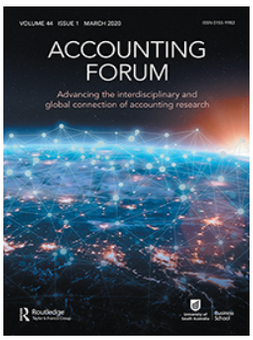

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Are changes in international accounting standards making them more complex?

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ABSTRACT

One of the objectives of International Accounting Standards Board (IASB) is to develop high-quality standards based on clearly articulated principles. However, despite stating that International Financial Reporting Standards (IFRS) are based on principles, IASB continuously revises and amends IFRS. This paper explores the relation between the changes in IFRS and whether the standards have become more complex over time. The sample comprises changes to IFRS between 2005 and 2016. Following Mergenthaler [(2012). *Principles-based versus rules-based standards and accounting irregularities* (Working paper)] and Donelson, McInnis, and Mergenthaler [(2012). Rules-based accounting standards and litigation. *The Accounting Review*, *87*(4), 1247–1279], this paper scores the rules-based continuum for each standard. The results show that IFRS is becoming more complex because of the changes.

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KEYWORDS
RBC; IFRS; IAS; complexity

1. Introduction

The objective of this paper is to investigate the relation between recent changes (revisions and amendments) to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) that leads to their becoming more complex over time. One of the objectives of the International Accounting Standards Board (IASB) is to develop high-quality and understandable financial reporting standards based on clearly articulated principles. Given the nature of principles, one would expect few exceptions to them (Barth, 2006), no bright-line thresholds, a lower volume of guidance, and less detail (Donelson, McInnis, & Mergenthaler, 2012). Standards that are based on principles should be less complex than standards that are based on rules. Because they are based on principles, these standards should change less than standards based on rules. As shown by the theory of legal certainty (Braithwaite, 2002), when more complex actions occur in changing environments with large economic interests, principles are more likely to enable legal certainty than rules. In this regard, critics of rules-based standards point out that rules may become useless and dysfunctional when the economic environment changes or as managers create innovative transactions (Benston, Bromwich, & Wagenhofer, 2006; Kershaw, 2005).

However, despite stating that the IFRS are based on principles, the IASB continuously revises and amends them. For example, the IASB issued IAS 39 – Financial

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Instruments: recognition and measurement in 2004 (effective after 2005) and since then has revised it one time (in 2008) and amended it 23 times. In 2018, the standard was replaced by IFRS 9 – Financial Instruments (issued in 2009, 2010, and 2013). In general, the objective of the revision or the amendment of a standard is to improve financial reporting by providing more information in response to a shortcoming in the existing standard, to the needs of users, and to increase comparability. But powerful players (like preparers and auditors) influence the revisions and amendments (Cortese, Irvine, & Kaidonis, 2010), and users generally tend to preserve the ideal of comparability by adopting docile behaviours (Durocher & Gendron, 2011). However, these amendments and revisions can impact the reporting entity. For example, there are direct costs to the reporting entity of changing to a new, revised, or amended standard: increased costs occur because of increased complexity in terms of the preparation and auditing of the new, revised, or amended standard (Pawsey, 2017); better or worse decisions by the entity's management due to a change in the managerial incentives; and effects on contractual arrangements.

This paper investigates the relation between the amendments and revisions to the IFRS and IAS and explores whether the standards are becoming more complex over time. There is no formal definition of complexity within the accounting academic literature and previous studies investigate complexity through different proxies (Baudot, Demek, & Huang, 2018). In this paper, rules and principles reflect extremes in a continuum of complexity about the content of accounting standards. Rules and principles are imperfect categories to describe accounting standards and no formal distinction of rules-based and principles-based accounting standards exists. However, Mergenthaler (2012) developed a score: the rules-based continuum score (RBC). This score shows if an accounting standard is more principles-based or more rules-based and includes four key rules-based characteristics that previous studies (Bradbury & Schröder, 2012; Nelson, 2003; Schipper, 2003) show are associated with differences between principles-based and rules-based accounting standards: the level of detail in a standard, the volume of implementation guidance provided, the extent to which bright-line thresholds are stated, and the extent to which scope exceptions are stated.

Therefore, this paper uses the RBC to score the complexity of each IFRS and IAS, following Mergenthaler (2012) and Donelson et al. (2012).

In total, I find 70 commission regulations issued in English between 2003 and 2015 that adopt, revise, or amend the IFRS and the IAS. The paper then tests for the variation in levels of RBC in the standards. The results show a positive relation between the RBC score and a change in a standard. They indicate that changes make the IFRS and IAS more complex. The results also show that the standards included in the Memorandum of Understanding between the Financial Accounting Standards Board (FASB) and the IASB have become more complex. In the Memorandum of Understanding, issued in February 2006, the IASB and FASB launched a series of both short-term and long-term convergence projects aimed at eliminating differences in the two sets of standards. To complement the results, I interview Portuguese auditors, accountants, and a financial manager to gain a deeper understanding of what users and preparers perceive as the features that increase the level of complexity of an accounting standard.

This paper contributes to the literature in three different ways. First, the paper identifies the level of complexity of each IFRS and IAS, using the RBC scores. The paper also tracks

the changes made to each standard across time (standards effective in 2005 and in 2016). The research to date has only applied these scores to the US GAAP (Donelson et al., 2012; Folsom, Hribar, Mergenthaler, & Peterson, 2016; Mergenthaler, 2012) or partially to the IFRS and IAS (Donelson et al., 2012).

Second, this paper contributes to a relatively unexplored area of investigation: the relation between the changes in accounting standards and the level of complexity. The relation is particularly important. In fact, previous studies show that the level of complexity of an accounting standard, i.e. an accounting standard being more principles-based or more rules-based, influences the behaviour of preparers (Agoglia, Doupnik, & Tsakumis, 2011; Cuccia, Hackenbrack, & Nelson, 1995; Hoffman & Patton, 2002; Psaros & Trotman, 2004) and auditors (Cohen, Krishnamoorthy, Peytcheva, & Wright, 2013; Jamal & Tan, 2010; Nelson, Elliott, & Tarpley, 2002; Salterio & Koonce, 1997; Segovia, Arnold, & Sutton, 2009; Trompeter, 1994). Further, it can have consequences in terms of litigation (DiPiazza et al., 2008; Donelson et al., 2012; Johnson, 2008; Kadous & Mercer, 2016).

