad or doubtful debts
Does the company disclose details of the related party transactions, detailed above, separately for each of the following related parties?	
28	Key management personnel of the entity or its parent
44	Are related party transactions of a similar nature disclosed in aggregate?
	TOTAL ITEMS INCLUDED IN INDEX 11

C.4: *NO TO YES DISCLOSURE*

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)
2	Does the company disclose the name its parent company?
3	Does the company disclose the name of its ultimate parent if different to the parent?
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?
7	Total short-term employee benefits
8	Total post-employment benefits
9	Total other long-term benefits
10	Total termination benefits
11	Total share-based payment
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?
17	Details of terms and conditions of the transaction
18	If the outstanding balance is secured
19	Nature of the consideration to be provided
20	Details of any guarantees given or received for the outstanding balance
Does the company disclose details of the related party transactions, detailed above, separately for each of the following related parties?	
23	The parent
24	Entities with joint control or significant influence over the entity
25	Subsidiaries

#	Disclosure Requirement of IAS 24 (wording has been changed from details in Table 4.2 to aid the data collection process)
26	Associates
27	Joint venture in which the entity is a joint venturer
29	Other related parties
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?
43	Are such terms substantiated?
For Government-related Entities (Exempt from items 17-20)	
Does the company disclose:	
45	Name of the government
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)
47	Nature and amount of each individually significant transaction
For other transactions that are collectively, but not individually significant:	
48	A quantitative indication of their extent
49	A qualitative indication of their extent
	TOTAL ITEMS INCLUDED IN INDEX 26

Appendix D

Disclosure Index Checklist – South Africa

D.1: *TOTAL DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?			
2	Does the company disclose the name its parent company?			
3	Does the company disclose the name of its ultimate parent if different to the parent?			
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?			
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*			
6	In total			
7	Total short-term employee benefits			
8	Total post-employment benefits			
9	Total other long-term benefits			
10	Total termination benefits			
11	Total share-based payment			
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?			
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*			
14	The nature of the related party relationship			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
15	Amount of transaction			
16	Amount of outstanding balances including commitments			
17	Details of terms and conditions of the transaction			
18	If the outstanding balance is secured			
19	Nature of the consideration to be provided			
20	Details of any guarantees given or received for the outstanding balance			
21	Provisions for doubtful debts related to the amount of outstanding balances			
22	Expense recognised in the period in respect of bad or doubtful debts			
Does the company disclose details of the related party transactions, detailed in items 14-22, separately for each of the following related parties?				
23	The parent			
24	Entities with joint control or significant influence over the entity			
25	Subsidiaries			
26	Associates			
27	Joint venture in which the entity is a joint venturer			
28	Key management personnel of the entity or its parent			
29	Other related parties			
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
31	Remuneration			
32	Borrowings			
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*			
34	Significant intercompany transactions			
35	Borrowing balances			
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*			
37	Significant intercompany transactions			
38	Borrowing balances			
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion			
40	Amounts or appropriate proportions of outstanding items and			
41	Pricing policies			
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?			
43	Are such terms substantiated?			
44	Are related party transactions of a similar nature disclosed in aggregate?			
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government			

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)			
47	Nature and amount of each individually significant transaction			
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent			
49	A qualitative indication of their extent			
	TOTAL ITEMS INCLUDED IN INDEX	41	37	37

TOTAL DISCLOSURE includes all required disclosures across the three sample years of my thesis, but as IAS 24 was reformatted and revised twice during the sample years, disclosure items which appeared to be deleted from the revised version of the standard were rather reworded not deleted. Refer to the discussion in Chapter 4 Section 4.5.1 for more details about this issue.

D.2: *MOVING TARGET DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?	Y	Y	Y
2	Does the company disclose the name its parent company?	N	Y	Y
3	Does the company disclose the name of its ultimate parent if different to the parent?	N	Y	Y
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?	N	Y	Y
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*	N	Y	Y
6	In total	N	Y	Y
7	Total short-term employee benefits	N	Y	Y
8	Total post-employment benefits	N	Y	Y
9	Total other long-term benefits	N	Y	Y
10	Total termination benefits	N	Y	Y
11	Total share-based payment	N	Y	Y
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?	N	N	Y
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*	Y	Y	Y
14	The nature of the related party relationship	Y	Y	Y

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
15	Amount of transaction	N	Y	Y
16	Amount of outstanding balances including commitments	N	Y	Y
17	Details of terms and conditions of the transaction	N	Y	Y
18	If the outstanding balance is secured	N	Y	Y
19	Nature of the consideration to be provided	N	Y	Y
20	Details of any guarantees given or received for the outstanding balance	N	Y	Y
21	Provisions for doubtful debts related to the amount of outstanding balances	N	Y	Y
22	Expense recognised in the period in respect of bad or doubtful debts	N	Y	Y
Does the company disclose details of the related party transactions, detailed in items 14-22, separately for each of the following related parties?				
23	The parent	N	Y	Y
24	Entities with joint control or significant influence over the entity	N	Y	Y
25	Subsidiaries	N	Y	Y
26	Associates	N	Y	Y
27	Joint venture in which the entity is a joint venturer	N	Y	Y
28	Key management personnel of the entity or its parent	N	Y	Y
29	Other related parties	N	Y	Y
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*	Y	N	N

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	2006	2014
31	Remuneration	Y	N	N
32	Borrowings	Y	N	N
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*	Y	N	N
34	Significant intercompany transactions	Y	N	N
35	Borrowing balances	Y	N	N
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*	Y	N	N
37	Significant intercompany transactions	Y	N	N
38	Borrowing balances	Y	N	N
Does the company disclose the following information in relation to the related party transactions detailed above:				
39	An indication of the volume of transactions as either an amount or appropriate proportion	Y	N	N
40	Amounts or appropriate proportions of outstanding items and	Y	N	N
41	Pricing policies	Y	N	N
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?	N	Y	Y
43	Are such terms substantiated?	N	Y	Y
44	Are related party transactions of a similar nature disclosed in aggregate?	Y	Y	Y
For Government-related Entities (Exempt from items 13-22)				
Does the company disclose:				
45	Name of the government	N	N	Y