This paper also provides evidence that the IFRS and IAS are becoming more complex. Although the IASB states that accounting standards are based on principles, the results show that the way that the IFRS and IAS are changing makes them increasingly based on rules. This highlights the need to carefully assess how accounting standards change. For example, the interpretations and guidance of principles-based accounting standards should focus only on significant issues, which should be limited to circumstances in which the standard setter believes that the principles are misunderstood or not well articulated. Our results show that accounting standards became more complex as the IASB moved closer to the FASB, due to the joint work between the IASB and the FASB. In the past, this joint work has given rise to the Memorandum of Understanding (MoU), which has been fading in last years. Although, the IASB and the FASB maintain the dialogue on many issues (for example the issue of IFRS 15 – Revenue from contracts with customers) and that the FASB is a member of the advisory group of IASB (Accounting Standards Advisory Forum), the two boards will continue their work separately. Therefore, other factors, especially the influence that IASB's constituents may exert (Camfferman & Zeff, 2018), will certainly be decisive in defining the level of complexity of the international accounting standards.

Our results should be of interest to academics, standard setters, and regulators for the debate regarding international accounting standards.

The structure of the paper is as follows: Section 2 reviews the relevant literature and provides the hypothesis. Section 3 discusses the sample and a description of the research method. In Section 4, I explain the empirical results. Section 5 presents the main conclusions.

2. Literature review and hypothesis

2.1. Differences between more rules-based and more principles-based accounting standards

The debate on the complexity of accounting standards became a topical issue after the recent financial scandals. Although there is not a clear definition of complexity, previous

studies distinguish between principles-based or rules-based accounting standards. Rules and principles reflect extremes in a continuum of complexity about the content of accounting standards.

A rules-based accounting standard is prescriptive; if an accounting standard covers a specific transaction or event, the rule prescribes the outcome. A principles-based accounting standard provides reasoning that points in a particular direction but does not determine a specific outcome. Alexander (1999) identifies three types of criteria that can be considered when judging the adequacy of financial reporting: a general over-riding requirement (type A), an integrated coherent framework (type B), and a detailed regulation (type C). Type A refers to the true and fair view, substance over form, and operates at a holistic level. Type B refers to complete rules that solve all problems and is detailed. Type A is principles-based, and type B is rules-based.

Nelson (2003) adopts a similar approach by defining a rules-based standard as one that includes specific criteria, such as bright-line thresholds, examples, scope restrictions, exceptions, subsequent precedents, and implementation guidance. A less rules-based standard is one that relies more on principles to guide behaviour. Schipper (2003) also considers the existence of scope exceptions, treatment exceptions, and the presence of detailed implementation guidance as making the US GAAP "rules-based" even if one can discern a standard as based on a principle. Nobes (2005) also uses the terms "principles" and "rules" in a similar way. Bradbury and Schröder (2012) find that rules-based standards have more rules, more justification, less judgement, more bright-line thresholds, and more scope exceptions. Therefore, they are more complex (Schipper, 2003).

Mergenthaler (2012) develops a rules-based continuum (RBC) that measures four factors: a high level of detail in a standard, large volumes of implementation guidance, the existence of bright-line thresholds, and the existence of scope exceptions. He uses this measure to identify those US GAAP standards that are more principles-based or more rules-based. Other researchers have used the RBC, such as Folsom et al. (2016) who examine the effect of principles-based standards on earnings attributes, Donelson et al. (2012) who investigate if rules-based standards are associated with the incidence and outcome of class action litigation on securities, and Donelson, McInnis, and Mergenthaler (2016) who test five theories to explain why US accounting standards contain rules-based characteristics. Like Backof, Bamber, and Carpenter (2016), Kadous and Mercer (2016) opt to use the terms "precise" and "imprecise" to define standards that provide detailed guidance via bright-line thresholds, examples, scope restrictions, exceptions, subsequent precedents, or implementation guidance. They use these terms because they consider most accounting standards as principles-based because they are based on a conceptual framework.

Accounting standards that are more rules-based exist because of a lack of principles or because of the use of an inappropriate principle not found in a conceptual framework (Nobes, 2005). A conceptual framework should be a logical foundation that has a set of permanent, universal, and consistent concepts and principles that remain stable over time and are externally valid. However, the existence of a solid conceptual framework based on rational economic thinking (Macintosh, 2006) can be frustrated because accounting rules and practices have economic, social, and political consequences. Therefore, instead of being a solid logical foundation, the conceptual framework will tend to change and waver between economic, social, and political pillars (Macintosh, 2006).

The existence of an underdeveloped or inappropriate conceptual framework, with unclear principles or inadequate principles, raises the need for more rules. So, accounting standards need to become more complex to compensate for the lack of principles in conceptual frameworks. An example relates to the classification of an investment as an investment in associates. As Nobes (2005) points out, the "principle" of significant influence cannot be found in the conceptual framework and because the "principle" is vague there is a need to state a numerical threshold: the 20% of voting rights.

However, even if a solid, well-developed, and appropriate conceptual framework exists, there is always a need for some rules. The existence of a purely principles-based standard is rare. Some rules are needed to either clarify the conceptual framework or to stop potential accounting abuses. Bennett, Bradbury, and Prangnell (2006) conclude that the rules-based versus principles-based distinction is not meaningful, except in relative terms. They analyse three standards and conclude that all standards require some level of rules. The Financial Accounting Standards Committee (FASC) of the American Accounting Association (AAA) considers accounting standards as a continuum that requires less or more professional judgement: some standards have more rigid rules and others are based more on economic concepts (FASC, 2003).

In this paper, accounting standards are classified by the level of complexity. I use the RBC score as a proxy for the complexity of an accounting standard, that is, a higher level of RBC means that an accounting standard is more rules-based and, therefore, more complex.

2.2. Implications of the level of complexity of an accounting standard

In accounting, there is a long-standing debate about the merits of more complex versus less complex accounting standards. The accounting research generally agrees that principles-based accounting standards are less complex, but they tend to permit more discretionary practices by managers in preparing financial statements (Nelson, 2003; Ng & Tan, 2003; Trompeter, 1994) and require more judgment from auditors in auditing annual accounts. Therefore, more debate and articulation between preparers and auditors emphasises the society's collective intentions rather than that of an individual (Okamoto, 2011). Additionally, the existence of principles-based accounting standards allows for some adaptability to local dimensions (political, economic, and social). Therefore, accounting standards based on principles require regulators to accept a diversity of outcomes generated by different judgements in different countries with different political, economic, and social characteristics. But the search for harmonisation has increased the need for global accounting policies and practices (Gallhofer, Haslam, & Kamla, 2011; Lehman, 2005) that do not guarantee "space" for consideration of local factors. The Memorandum of Understanding (MoU) between the FASB and the IASB, issued in 2006, is an example of the movement toward neoliberalist policy (Gallhofer & Haslam, 2006). The MoU was based on three principles, one of them being the convergence of accounting standards through the development of high-quality common standards. In 2008, at their joint meeting, FASB and IASB agreed to produce common principles-based accounting standards. But since 2011, the level of intensity and cooperation between IASB and FASB decreased, following the decision of US Securities and Exchange Commission to define a certain period of time in which IFRS were supposed to further converge with US GAAP.

More complex accounting standards, with more rules, generally tend to increase the accuracy with which standard setters communicate their requirements (Nelson, 2003; Nobes, 2005). The existence of rules decreases the need for judgement and increases the comparability of financial reporting between companies (Nobes, 2005; Schipper, 2003). Less complex accounting standards, more based on principles, lack precision, which can lead to differences in application.

The existence of principles, instead of rules, also allows the application of the standard to more situations. Principles-based accounting standards also increase auditors' accountability since they can be called upon to justify to others the decision process used (Peytcheva, Wright, & Majoor, 2014).

Despite the merits of more complex versus less complex accounting standards, the issue of an accounting standard depends on the standard setter. And standard setters, in particular IASB, face difficulties in effectively promoting the explicit commitment to public interest. The socioeconomic and political structure of IASB, the alignment to an Anglo-American accounting regime, and the need to manage the interests of constituent groups and between constituents and supervisory government agencies necessarily affects the issue of an accounting standard and its level of complexity.

Thus, the level of complexity of an accounting standard is important for three main reasons.

First the research shows that the level of complexity of an accounting standard influences the way preparers report financial information (Cuccia et al., 1995; Psaros & Trotman, 2004). Although, preparers can use both more complex or less complex accounting standards to misrepresent financial information, previous studies show that they use different strategies (Maines, 2007; Mergenthaler, 2012). The existence of rules may incentivize preparers to structure transactions to achieve a desired treatment in the financial reporting. But the existence of principles requires preparers to make reporting choices and to justify those choices based on the principle in the standard. So, aggressive accounting treatments can be more difficult to justify with less precise accounting standards because of the absence of detailed guidance on implementation (Agoglia et al., 2011; Maines, 2007).

Second, the research also shows that auditors' behaviour is affected by accounting standards, although the evidence is mixed. Some previous studies show that auditors may become more aggressive under less precise accounting standards (Hackenbrack & Nelson, 1996; Mayhew, Schatzberg, & Sevcik, 2001; Ng & Tan, 2003; Trompeter, 1994), while others show that preparers report less aggressively under more principles-based accounting standards (Cohen et al., 2013; Jamal & Tan, 2010; Segovia et al., 2009). Peytcheva et al. (2014) examine the effect of the standards' precision on auditors' motivation and find that less precise standards increase the auditors' accountability.

Third, a relation might exist between more or less precise accounting standards and the level of litigation. On the one hand, rules-based accounting standards can shield companies from litigation because they can argue that they followed the rules in the standards. Previous studies show that auditors consider that the adoption of less precise accounting standards will result in more estimates and in greater legal liability (DiPiazza et al., 2008; Johnson, 2008). But on the other hand, the rules also provide a clear path for plaintiffs (Cornell, Magro, & Warne, 2017; Donelson et al., 2012). Auditors can use several mechanisms to mitigate the higher litigation exposure associated with imprecise accounting standards. Judgement frameworks can help auditors curb aggressive reporting under

imprecise accounting standards (Backof et al., 2016) and constrain jurors' ability to blame auditors (Grenier, Pomeroy, & Stern, 2015). The use of a recognised technical expert can also play an important role in the elimination of the increased exposure to litigation associated with imprecise accounting standards (Grenier et al., 2015).

2.3. Revisions and amendments of accounting standards

Because of the previous subsections, I investigate whether the IFRS and IAS are becoming more complex because of their changes (amendments and revisions). The changes in the IFRS and IAS can be related to several factors.

First, the changes in the IFRS and IAS can be caused by changes in the economic environment. Alexander (1999) considers that detailed regulation (type C) is inadequate in a dynamic economy, as choice or change in accounting (consistent with underlying principles) is inevitable. Ehrlich and Posner (1974) also predict that standards are less rules-based when the economy changes rapidly because rules become obsolete rapidly. In other words, changes in the environment lead to legal obsolescence. Similarly, the theory of legal certainty (Braithwaite, 2002) also states that when more complex actions occur in changing environments with large economic interests, principles are more likely to enable legal certainty than rules.

That more specific rules become obsolete at a faster rate should mean that the optimal level of specificity in legal rules should depend on the expected rate of change in the external environment. Therefore, standards with more rules should suffer more revisions and amendments than standards that are based in principles.

Second, the IFRS and IAS can change due to the influential parties in accounting regulation, in particular, the accounting profession and professionals (Gallhofer & Haslam, 2007). Principles-based accounting standards are more demanding for preparers and auditors in terms of judgements (Maines, 2007). But preparers and auditors are also powerful in influencing accounting regulation (Gallhofer & Haslam, 2007). So, preparers and auditors can exert influence on whether accounting standards change to more principles-based or to more rules-based. The political influence on regulation is supplemented by economic theory, which suggests an idiosyncratic influence of regulators. Regulators influence accounting standards based on their belief in ideal regulatory intervention (ideology theory) or under pressure of special interest groups (capture theory) (Kau & Rubin, 1979). Therefore, even standards that are more principles-based tend to be filled with rules.