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)	Required in:		
		2001	**2006**	**2014**
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)	N	N	Y
47	Nature and amount of each individually significant transaction	N	N	Y
For other transactions that are collectively, but not individually significant:				
48	A quantitative indication of their extent	N	N	Y
49	A qualitative indication of their extent	N	N	Y
	TOTAL ITEMS INCLUDED IN INDEX	16	31	37

D.3: *COMMON DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
1	Does the company disclose the relationship between parent and subsidiary in the accounts?
5	Does the company disclose the compensation of key management personnel?
6	Is the compensation of key management personnel disclosed in total?
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*
14	The nature of the related party relationship
15	Amount of transaction
16	Amount of outstanding balances including commitments
17	Details of terms and conditions of the transaction
Does the company disclose details of the related party transactions, detailed in items 13-17, separately for each of the following related parties?	
25	Subsidiaries
26	Associates
28	Key management personnel of the entity or its parent
44	Are related party transactions of a similar nature disclosed in aggregate?
	TOTAL ITEMS INCLUDED IN INDEX 12

D.4: *NO TO YES DISCLOSURE*

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
2	Does the company disclose the name its parent company?
3	Does the company disclose the name of its ultimate parent if different to the parent?
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?
Does the company disclose the compensation of key management personnel as follows?	
7	Total short-term employee benefits
8	Total post-employment benefits
9	Total other long-term benefits
10	Total termination benefits
11	Total share-based payment
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?
Does the company disclose the following information for each related party transaction?	
18	If the outstanding balance is secured
19	Nature of the consideration to be provided
20	Details of any guarantees given or received for the outstanding balance
21	Provisions for doubtful debts related to the amount of outstanding balances
22	Expense recognised in the period in respect of bad or doubtful debts
Does the company disclose details of the related party transactions, detailed in items 18 to 22, separately for each of the following related parties?	

#	Disclosure Requirement (wording has been changed from details in Table 4.2 to aid the data collection process)
23	The parent
24	Entities with joint control or significant influence over the entity
27	Joint venture in which the entity is a joint venturer
29	Other related parties
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?
43	Are such terms substantiated?
For Government-related Entities (Exempt from items 18-22)	
Does the company disclose:	
45	Name of the government
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)
47	Nature and amount of each individually significant transaction
For other transactions that are collectively, but not individually significant:	
48	A quantitative indication of their extent
49	A qualitative indication of their extent
	TOTAL ITEMS INCLUDED IN INDEX 25

Appendix E

Comparison of IAS 24 and US GAAP Disclosure Index Checklist

Comparison of IAS 24 and US GAAP Disclosure Index Checklist

#	Disclosure Requirement	Required in IAS 24 & year:			Required in US GAAP & year:		
		2001	2006	2014	2001	2006	2014
1	Does the company disclose the relationship between parent and subsidiary in the accounts?	Y	Y	Y	N	N	N
2	Does the company disclose the name its parent company?	N	Y	Y	N	N	N
3	Does the company disclose the name of its ultimate parent if different to the parent?	N	Y	Y	N	N	N
4	Does the company disclose the name of the next most senior parent if no parent or ultimate parent exists?	N	Y	Y	N	N	N
5	Does the company disclose the compensation of key management personnel? *If so, is it disclosed in each of the following categories?*	N	Y	Y	Y	Y	Y
6	In total	N	Y	Y	Y	Y	Y
7	Total short-term employee benefits	N	Y	Y	Y	Y	Y
8	Total post-employment benefits	N	Y	Y	Y	Y	Y
9	Total other long-term benefits	N	Y	Y	Y	Y	Y
10	Total termination benefits	N	Y	Y	Y	Y	Y
11	Total share-based payment	N	Y	Y	Y	Y	Y
12	If a company obtains key management personnel services from a separate management entity, does the company disclose the amount of the service fee paid to the management entity?	N	N	Y	N	N	N
13	Does the company disclose any related party transactions? *If so, does it disclose the following information for each transaction?*	Y	Y	Y	Y	Y	Y

#	Disclosure Requirement	Required in IAS 24 & year:			Required in US GAAP & year:		
		2001	2006	2014	2001	2006	2014
14	The nature of the related party relationship	Y	Y	Y	Y	Y	Y
15	Amount of transaction	N	Y	Y	Y	Y	Y
16	Amount of outstanding balances including commitments	N	Y	Y	Y	Y	Y
17	Details of terms and conditions of the transaction	N	Y	Y	Y	Y	Y
18	If the outstanding balance is secured	N	Y	Y	N	N	N
19	Nature of the consideration to be provided	N	Y	Y	Y	Y	Y
20	Details of any guarantees given or received for the outstanding balance	N	Y	Y	N	N	N
21	Provisions for doubtful debts related to the amount of outstanding balances	N	Y	Y	N	N	N
22	Expense recognised in the period in respect of bad or doubtful debts	N	Y	Y	N	N	N
Does the company disclose details of the related party transactions, detailed above, separately for each of the following related parties?							
23	The parent	N	Y	Y	Y	Y	Y
24	Entities with joint control or significant influence over the entity	N	Y	Y	Y	Y	Y
25	Subsidiaries	N	Y	Y	Y	Y	Y
26	Associates	N	Y	Y	Y	Y	Y
27	Joint venture in which the entity is a joint venturer	N	Y	Y	N	N	N
28	Key management personnel of the entity or its parent	N	Y	Y	Y	Y	Y
29	Other related parties	N	Y	Y	Y	Y	Y