Finally, with the IASB moving closer to FASB (Gallhofer & Haslam, 2007), the accounting standards may become more complex to become more aligned with American accounting.

Thus, the following hypothesis is tested:

> H: Revisions and amendments to international accounting standards are making those standards more complex.

3. Research design

3.1. Data

Since 2005, companies must prepare their consolidated accounts to conform with the published standards in the IFRS and IAS that the European Union (EU) has endorsed as

regulations. As such, this study collected all these regulations to test the hypotheses. These regulations were issued in English between 2003 and 2015. The sample contains 70 such EU regulations. They follow the IFRS and IAS published, revised and amended by IASB. The use of the regulations, instead of the IFRS/IAS published by IASB, does not affect the analysis, since the IFRS/IAS included in my sample were endorsed by the European Union as published by IASB. Table 1 displays the sample. The IASB ostensibly makes revisions (major amendments) based on the needs of the users of financial reports. The revisions consider whether there is a deficiency in the way particular types of transactions or activities are reported; the importance of the matter to those who use financial reports; the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than in others; and how pervasive or acute a particular financial reporting issue is likely to be for the entities. The publication of an exposure draft (ED) is a mandatory step in the due process before an existing standard can be revised. Amendments are part of the maintenance of standards. In the case of minor amendments to standards, the IASB considers developing an ED or might seek the assistance of the Interpretations Committee in developing an amendment to a standard. I followed the classification made by IASB for the change of an accounting standard as a revision or an amendment. To avoid subjectivity, I considered all the amendments in the same way without regard to the level of the change. For example, an amendment related to a disclosure requirement or an amendment related to a measurement requirement were both considered as an amendment.

Table 2 shows a total of 425 changes between 2003 and 2015. The standards that had the most changes were IFRS 1 – First-time adoption of the International Financial Reporting Standards (with 34 changes); IAS 39 – Financial instruments: recognition and measurement (with 25 changes); and IAS 32 – Financial instruments: presentation (with 20 changes). Of the changes, 102 were issues or revisions of standards (24%) and 323 were amendments (76%). I do not consider IFRS 9 – Financial instruments; IFRS 14 – Regulatory deferral accounts; IFRS 15 – Revenue from contracts with customers; and IFRS 16 – Leases because they were not endorsed by the EU before 2015.

The analysis of changes by year (Table 3) shows that 2008 and 2009 were the years when the IASB changed more standards (17.41% and 16.24% of all changes, respectively). In 2008, the IASB issued or revised 39 standards (38.24% of the total) and amended 35 standards (10.84% of the total). In 2009, the IASB issued or revised 3 standards (2.94% of the total) and made 66 amendments (20.43% of the total). In 2014, only three standards were amended (0.93% of the total) and none were revised.

3.2. Method

The objective of this paper is to investigate if there is a relation between the changes in the IFRS and IAS and the level of complexity, i.e. whether standards are more rules-based or more principles-based. Rules and principles reflect extremes in a continuum of complexity about the content of accounting standards. I use the concept of "principles-based" as in Dennis (2008) where a standard has the following characteristics: few if any exceptions, provides an appropriate amount of implementation guidance, is composed of few bright-line tests, and is based on a coherent conceptual framework.

Table 1. Regulations that adopt, revise, or amend IFRS/IAS from 2003 to 2015.

Regulation	Adoption IAS	Adoption SIC	Withdraw IAS	Withdraw SIC	Amendments IAS	Amendments SIC	Effective date
Commission Regulation (EC) 1725/2003 29 September 2003	IAS 1, 2, 7, 8, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29, 30, 31, 33, 34, 35, 36, 37, 38, 40, 41	SIC 1, 2, 3, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 27, 28, 29, 30, 31, 32, 33					01-01-2005
Commission Regulation (EC) 707/2004 of 6 April 2004	IFRS 1			SIC 8			01-01-2004
Commission Regulation (EC) 2086/2004 of 19 November 2004	IAS 39 with carve-out				IFRS 1 IAS 12, 18, 30, 32, 36, 37	SIC 27	01-01-2005
Commission Regulation (EC) 2236/2004 of 29 December 2004	IFRS 3, 4, 5 IAS 36, 38		IAS 22, 35	SIC 9, 22, 28	IFRS 1 IAS 1, 10, 12, 14, 16, 17, 18, 19, 27, 28, 31, 32, 33, 34, 37, 39, 40, 41	SIC 32	01-01-2005
Commission Regulation (EC) 2237/2004 of 29 December 2004	IAS 32	IFRIC 1					01-01-2005
Commission Regulation (EC) 2238/2004 of 29 December 2004	IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33, 40		IAS 15	SIC 1, 2, 3, 6, 11, 14, 18, 19, 20, 23, 24, 30, 33	IFRS 1 IAS 7, 12, 14, 19, 20, 22, 23, 29, 30, 34, 35, 36, 37, 38, 41	SIC 7, 12,13, 21, 22, 25, 27, 31, 32	01-01-2005
Commission Regulation (EC) 211/2005 of 4 February 2005	IFRS 2				IFRS 1 IAS 12, 16, 19, 32, 33, 38, 39, 40		01-01-2005
Commission Regulation (EC) 1073/2005 of 7 July 2005		IFRIC 2					01-01-2005
Commission Regulation (EC) 1751/2005 of 25 October 2005					IFRS 1 IAS 39	SIC 12	01-01-2005
Commission Regulation (EC) 1864/2005 of 15 November 2005					IAS 39, IAS 32, IFRS 1		01-01-2005
Commission Regulation (EC) 1910/2005 of 8 November 2005	IFRS 6	IFRIC 4, 5			IFRS 1 IAS 1, 16, 19, 24, 38, 39		01-01-2006
					IAS 39		01-01-2006

(*Continued*)

Table 1. Continued.