#	Disclosure Requirement	Required in IAS 24 & year:			Required in US GAAP & year:		
		2001	2006	2014	2001	2006	2014
30	Does the company disclose details of transactions with directors? *If so, does it disclose:*	Y	N	N	N	N	N
31	Remuneration	Y	N	N	N	N	N
32	Borrowings	Y	N	N	N	N	N
33	Does the company disclose details of transactions with subsidiaries? *If so, does it disclose:*	Y	N	N	N	N	N
34	Significant intercompany transactions	Y	N	N	N	N	N
35	Borrowing balances	Y	N	N	N	N	N
36	Does the company disclose details of transactions with associates? *If so, does it disclose:*	Y	N	N	N	N	N
37	Significant intercompany transactions	Y	N	N	N	N	N
38	Borrowing balances	Y	N	N	N	N	N
Does the company disclose the following information in relation to the related party transactions detailed above:							
39	An indication of the volume of transactions as either an amount or appropriate proportion	Y	N	N	N	N	N
40	Amounts or appropriate proportions of outstanding items and	Y	N	N	N	N	N
41	Pricing policies	Y	N	N	N	N	N
42	Does the company disclose that related party transactions are on terms equivalent to arm's length transactions?	N	Y	Y	Y	Y	Y
43	Are such terms substantiated?	N	Y	Y	Y	Y	Y
44	Are related party transactions of a similar nature disclosed in aggregate?	Y	Y	Y	Y	Y	Y

#	Disclosure Requirement	Required in IAS 24 & year:			Required in US GAAP & year:		
		2001	**2006**	**2014**	**2001**	**2006**	**2014**
For Government-related Entities (Exempt from items 13-22)							
Does the company disclose:							
45	Name of the government	N	N	Y	N	N	N
46	The nature of its relationship between the reporting entity (i.e. control, joint control or significant influence)	N	N	Y	N	N	N
47	Nature and amount of each individually significant transaction	N	N	Y	N	N	N
For other transactions that are collectively, but not individually significant:							
48	A quantitative indication of their extent	N	N	Y	N	N	N
49	A qualitative indication of their extent	N	N	Y	N	N	N
	TOTAL ITEMS INCLUDED IN INDEX				22	22	22

The items highlighted in yellow represent the required disclosures in US GAAP: *SFAS No. 57 Related Party Disclosures.*

APPENDIX F

Cross-Country Comparison

F.1: Model 2*: MOVING TARGET DISCLOSURE*

	Panel A					***Panel B***				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.586**	**0.566**	**0.586**	**0.589**	**0.581**	**0.576**	**0.558**	**0.575**	**0.576**	**0.557**
MANDATEIFRS	**0.029***	**0.030***	0.028	0.028	0.025					
Yr2001						0.023	0.022	0.022	0.023	**0.027***
Yr2014						-0.023	-0.022	-0.023	-0.023	-0.023
BIG4/5	0.000	0.018	0.004	0.001	0.000	0.003	0.018	0.006	0.004	0.002
AUDITCOM	**0.037***	0.034	**0.039***	**0.041***	**0.042***	**0.066*****	**0.061*****	**0.066*****	**0.069*****	**0.071*****
FORLIST	-0.007	-0.001	-0.006	-0.008	-0.007	-0.005	0.002	-0.003	-0.005	-0.004
OUTDEBT	0.016	0.016	0.018	0.016	0.016	0.015	0.015	0.017	0.016	0.014
CLOSELYHELD	0.014					0.008				
GOVTCONTROL		**0.055*****					**0.050*****			
FAMCONTROL			-0.031					-0.030		
OTHCONTROL				-0.003					-0.005	
CROSSHARES					0.016					**0.031***
BRAZIL	**-0.057****	**-0.063*****	**-0.051****	**-0.051****	**-0.045***	**-0.055****	**-0.063*****	**-0.051****	**-0.051****	-0.037
RUSSIA	**-0.163*****	**-0.176*****	**-0.151*****	**-0.155*****	**-0.151*****	**-0.158*****	**-0.173*****	**-0.150*****	**-0.153*****	**-0.143*****
INDIA	**0.103*****	**0.100*****	**0.114*****	**0.107*****	**0.113*****	**0.087*****	**0.082*****	**0.096*****	**0.090*****	**0.105*****
SIZE	-0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
LEV	-0.008	-0.007	-0.007	-0.008	-0.008	-0.006	-0.006	-0.006	-0.006	-0.006
ROA	**-0.165****	**-0.146***	**-0.161****	**-0.159****	**-0.166****	**-0.202****	**-0.185****	**-0.199****	**-0.196****	**-0.206****
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.304	0.315	0.306	0.303	0.304	0.310	0.320	0.312	0.310	0.314
F stat	**17.430*****	**18.299*****	**17.593*****	**17.339*****	**17.418*****	**16.597*****	**17.338*****	**16.804*****	**16.587*****	**16.892*****
Max VIF	2.556	2.461	2.535	2.421	2.687	2.125	2.037	1.967	1.984	2.303
# App index	16-37	16-37	16-37	16-37	16-37	16-37	16-37	16-37	16-37	16-37