Regulation	Adoption IAS	Adoption SIC	Withdraw IAS	Withdraw SIC	Amendments IAS	Amendments SIC	Effective date
Commission Regulation (EC) 2106/2005 of 21 December 2005							
Commission Regulation (EC) 108/2006 of 11 January 2006	IFRS 7	IFRIC 6	IAS 30		IFRS 1, 4 IAS 1, 14, 17, 32, 33, 39		01-01-2006
Commission Regulation (EC) 708/2006 of 8 May 2006					IAS 21	IFRIC 7	01-01-2006
Commission Regulation (EC) 1329/2006 of 8 September 2006		IFRIC 8, 9					2006 and 2007
Commission Regulation (EC) 610/2007 of 1 June 2007		IFRIC 10					01-01-2006
Commission Regulation (EC) 611/2007 of 1 June 2007		IFRIC 11					01-01-2008
Commission Regulation (EC) 1358/2007 of 21 November 2007	IFRS 8		IAS 14		IFRS 5, 6, IAS 2, 7, 19, 33, 34 e 36		01-01-2009
Commission Regulation (EC) 1004/2008 of 15 October 2008					IAS 39 IFRS 7		31-10-2008
Commission Regulation (EC) 1126/2008 of 3 November 2008	IAS 1, 2, 7, 8, 10, 11, 12, 16, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28, 29, 31, 32, 33, 34, 36, 37, 38, 39, 40, 41 IFRS 1, 2, 3, 4, 5, 6, 7, 8	SIC 7, 10, 12, 13, 15, 21, 25, 27, 29, 31, 32 IFRIC 1, 2, 4, 5, 6, 7, 8, 9, 10, 11					
Commission Regulation (EC) 1260/2008 of 10 December 2008	IAS 23				IFRS 1, IAS 1, 7, 11, 16, 38		31-12-2008
Commission Regulation (EC) 1261/2008 of 16 December 2008					IFRS 2		31-12-2008
Commission Regulation (EC) 1262/2008 of 16 December 2008		IFRIC 13					31-12-2008
		IFRIC 14					31-12-2008

Commission Regulation (EC) 1263/2008 of 16 December 2008					
Commission Regulation (EC) 1274/2008 of 17 December 2008	IAS 1		IFRS 1, 4,5,7,8, IAS 7, 8, 10, 11, 12, 14, 16, 19, 20, 21, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 39, 40, 41		31-12-2008
Commission Regulation (EC) 53/2009 of 21 January 2009			IAS 1, 32, 39 IFRS 7	IFRIC 2	31-12-2008
Commission Regulation (EC) 69/2009 of 23 January 2009			IAS 18, 21, 27, 36 IFRS 1		31-12-2008
Commission Regulation (EC) 70/2009 of 23 January 2009			IAS 1, 2, 7, 8, 10, 16, 19, 20, 23, 27, 28, 29, 31, 32, 34, 36, 38, 39, 40, 41 IFRS 1, 5, 7		31/12/2008 and 30/6/ 2009
Commission Regulation (EC) 254/2009 of 25 March 2009			IFRS 1	IFRIC 12	31-03-2009
Commission Regulation (EC) 460/2009 of 4 June 2009		IFRIC 16			30-06-2009
Commission Regulation (EC) 494/2009 of 3 June 2009	IAS27		IFRS 1, 4, 5 IAS 1, 7, 21, 28, 31, 32, 33, 39	SIC 7	30-06-2009
Commission Regulation (EC) 495/2009 of 3 June 2009	IFRS 3		IFRS 1, 2, 7 IAS 12, 16, 28, 32, 33, 34, 36, 37, 38, 39	IFRIC 9	30-06-2009
Commission Regulation (EC) 636/2009 of 22 July 2009		IFRIC 15			31-12-2009
Commission Regulation (EC) 824/2009 of 9 September 2009			IFRS 7 IAS 39		12-09-2009
Commission Regulation (EC) 839/2009 of 15 September 2009			IAS 39		30-06-2009
Commission Regulation (EC) 1136/2009 of 25 November 2009	IFRS 1				31-12-2009
		IFRIC 17	IAS 10 IFRS 5		31-10-2009

(*Continued*)

Table 1. Continued.

Regulation	Adoption IAS	Adoption SIC	Withdraw IAS	Withdraw SIC	Amendments IAS	Amendments SIC	Effective date
Commission Regulation (EC) 1142/2009 of 26 November 2009							
Commission Regulation (EC) 1164/2009 of 27 November 2009		IFRIC 18			IFRS 1		31-10-2009
Commission Regulation (EC) 1165/2009 of 27 November 2009					IFRS 4, 7		31-12-2008
Commission Regulation (EC) 1171/2009 of 30 November 2009					IAS 39	IFRIC 9	31-12-2008
Commission Regulation (EC) 1293/2009 of 23 December 2009					IAS 32		31-01-2010
Commission Regulation (EC) 243/2010 of 23 March 2010					IFRS 2, 5, 8 IAS 1, 7, 17, 36, 38, 39	IFRIC 9, 16	31-12-2009
Commission Regulation (EC) 244/2010 of 23 March 2010		IFRIC 8, 11			IFRS 2		31-12-2009
Commission Regulation (EC) 550/2010 of 23 June 2010					IFRS 1		31-12-2009
Commission Regulation (EC) 574/2010 of 30 June 2010					IFRS 1, 7		30-06-2010
Commission Regulation (EC) 632/2010 of 19 July 2010	IAS 24				IFRS 8		31-12-2010
Commission Regulation (EC) 633/2010 of 19 July 2010						IFRIC 14	31-12-2010
Commission Regulation (EC) 662/2010 of 23 July 2010		IFRIC 19			IFRS 1		30-06-2010
					IAS 1, 21, 27, 28, 31, 32, 34, 39 IFRS 1, 3, 7	IFRIC 13	31-12-2010