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

F.2: Model 3: *COMMON DISCLOSURE*

	Panel A					*Panel B*				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.590**	**0.567**	**0.588**	**0.586**	**0.567**	**0.812**	**0.789**	**0.809**	**0.804**	**0.771**
MANDATEIFRS	**0.254*****	**0.257*****	**0.255*****	**0.252*****	**0.245*****					
Yr2001						**-0.154*****	**-0.156*****	**-0.155*****	**-0.153*****	**-0.147*****
Yr2014						**0.066*****	**0.068*****	**0.066*****	**0.067*****	**0.065*****
BIG4/5	0.017	0.033	0.017	0.023	0.015	0.010	0.025	0.010	0.016	0.008
AUDITCOM	0.017	0.009	0.015	0.020	0.020	0.012	0.002	0.008	0.014	0.014
FORLIST	**-0.031***	-0.024	**-0.031***	**-0.029***	**-0.030***	**-0.034****	-0.027	**-0.033****	**-0.032***	**-0.032****
OUTDEBT	0.023	0.022	0.023	0.023	0.021	0.020	0.018	0.019	0.019	0.016
CLOSELYHELD	-0.009					-0.016				
GOVTCONTROL		**0.052****					**0.052****			
FAMCONTROL			-0.003					-0.008		
OTHCONTROL				**-0.028****					**-0.032****	
CROSSHARES					**0.045****					**0.059*****
BRAZIL	**0.049****	0.036	**0.046***	**0.050****	**0.065*****	-0.034	**-0.051****	-0.040	-0.035	-0.011
RUSSIA	**-0.066****	**-0.091*****	**-0.070*****	**-0.070*****	**-0.059****	**-0.149*****	**-0.179*****	**-0.157*****	**-0.156*****	**-0.139*****
INDIA	**0.234*****	**0.224*****	**0.232*****	**0.231*****	**0.248*****	**0.068*****	**0.053*****	**0.064*****	**0.062*****	**0.091*****
SIZE	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
LEV	-0.006	-0.005	-0.005	-0.005	-0.005	-0.007	-0.006	-0.007	-0.007	-0.006
ROA	**-0.172****	**-0.160***	**-0.175****	**-0.159***	**-0.188****	**-0.208****	**-0.197****	**-0.213****	**-0.194****	**-0.226****
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.417	0.425	0.416	0.422	0.423	0.382	0.389	0.381	0.388	0.392
F stat	**27.889*****	**28.784*****	**27.854*****	**28.457*****	**28.593*****	**22.494*****	**23.151*****	**22.402*****	**22.999*****	**23.446*****
Max VIF	2.556	2.461	2.535	2.421	2.687	2.125	2.037	1.967	1.984	2.303
# Applicable index	11-22	11-22	11-22	11-22	11-22	11-22	11-22	11-22	11-22	11-22

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

F.3: Model 4: *NO TO YES DISCLOSURE*

	Panel A					*Panel B*				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.212**	**0.161**	**0.215**	**0.223**	**0.205**	**0.396**	**0.344**	**0.395**	**0.401**	**0.375**
MANDATEIFRS	**0.187*****	**0.187*****	**0.181*****	**0.181*****	**0.173*** **					
Yr2001						**-0.137*****	**-0.137*****	**-0.136*****	**-0.134*****	**-0.129*****
Yr2014						**0.050*****	**0.053*****	**0.048*****	**0.049*****	**0.048*****
BIG4/5	-0.012	**0.035***	-0.003	-0.010	-0.012	-0.018	0.029	-0.009	-0.016	-0.018
AUDITCOM	0.016	0.011	0.024	0.029	0.033	0.001	-0.006	0.007	0.013	0.017
FORLIST	-0.010	0.009	-0.006	-0.011	-0.010	-0.013	0.005	-0.010	-0.014	-0.013
OUTDEBT	-0.005	-0.002	0.001	-0.002	-0.003	-0.007	-0.005	-0.001	-0.004	-0.006
CLOSELYHELD	**0.053*****					**0.049*****				
GOVTCONTROL		**0.148*****					**0.150*****			
FAMCONTROL			**-0.075*****					**-0.080*****		
OTHCONTROL				-0.002					-0.003	
CROSSHARES					**0.038****					**0.041****
BRAZIL	**0.045***	0.035	**0.066*****	**0.065*****	**0.080*****	-0.020	-0.033	0.001	0.000	0.019
RUSSIA	-0.029	**-0.057****	0.008	-0.001	0.009	**-0.096*****	**-0.127*****	**-0.059*****	**-0.068*****	**-0.054****
INDIA	**0.177*****	**0.173*****	**0.209*****	**0.193*****	**0.207*****	**0.053*****	**0.048*****	**0.089*****	**0.072*****	**0.093*****
SIZE	**-0.001****	0.000	**-0.001***	**-0.001****	**-0.001***	**-0.001****	0.000	**-0.001****	**-0.001****	**-0.001****
LEV	-0.003	-0.001	-0.002	-0.003	-0.002	-0.004	-0.002	-0.003	-0.004	-0.004
ROA	-0.115	-0.060	-0.100	-0.100	-0.112	**-0.141***	-0.083	-0.127	-0.125	**-0.136***
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.294	0.367	0.296	0.276	0.283	0.327	0.404	0.333	0.311	0.319
F stat	**16.672*****	**22.819*****	**16.823*****	**15.370*****	**15.835*****	**17.874*****	**24.558*****	**18.391*****	**16.709*****	**17.280*****
Max VIF	2.556	2.461	2.535	2.421	2.687	2.125	2.037	1.967	1.984	2.303
# Applicable index	15-25	15-25	15-25	15-25	15-25	15-25	15-25	15-25	15-25	15-25