Commission Regulation (EC) 149/2011 of 18 February 2011					IFRS 1,7		30-06-2011
Commission Regulation (EU) 1205/2011 of 22 November 2011					IFRS 1, 5, 7, 8, 13 IAS 1, 12, 20, 21, 24, 32, 33, 34	IFRIC 14	01-01-2013
Commission Regulation (EU) 475/2012 of 5 June 2012	IFRS 10, 11, 12, IAS 27, 28.		IAS27 (2008), 28 (2003)		IFRS 1, 2, 3, 5, 7 IAS 1, 7, 12, 18, 21, 24, 27, 31, 32, 33, 36, 38, 39	IFRIC 5, 9, 16, 17	01-01-2014
Commission Regulation (EU) 1254/2012 of 11 December 2012	IFRS 13			SIC 21	IFRS1, 2, 3, 4, 5, 7, 9 IAS1, 2, 8, 10,12, 16, 17, 18, 19,20, 21, 28, 31, 32, 33, 34, 36, 38, 39, 40, 41,	IFRIC2, 4, 13, 17, 19, 20	01-01-2013
Commission Regulation (EU) 1255/2012 of 11 December 2012					IFRS 7, IAS 32		01-01-2013 01-01-2014
Commission Regulation (EU) 1256/2012 of 13 December 2012					IFRS 1		01-01-2013
Commission Regulation (EU) 183/2013 of 4 March 2013					IFRS 1 IAS 1, 16, 32, 34	IFRIC 2	01-01-2013
Commission Regulation (EU) 301/2013 of 27 March 2013					IFRS 1, 10, 11, 12		01-01-2014
Commission Regulation (EU) 313/2013 of 4 April 2013					IFRS 10, 12, 1, 3, 7, IAS 27, 7, 12, 24, 32, 34, 39		01-01-2014
Commission Regulation (EU) 1174/2013 of 20 November 2013					IAS 36		01-01-2014
Commission Regulation (EU) 1374/2013 of 19 December 2013					IAS 39		01-01-2014
Commission Regulation (EU) 1375/2013 of 19 December 2013		IFRIC 21					17-06-2014
Commission Regulation (EU) 634/2014 of 13 June 2014					IAS 40, IFRS 13, IFRS 3		22-12-2014

(*Continued*)

Table 1. Continued.

Regulation	Adoption IAS	Adoption SIC	Withdraw IAS	Withdraw SIC	Amendments IAS	Amendments SIC	Effective date
Commission Regulation (EU) 2014/1361 of 18 December 2014							
Commission Regulation (EU) 2015/29 of 17 December 2014					IAS 19		01-02-2015
Commission Regulation (EU) 2015/28 of 17 December 2014					IAS 16, 24, 37, 38, 39, IFRS 2, 3, 8		01-02-2015
Commission Regulation (EU) 2015/2113 of 23 November 2015					IAS 16, 41, IAS1, IAS 17, IAS23, IAS 36, IAS 40		01-01-2016
Commission Regulation (EU) 2015/2173 of 24 November 2015					IFRS 11, IFRS 1		01-01-2016
Commission Regulation (EU) 2015/2231 of 2 December 2015					IAS 16, 38		01-01-2016
Commission Regulation (EU) 2015/2343 of 15 December 2015					IFRS 1, IFRS 5, IFRS 7, IAS 19, IAS 34		01-01-2016
Commission Regulation (EU) 2015/2406 of 18 December 2015					IAS 1, IAS 34, IFRS 7		01-01-2016
Commission Regulation (EU) 2015/2441 of 18 December 2015					IAS 27, IFRS 1, IAS 28		01-01-2016

Table 2. IFRS/IAS issued, revised, and amended from 2003 to 2015.

Standard	Issued/revised	Amended	Total
IAS 1	4	15	19
IAS 2	3	3	6
IAS 7	2	9	11
IAS 8	3	3	6
IAS 10	3	5	8
IAS 11	2	2	4
IAS 12	2	10	12
IAS 16	3	12	15
IAS 17	3	5	8
IAS 18	2	5	7
IAS 19	2	11	13
IAS 20	2	5	7
IAS 21	3	8	11
IAS 23	3	3	6
IAS 24	4	6	10
IAS 26	2	0	2
IAS 27	5	7	12
IAS 28	4	8	12
IAS 29	2	3	5
IAS 30	1	2	3
IAS 31	3	6	9
IAS 32	2	18	**20**
IAS 33	3	10	13
IAS 34	2	13	15
IAS 36	3	12	15
IAS 37	2	6	8
IAS 38	3	12	15
IAS 39	2	23	**25**
IAS 40	3	7	10
IAS 41	2	6	8
IFRS 1	3	31	**34**
IFRS 2	2	7	9
IFRS 3	3	5	8
IFRS 4	2	5	7
IFRS 5	2	11	13
IFRS 6	2	1	3
IFRS 7	2	17	19
IFRS 8	2	4	6
IFRS 10	1	2	3
IFRS 11	1	2	3
IFRS 12	1	2	3
IFRS 13	1	1	2
Total	102	323	425

Table 3. Number and % of IFRS/IAS issued, revised, and/or amended from 2003 to 2015.

	Issue/revise	%	Amendments	%	Total	%
2003	29	28.43%	0	0.00%	29	6.82%
2004	20	19.61%	38	11.76%	58	13.65%
2005	2	1.96%	23	7.12%	25	5.88%
2006	1	0.98%	9	2.79%	10	2.35%
2007	1	0.98%	8	2.48%	9	2.12%
2008	39	38.24%	35	10.84%	**74**	17.41%
2009	3	2.94%	66	20.43%	**69**	16.24%
2010	1	0.98%	15	4.64%	16	3.76%
2011	0	0.00%	13	4.02%	13	3.06%
2012	6	5.88%	58	17.96%	64	15.06%
2013	0	0.00%	24	7.43%	24	5.65%
2014	0	0.00%	3	0.93%	3	0.71%
2015	0	0.00%	31	9.60%	31	7.29%
	102	100%	323	100%	425	100%

Following Mergenthaler (2012) and Donelson et al. (2012), I scored the RBC for each standard. Several previous papers have used this index (such as Donelson et al., 2012). The RBC is a continuous score that captures some characteristics that are usually associated with more complex accounting standards. The RBC1, as defined by Mergenthaler (2012) and Donelson et al. (2012), is calculated considering four different factors:

(a) High level of detail. The number of words is counted in each accounting standard. The standards are ranked by that number, and the standards in the upper detail decile receive the value of one (zero otherwise).
(b) Large volume of implementation guidance. I count the number of interpretations by the Standing Interpretation Committee (SIC)/International Financial Reporting Interpretation Committee (IFRIC) for each standard and the number of standards that have an appendix or application guidance. The standards are ranked by their total number of interpretations and the volume of application guidance. The standards in the upper detail decile receive the value of one (zero otherwise). Contrary to Xu and Doupnik (2016), I do not distinguish which type of guidance is provided.
(c) Bright-line thresholds. The bright-line thresholds are identified by searching each accounting standard for the following keywords: criteri* (for criterion and criteria); condition*, provision*, require*, and percent*. I identify the presence of bright-lines in a standard by using a textual analysis to search for those keywords and then reading the surrounding paragraphs to determine their presence. I then record the total number of bright-line thresholds for each standard for each year in the sample. I assign the value of one to standards that have at least one bright-line threshold (zero otherwise).
(d) Exceptions. The exceptions are identified by searching each accounting standard for the following keywords: not subject*; not consider*, exclusion*, exempt*, except*, scope*, and does not apply*. I identify the presence of exceptions in a standard by using a textual analysis to search for these keywords and then read the surrounding paragraphs to determine the presence of exceptions. I then record the total number of exceptions for each standard in each year in the sample. I assign the value of one to standards that have at least one exception (zero otherwise).

To determine RBC2, I also follow Mergenthaler (2012) and Donelson et al. (2012) and consider the same four factors, but each of these factors is calculated in a different way:

(a) High level of detail: the total number of words in each accounting standard written in English.
(b) Large volume of implementation guidance: the total number of SIC/IFRICs and the volume of application guidance for each accounting standard.
(c) Bright-line thresholds: the total number of bright-line thresholds in each accounting standard.
(d) Exceptions: the total number of exceptions in each accounting standard.

Table 4 presents the statistics and correlations for the variables in RBC2 for 2005 and 2016. Panel A shows that in 2005, the number of words in a standard on average were 7497 in

Table 4. The statistics and correlations for the variables included in RBC.

Panel A: Descriptive statistics

	N	Min	Max	Mean	Std. dev.
2005					
Words	36	1965	33,752	7497	6593.68
Interpretations/application guidance	36	0	10	1.72	2.08
Bright-line thresholds	36	0	25	3.28	5.20
Exceptions	36	0	11	3.08	3.08
2016					
Words	40	1585	39,376	8679	7201.73
Interpretations/application guidance	40	0	18	4.05	3.78
Bright-line thresholds	40	0	25	3.38	5.13
Exceptions	40	0	9	3.10	2.80

Panel B: Pearson correlations

	Words	Interpretations/application guidance	Bright-line threshold	Exceptions
2005				
Words	1			
Interpretations/application guidance	0.099	1		
Bright-line thresholds	0.604***	0.333**	1	
Exceptions	0.464***	0.177*	0.324**	1
2016				
Words	1			
Interpretations/application guidance	0.352**	1		
Bright-line thresholds	0.619***	0.407***	1	
Exceptions	0.430***	0.215*	0.281*	1

*Significance at the 10% level.
**Significance at the 5% level.
***Significance at the 1% level.

2005 and 8679 in 2016, with a minimum of 1965 for IAS 24 – Related Party Disclosures and 1585 in 2016 for IFRS 6 – Exploration for and evaluation of mineral resources. The maximum in 2005 was 33,752 and in 2016, 39,376 for IAS 39. The number of interpretations or the volume of application guidance related to each standard, on average, increased from 1.72 to 4.05. The average number of bright-line thresholds and exceptions also increased from 3.28 and 3.08 in 2005 to 3.38 and 3.10 in 2016, respectively.

To ensure that I have calculated and implemented the RBC measures correctly, I validate my RBC measures in three different ways. First, I have another person (a PhD student) collect the information about the number of words, number of interpretations, volume application guidance, number of bright-line thresholds, and number of exceptions for 10 accounting standards to assure the stability, reproducibility, and accuracy of my data. The results remain the same.

Second, following Donelson et al. (2012), if the RBC score indeed identifies a standard as more complex, then the correlations between the four characteristics related to complexity should all be significantly and positively correlated. Panel B of Table 4 presents the Pearson correlations among the variables in RBC2. In 2005, the variable Words is significantly and positively correlated with the variables Bright-line thresholds and Exceptions. I also find that the variable Interpretations is significantly and positively correlated with the variables Bright-line thresholds and Exceptions. Finally, the variable

Bright-line thresholds is positively correlated with the variable Exceptions. The results are similar for the standards in 2016.

I also validate my RBC measure by comparing the IFRS's RBC scores with Donelson et al.'s (2012) US GAAP and IFRS scores (untabulated results). I find that my results are like the IFRS RBC scores in Donelson et al. (2012) except for IAS 23, IAS 27, IAS 37, and IFRS 2. These differences might be due to the different period tested (Donelson et al., 2012) and by the fact that in this study I use EU regulations instead of IFRS and IAS.

The RBC2 is calculated using the following formula:

$$\text{RBC2} = \sum (\text{Value}_{ijt} - \overline{\text{Value}_i})/\sigma_{\text{value}i} \quad (1)$$

where Value_{ijt} is the value of characteristic i for standard j in year t. Value_i is the average value of characteristic i. The $\sigma_{\text{value}i}$ is the standard deviation in characteristic i across all standards.

Next, I examine whether the total changes in the IFRS and IAS are associated with variations in RBC1 and RBC2. I use the following regression:

$$\text{RBC}_i = \alpha + \beta 1\text{Total}_i + \beta 2\text{Age} + \beta 3\text{MoU} \quad (2)$$

where RBC is the scores, RBC1 and RBC2, or the variation in the RBC (Var RBC). Total is the number of times a standard is amended or revised. Age is a control variable that is the difference between 2016 and the year each standard was initially adopted as a regulation. The MoU is a variable that assumes the value of one if a standard is included in the MoU between the FASB and the IASB (IAS 11, IAS 12, IAS 18, IAS 19, IAS 20, IAS 23, IAS 32, IAS 36, IFRS 3, IFRS 8, IFRS 10, IFRS 13), and zero otherwise.

To complement this method, I use interview insights to gain a deeper understanding of what features users think an accounting standard should have to be more complex or less complex. Between October and November 2017, I conducted a total of six semi-structured interviews with auditors, accountants, and a financial manager of listed companies (for more details, see Appendix). Interviewees were selected based on their knowledge and experience with the IFRS and IAS standards. The auditors interviewed are from the Big 4 and are or have been auditors of companies that are required to adopt the IFRS and IAS. The accountants and the financial manager interviewed are from large listed companies that since 2005, have been required to adopt international accounting standards. The interviews ranged in duration from 16 to 34 min, and all interview evidence was fully transcribed in Portuguese. The transcripts of the interview were summarised and analysed through a qualitative content analysis approach. Relevant extracts of the transcript were highlighted.