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

APPENDIX G

Results of Regression Analyses Excluding US GAAP Firms

G.1: Brazil

	Panel A				Panel B			
	Model 1: TOTAL DISCLOSURE				Model 2: MOVING TARGET DISCLOSURE			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.393	0.396	0.412	0.395	0.431	0.422	0.437	0.413
Yr2001	0.030	0.027	0.024	0.030	**0.237*****	**0.240*****	**0.233*****	**0.239*****
Yr2014	**0.186*****	**0.187*****	**0.184*****	**0.186*****	**0.173*****	**0.172*****	**0.169*****	**0.169*****
AUDITCOM	**0.086*****	**0.082*****	**0.081*****	**0.086*****	**0.095*****	**0.097*****	**0.087*****	**0.090*****
FORLIST	0.015	0.015	0.018	0.016	0.020	0.020	0.022	0.019
OUTDEBT	0.022	0.018	0.017	0.022	-0.003	0.001	-0.006	0.001
CLOSELYHELD	0.004				-0.011			
GOVTCONTROL		0.027				-0.019		
FAMCONTROL			-0.034				-0.036	
OTHCONTROL				0.005				0.018
SIZE	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.001
LEV	**-0.017****	**-0.015****	**-0.017****	**-0.017****	**-0.019****	**-0.020****	**-0.020****	**-0.020****
ROA	0.025	0.028	0.027	0.025	-0.051	-0.059	-0.062	-0.076
N	69	69	69	69	69	69	69	69
Adjusted R^2	0.578	0.582	0.584	0.578	0.516	0.517	0.522	0.519
F stat	**11.328******	**11.517******	**11.623*****	**11.337*****	**9.041*****	**9.078*****	**9.238*****	**9.144*****
Max VIF	1.855	1.771	1.785	1.768	1.787	1.771	1.785	1.768
# Applicable index	22-39	22-39	22-39	22-39	16-36	16-36	16-36	16-36

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

G.1: Brazil continued

	Panel C				Panel D			
	Model 3: COMMON DISCLOSURE				Model 4: NO TO YES DISCLOSURE			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.668	0.640	0.655	0.632	0.198	0.232	0.261	0.236
Yr2001	0.004	0.011	0.002	0.008	0.018	0.006	0.004	0.013
Yr2014	**0.211*****	**0.208*****	**0.206*****	**0.205*****	**0.170*****	**0.175*****	**0.170*****	**0.174*****
AUDITCOM	**0.077*****	**0.079*****	**0.066****	**0.069****	**0.071****	**0.060***	**0.069****	**0.078****
FORLIST	0.022	0.020	0.022	0.019	0.003	0.004	0.012	0.007
OUTDEBT	0.002	0.011	0.001	0.008	0.048	0.030	0.035	0.043
CLOSELYHELD	-0.031				0.041			
GOVTCONTROL		-0.039				**0.103****		
FAMCONTROL			-0.036				-0.055	
OTHCONTROL				0.016				0.001
SIZE	-0.000	0.000	0.000	0.001	-0.003	**-0.003***	**-0.004****	**-0.004***
LEV	**-0.017****	**-0.019****	**-0.017****	**-0.018****	-0.015	-0.010	**-0.015***	-0.014
ROA	0.034	0.008	0.005	-0.008	0.071	0.105	0.105	0.107
N	69	69	69	69	69	69	69	69
Adjusted R^2	0.546	0.547	0.546	0.542	0.488	0.531	0.492	0.477
F stat	**10.079*****	**10.139*****	**10.088*****	**9.950*****	**8.193*****	**9.537*****	**8.316*****	**7.894*** **
Max VIF	1.855	1.771	1.785	1.768	1.855	1.771	1.785	1.768
# Applicable index	12-22	12-22	12-22	12-22	15-24	15-24	15-24	15-24

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test)

G.2: Russia

	Panel A					Panel B				
	Model 1: TOTAL DISCLOSURE					Model 2: MOVING TARGET DISCLOSURE				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.309	0.294	0.293	0.321	0.321	0.138	0.135	0.123	0.127	0.157
Yr2001	**-0.117*****	**-0.140*****	**-0.116*****	**-0.115****	**-0.117*****	**0.132****	**0.110****	**0.133*****	**0.143****	**0.130****
Yr2014	-0.029	-0.009	-0.041	-0.030	-0.033	-0.030	-0.012	-0.047	-0.044	-0.043
Big4/5	**0.234*****	**0.235*****	**0.258*****	**0.234*****	**0.226*****	**0.410*****	**0.411*****	**0.441*****	**0.418*****	**0.385*****
AUDITCOM	0.060	0.024	**0.062***	**0.062***	0.062	0.054	0.020	0.057	0.072	0.059
FORLIST	**-0.063***	**-0.069****	-0.042	-0.064	**-0.067***	-0.032	-0.039	-0.005	-0.020	-0.041
OUTDEBT	-0.036	-0.039	-0.037	-0.036	-0.034	-0.036	-0.038	-0.037	-0.034	-0.027
CLOSELYHELD	0.015					0.029				
GOVTCONTROL		**0.087*****					**0.084****			
FAMCONTROL			**-0.137*****					**-0.181*****		
OTHCONTROL				0.003					0.046	
CROSSHARES					0.018					0.059
SIZE	-0.001	-0.001	0.001	-0.001	-0.001	-0.004	-0.003	0.000	-0.003	-0.003
LEV	0.009	0.009	0.007	0.009	0.011	0.014	0.015	0.012	0.013	0.021
ROA	**-0.399****	**-0.362****	**-0.470*****	**-0.407****	**-0.412****	**-0.470****	**-0.439****	**-0.566*****	**-0.508****	**-0.503****
N	45	45	45	45	45	45	45	45	45	45
Adjusted R^2	0.529	0.621	0.675	0.528	0.532	0.374	0.441	0.570	0.388	0.401
F stat	**5.938*****	**8.222*****	**10.121*****	**5.930*****	**5.996*****	**3.629*****	**4.472*****	**6.830*****	**3.789*****	**3.944*****
Max VIF	1.904	1.947	1.901	1.996	1.938	1.904	1.947	1.901	1.996	1.938
# App. index	22-41	22-41	22-41	22-41	22-41	16-37	16-37	16-37	16-37	16-37

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

G.2: Russia continued

	Panel C					Panel D				
	Model 3: COMMON DISCLOSURE					Model 4: NO TO YES DISCLOSURE				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.515	0.464	0.441	0.420	0.475	0.170	0.192	0.207	0.275	0.239
Yr2001	-0.020	-0.037	-0.025	-0.009	-0.027	**-0.131****	**-0.163*****	**-0.125*****	**-0.133****	**-0.124****
Yr2014	-0.046	-0.033	-0.059	-0.064	-0.051	-0.021	0.006	-0.038	-0.013	-0.024
Big4/5	**0.471*****	**0.472*****	**0.501*****	**0.484*****	**0.455*****	0.117	**0.119***	**0.140***	0.108	0.118
AUDITCOM	0.011	-0.013	0.007	0.031	0.008	**0.079***	0.029	**0.087****	0.072	**0.087***
FORLIST	-0.019	-0.016	0.015	0.011	-0.017	**-0.078***	**-0.093*****	**-0.063***	**-0.102****	**-0.086****
OUTDEBT	-0.032	-0.032	-0.031	-0.027	-0.025	-0.033	-0.039	-0.036	-0.038	-0.036
CLOSELYHELD	-0.039					0.075				
GOVTCONTROL		0.046					**0.136*****			
FAMCONTROL			**-0.172*****					**-0.139*****		
OTHCONTROL				0.075					-0.046	
CROSSHARES					0.037					-0.005
SIZE	**-0.007****	**-0.007***	-0.004	**-0.007****	**-0.007****	0.001	0.002	0.003	0.001	0.001
LEV	0.008	0.008	0.005	0.005	0.011	0.004	0.006	0.003	0.006	0.004
ROA	**-0.522****	**-0.485****	**-0.590*****	**-0.553****	**-0.523****	**-0.342***	**-0.303***	**-0.435****	**-0.341***	**-0.367***
N	45	45	45	45	45	45	45	45	45	45
Adjusted R^2	0.373	0.386	0.503	0.400	0.379	0.389	0.586	0.517	0.396	0.378
F stat	**3.615*****	**3.766*****	**5.453*****	**3.937*****	**3.689*****	**3.805*****	**7.220*****	**5.702*****	**3.887*****	**3.678*****
Max VIF	1.904	1.947	1.901	1.996	1.938	1.904	1.947	1.901	1.996	1.938
# App. index	12-22	12-22	12-22	12-22	12-22	25	25	25	25	25

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

G.3: India

	Panel A				Panel B			
	Model 1: TOTAL DISCLOSURE				Model 2: MOVING TARGET DISCLOSURE			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.557	0.520	0.548	0.550	0.810	0.749	0.774	0.771
Yr2001	**-0.090*****	**-0.088*****	**-0.089*****	**-0.090*****	**-0.093*****	**-0.085*****	**-0.087*****	**-0.090*****
Yr2014	**0.045*****	**0.047*****	**0.046*****	**0.045*****	**-0.196*****	**-0.191*****	**-0.192*****	**-0.195*****
BIG4/5	-0.018	-0.006	-0.017	-0.014	-0.020	-0.012	-0.022	-0.006
FORLIST	0.007	0.017	0.009	0.010	0.010	0.023	0.015	0.021
OUTDEBT	**0.039****	**0.040*****	**0.040****	**0.038****	**0.062*****	**0.060*****	**0.057*****	**0.058*****
CLOSELYHELD	-0.009				**-0.048****			
GOVTCONTROL		0.030				0.024		
FAMCONTROL			-0.013				0.004	
OTHCONTROL				-0.012				**-0.046*****
SIZE	-0.001	0.000	-0.001	-0.001	0.000	0.000	0.000	0.001
LEV	0.004	0.004	0.005	0.004	-0.004	-0.005	-0.005	-0.006
ROA	0.044	0.050	0.045	0.044	0.052	0.030	0.018	0.043
N	144	144	144	144	144	144	144	144
Adjusted R^2	0.376	0.385	0.378	0.379	0.505	0.489	0.485	0.513
F stat	**10.589*****	**10.965*****	**10.644*****	**10.677*****	**17.186*****	**16.178*****	**15.943*****	**17.753*****
Max VIF	1.483	1.592	1.473	1.462	1.483	1.843	1.473	1.462
# Applicable index	36	36	36	36	11-37	11-37	11-37	11-37

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

G.3: India continued

	Panel C				Panel D			
	Model 3: COMMON DISCLOSURE				Model 4: NO TO YES DISCLOSURE			
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 1**	**Version 2**	**Version 3**	**Version 4**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	0.800	0.760	0.779	0.772	0.435	0.391	0.459	0.469
Yr2001	**-0.102*****	**-0.097*****	**-0.098*****	**-0.102*****	**-0.101*****	**-0.103*****	**-0.106*****	**-0.105*****
Yr2014	**0.033****	**0.036****	**0.035****	**0.034****	0.036	0.036	0.033	0.033
BIG4/5	-0.021	-0.016	**-0.024***	-0.005	-0.026	0.005	-0.021	-0.033
FORLIST	0.020	**0.028***	0.022	**0.029****	-0.011	0.007	-0.013	-0.019
OUTDEBT	**0.067*****	**0.065*****	**0.060*****	**0.064*****	0.004	0.013	0.014	0.008
CLOSELYHELD	**-0.035****				**0.044***			
GOVTCONTROL		0.013				**0.076*****		
FAMCONTROL			0.025				**-0.046***	
OTHCONTROL				**-0.048*****				0.022
SIZE	0.000	0.001	0.000	**0.001***	**-0.002*****	-0.001	**-0.002****	**-0.002*****
LEV	0.003	0.002	0.001	0.001	0.007	0.009	0.011	0.009
ROA	**0.139***	0.121	0.100	**0.140***	-0.011	0.052	0.047	0.008
N	144	144	144	144	144	144	144	144
Adjusted R^2	0.414	0.400	0.408	0.445	0.266	0.289	0.270	0.256
F stat	**12.243*****	**11.599*****	**11.943*****	**13.726*****	**6.757*****	**7.462*****	**6.878*****	**6.471*****
Max VIF	1.483	1.843	1.473	1.462	1.483	1.843	1.473	1.462
# Applicable index	11-21	11-21	11-21	11-21	15-25	15-25	15-25	15-25

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test)

APPENDIX H

Cross-Country Comparison Excluding India

H.1: Model 1: *TOTAL DISCLOSURE*

	Panel A					*Panel B*				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.426**	**0.409**	**0.442**	**0.442**	**0.446**	**0.531**	**0.512**	**0.539**	**0.538**	**0.531**
MANDATEIFRS	**0.126*****	**-0.122*****	**0.116*****	**0.115*****	**0.120*****					
Yr2001						**-0.111*****	**-0.111*****	**-0.110*****	**-0.110*****	**-0.108*****
Yr2014						**0.065*****	**0.066*****	**0.065*****	**0.065*****	**0.065*****
BIG4/5	**-0.026***	-0.004	**-0.029***	**-0.027***	**-0.027***	-0.004	0.014	-0.006	-0.006	-0.010
AUDITCOM	**0.060*****	**0.063*****	**0.073*****	**0.073*****	**0.071*****	**0.039****	**0.037****	**0.043****	**0.045*****	**0.045*****
FORLIST	0.012	**0.021***	0.012	0.013	0.012	-0.003	0.004	-0.001	-0.002	-0.001
OUTDEBT	**0.026****	**0.029****	**0.030****	**0.030****	**0.030****	0.012	0.012	0.016	0.015	0.015
CLOSELYHELD	**0.045*****					**0.022****				
GOVTCONTROL		**0.069*****					**0.057*****			
FAMCONTROL			0.012					-0.015		
OTHCONTROL				-0.003					-0.003	
CROSSHARES					-0.013					0.017
BRAZIL	**-0.046*****	**-0.046*****	**-0.036****	**-0.036****	**-0.040****	**-0.051*****	**-0.054*****	**-0.048*****	**-0.046*****	**-0.042*****
RUSSIA	**-0.120*****	**-0.124*****	**-0.102*****	**-0.102*****	**-0.103*****	**-0.124*****	**-0.134*****	**-0.116*****	**-0.116*****	**-0.114*****
SIZE	0.000	0.000	0.000	0.000	0.000	**-0.001***	0.000	-0.001	-0.001	-0.001
LEV	-0.003	-0.002	-0.003	-0.003	-0.003	-0.004	-0.003	-0.004	-0.004	-0.004
ROA	-0.071	-0.038	-0.055	-0.052	-0.052	**-0.101***	-0.079	-0.086	-0.087	-0.086
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.334	0.343	0.316	0.315	0.316	0.439	0.454	0.435	0.434	0.437
F stat	**21.628*****	**22.482*****	**19.985*****	**19.937*****	**21.021*****	**30.507*****	**32.275*****	**30.054*****	**29.930*****	**30.207*****
Max VIF	1.707	1.688	1.667	1.675	1.746	1.708	1.695	1.680	1.686	1.735
# App index	22-41	22-41	22-41	22-41	22-41	22-41	22-41	22-41	22-41	22-41

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

H.2: Model 2: *MOVING TARGET DISCLOSURE*

	Panel A					***Panel B***				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.632**	**0.611**	**0.643**	**0.643**	**0.648**	**0.612**	**0.591**	**0.623**	**0.622**	**0.629**
MANDATEIFRS	-0.011	-0.012	-0.020	-0.019	-0.014					
Yr2001						0.022	0.022	0.024	0.024	0.022
Yr2014						-0.020	-0.019	-0.021	-0.021	-0.021
BIG4/5	-0.024	-0.003	-0.025	-0.025	-0.024	-0.025	-0.004	-0.029	-0.028	-0.026
AUDITCOM	**0.044***	**0.043***	**0.052****	**0.053****	**0.050****	**0.056****	**0.055****	**0.063*****	**0.064*****	**0.062*****
FORLIST	0.004	0.012	0.005	0.005	0.004	0.007	0.015	0.008	0.008	0.006
OUTDEBT	**0.027***	**0.028***	**0.030****	**0.030****	**0.030****	**0.028***	**0.030****	**0.032****	**0.032****	**0.031****
CLOSELYHELD	**0.032****					**0.032****				
GOVTCONTROL		**0.067*****					**0.066*****			
FAMCONTROL			-0.007					-0.002		
OTHCONTROL				-0.005					-0.005	
CROSSHARES					-0.015					-0.015
BRAZIL	**-0.106*****	**-0.109*****	**-0.100*****	**-0.099*****	**-0.103*****	**-0.103*****	**-0.105*****	**-0.096*****	**-0.095*****	**-0.100*****
RUSSIA	**-0.213*****	**-0.222*****	**-0.201*****	**-0.201*****	**-0.202*****	**-0.209*****	**-0.217*****	**-0.196*****	**-0.196*****	**-0.198*****
SIZE	0.000	0.000	-0.000	-0.000	0.000	-0.000	0.000	0.000	0.000	-0.000
LEV	-0.008	-0.007	-0.008	-0.008	-0.008	-0.007	-0.006	-0.007	-0.007	-0.007
ROA	**-0.138***	-0.110	-0.125	-0.124	-0.123	**-0.150***	-0.120	-0.131	-0.128	-0.134
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.269	0.281	0.262	0.262	0.263	0.277	0.288	0.269	0.270	0.271
F stat	**16.102*****	**17.027*****	**15.604*****	**15.607*****	**15.674*****	**15.408*****	**16.246*****	**14.884*****	**14.900*****	**14.980**
Max VIF	1.707	1.688	1.667	1.675	1.746	1.708	1.695	1.680	1.686	1.735
# App index	16-37	16-37	16-37	16-37	16-37	16-37	16-37	16-37	16-37	16-37

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

H.3: Model 3: *COMMON DISCLOSURE*

	Panel A					***Panel B***				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.694**	**0.667**	**0.705**	**0.702**	**0.712**	**0.840**	**0.811**	**0.841**	**0.835**	**0.833**
MANDATEIFRS	**0.161*****	**0.161*****	**0.157*****	**0.151*****	**0.161*****					
Yr2001						**-0.155*****	**-0.156*****	**-0.154*****	**-0.153*****	**-0.152*****
Yr2014						**0.068*****	**0.069*****	**0.068*****	**0.068*****	**0.068*****
BIG4/5	**-0.039***	-0.014	**-0.043****	-0.033	**-0.039***	-0.012	0.010	-0.013	-0.005	-0.016
AUDITCOM	0.032	0.029	0.042	**0.046***	0.037	0.004	-0.002	0.006	0.011	0.006
FORLIST	-0.005	0.005	-0.008	-0.003	-0.006	-0.025	-0.018	-0.026	-0.023	-0.023
OUTDEBT	**0.048*****	**0.049*****	**0.048*****	**0.052*****	**0.051*****	**0.030***	**0.028***	**0.029***	**0.031***	**0.031***
CLOSELYHELD	**0.032***					0.003				
GOVTCONTROL		**0.080*****					**0.063*****			
FAMCONTROL			**0.047***					0.010		
OTHCONTROL				**-0.032****					**-0.031****	
CROSSHARES					-0.022					0.018
BRAZIL	**-0.064*****	**-0.068*****	**-0.054****	**-0.052****	**-0.063****	**-0.071*****	**-0.079*****	**-0.069*****	**-0.065*****	**-0.066*****
RUSSIA	**-0.182*****	**-0.195*****	**-0.171*****	**-0.168*****	**-0.172*****	**-0.189*****	**-0.207*****	**-0.188*****	**-0.186*****	**-0.186*****
SIZE	0.000	0.001	0.000	0.001	0.000	0.000	0.000	0.000	0.000	-0.000
LEV	-0.005	-0.004	-0.006	-0.005	-0.005	-0.007	-0.006	-0.007	-0.007	-0.007
ROA	-0.110	-0.080	-0.103	-0.082	-0.095	**-0.168****	**-0.156***	**-0.168***	**-0.148***	**-0.163***
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.278	0.293	0.279	0.280	0.275	0.368	0.380	0.368	0.374	0.369
F stat	**16.846*****	**18.018*****	**16.919*****	**17.004*****	**16.605*****	**22.926**	**24.114**	**22.950*****	**23.546*****	**23.060*****
Max VIF	1.707	1.688	1.667	1.675	1.746	1.708	1.695	1.680	1.686	1.735
# Applicable index	11-22	11-22	11-22	11-22	11-22	11-22	11-22	11-22	11-22	11-22

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

H.4: Model 4: *NO TO YES DISCLOSURE*

	Panel A					Panel B				
	Version 1	**Version 2**	**Version 3**	**Version 4**	**Version 5**	**Version 1**	**Version 2**	**Version 3**	**Version 4**	**Version 5**
	Coef.	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*	*Coef.*
Constant	**0.290**	**0.238**	**0.321**	**0.320**	**0.326**	**0.418**	**0.363**	**0.440**	**0.438**	**0.438**
MANDATEIFRS	**0.117*****	**0.113*****	**0.093*****	**0.096*****	**0.103*****					
Yr2001						**-0.137*****	**-0.137*****	**-0.135*****	**-0.134*****	**-0.134*****
Yr2014						**0.051*****	**0.054*****	**0.050*****	**0.050*****	**0.050*****
BIG4/5	**-0.055*****	-0.001	**-0.057*****	**-0.057*****	**-0.057*****	**-0.036****	0.016	**-0.041****	**-0.042****	**-0.042****
AUDITCOM	0.027	0.027	**0.048****	**0.051****	**0.047****	-0.005	-0.009	0.005	0.009	0.009
FORLIST	0.010	**0.031****	0.014	0.012	0.010	-0.006	0.013	0.000	-0.004	-0.004
OUTDEBT	0.014	0.019	0.024	0.022	0.022	0.001	0.004	0.013	0.009	0.009
CLOSELYHELD	**0.083*****					**0.064*****				
GOVTCONTROL		**0.169*****					**0.159*****			
FAMCONTROL			-0.030					**-0.054*****		
OTHCONTROL				-0.005					-0.002	
CROSSHARES					-0.018					0.000
BRAZIL	**-0.040***	**-0.045****	-0.024	-0.021	-0.026	**-0.050****	**-0.057*****	**-0.040****	**-0.036***	**-0.036***
RUSSIA	**-0.116*****	**-0.138*****	**-0.083*****	**-0.083*****	**-0.085*****	**-0.126*****	**-0.152*****	**-0.101*****	**-0.102*****	**-0.102*****
SIZE	-0.001	0.001	0.000	0.000	0.000	**-0.001***	-0.000	-0.001	-0.001	-0.001
LEV	-0.002	0.000	-0.002	-0.002	-0.002	-0.004	-0.002	-0.004	-0.005	-0.005
ROA	-0.068	0.002	-0.035	-0.035	-0.035	-0.109	-0.046	-0.064	-0.071	-0.072
N	453	453	453	453	453	453	453	453	453	453
Adjusted R^2	0.187	0.260	0.144	0.141	0.142	0.315	0.394	0.296	0.286	0.286
F stat	**10.433*****	**15.462*****	**7.910*****	**7.732*****	**7.813*****	**18.342*****	**25.487*****	**16.871*****	**16.076*****	**16.072*****
Max VIF	1.707	1.688	1.667	1.675	1.746	1.708	1.695	1.680	1.686	1.735
# Applicable index	15-25	15-25	15-25	15-25	15-25	15-25	15-25	15-25	15-25	15-25

***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).