4. Results

Table 5 provides the RBC1 and RBC2 scores for each standard at the beginning of the mandatory adoption of the IFRS and IAS (2005) and in 2016. This table shows the extent to which each standard contains more rules-based characteristics. The higher the RBC1 or RBC2 score the more rules-based characteristics the standard contains and, therefore, the more complex the accounting standard is.

The results show that the more complex accounting standards effective in 2005 are: IAS 1 – Presentation of financial statements; IAS 19 – Employee benefits; IAS 32 – Financial

Table 5. RBC1 and RBC2 scores for each standard in 2005 and 2016.

		2005		2016	
Standard	Num	RBC1	RBC2	RBC1	RBC2
IAS	1	**3**	**3.41**	**3**	**3.61**
IAS	2	1	−1.33	1	−1.32
IAS	7	0	−2.96	0	−3.49
IAS	8	2	2.17	2	1.99
IAS	10	1	−2.38	1	−2.88
IAS	11	1	−0.92	1	−1.33
IAS	12	2	2.48	2	1.34
IAS	14	1	−0.31		
IAS	16	2	0.52	1	0.34
IAS	17	2	1.84	1	0.36
IAS	18	2	2.55	2	3.01
IAS	19	**3**	**0.12**	2	0.09
IAS	20	1	0.04	1	−0.89
IAS	21	1	−1.16	1	−1.66
IAS	23	2	−1.91	2	−1.63
IAS	24	1	−1.76	1	−1.89
IAS	26	1	−2.44	1	−2.24
IAS	27	2	−2.32	2	−2.26
IAS	28	1	−2.41	1	−2.87
IAS	29	0	−2.69	0	−3.48
IAS	30	1	−2.53		
IAS	31	0	−2.48		
IAS	32	**3**	**2.35**	2	1.81
IAS	33	0	−2.42	0	−2.63
IAS	34	0	−2.92	0	−2.85
IAS	36	2	1.80	**3**	**3.87**
IAS	37	3	3.52	**3**	**3.25**
IAS	38	2	5.06	2	2.71
IAS	39	**3**	**11.17**	**4**	**11.98**
IAS	40	1	−1.56	1	−2.04
IAS	41	1	−1.95	1	−1.82
IFRS	1	2	−0.26	2	1.69
IFRS	2	1	−0.50	1	−0.87
IFRS	3	1	0.19	2	1.38
IFRS	4	2	0.96	1	0.50
IFRS	5	1	−0.96	1	−0.31
IFRS	6			1	−2.90
IFRS	7			1	0.69
IFRS	8			1	−1.70
IFRS	10			2	1.82
IFRS	11			0	−1.86
IFRS	12			0	−2.37
IFRS	13			**3**	**4.87**

Notes: RBC is the score that measures the extent to which a standard contains more rules-based characteristics. RBC1 scores whether a standard contains bright-line thresholds, scope exceptions, implementation guidance and interpretations, and the level of detail (number of words). RBC2 reflects the extent to which the standard contains those characteristics.

instruments: presentation; IAS 37 – Provisions, contingent liabilities, and contingent assets; and IAS 39 – Financial instruments: recognition and measurement. The RBC1 score is three for IAS 1, IAS 19, IAS 32, IAS 37, and IAS 39. This score indicates that these standards are more complex. The RBC score for these standards is higher because of the level of detail (IAS 19, IAS 32 and IAS 39), the existence of interpretations and application guidance (IAS1 and IAS 37), the existence of scope exceptions (IAS 1, IAS 19, IAS 32, IAS 37, and IAS 39), and the existence of bright-line thresholds (IAS 1, IAS 19, IAS 32, IAS 37, and IAS 39). The results for RBC2 are similar except for IAS 19. Although IAS 19 has scope exceptions, the number of scope exceptions (one exception) is below the average

(3.08). IAS 19 has no interpretations or application guidance. The following standards have a RBC1 score of zero because they have fewer rules-based characteristics: IAS 7 – Cash-flows statement; IAS 29 – Financial reporting in hyperinflationary economies; IAS 33 – Earnings per share; and IAS 34 – Interim financial reporting.

The following standards were effective in 2016 and are more complex: IAS 1 – Presentation of financial statements; IAS 36 – Impairment of assets; IAS 37 – Provisions, contingent liabilities, and contingent assets; IAS 39 – Financial instruments: recognition and measurement; and IFRS 13 – Fair value measurement. The standard with a higher RBC1 and RBC2 scores is IAS 39 (4 and 11.98, respectively) followed by IAS 1, IAS 36, IAS 37, and IFRS 13 with scores of 3 (3.61, 3.87, 3.25, and 4.87, respectively). In fact, all of the interviewees considered IAS 39 – Financial instruments: recognition and measurement as the accounting standard that was based more on rules because "it has a lot of details and exceptions" (I1, I2 and I6).

IAS 36 – Impairment of assets is the standard that suffers the largest increase in RBC2 (from 1.80 in 2005 to 3.87 in 2016). The preparers that were interviewed also highlighted the difficulty in applying IAS 36 – Impairment of assets: "The standard about impairment of non-current assets is the worst standard. The standard is so difficult to apply that companies tend not to recognize the 'real amount' of impairment (for example for goodwill)" (I3). "Guidance about how to determine the impairment should not be so prescriptive so that it effectively becomes a set of rules that may conflict with principles" (I5).

IAS 7 – Cash-flows statement; IAS 29 – Financial reporting in hyperinflationary economies; IAS 33 – Earnings per share; and IAS 34 – Interim financial reporting continue to be the least complex standards, with fewer rules-based characteristics, where IFRS 11 – Joint arrangements and IFRS 12 – Disclosure of interests in other entities with a RBC1 score of zero. Those standards are less extensive and contain less exceptions, bright-line thresholds, and guidance. Preparers felt that accounting standards that are based on principles do not need detailed guidance and can be less extensive. "Less extensive accounting standards tend to be more based in principles and therefore it is not necessary to explain all the rules" (I4). "To be principles-based, standards should have few exceptions and rules and standards setters should assume that most managers are trustful and tend to provide the best information available" (I5).

Panel A of Table 6 presents the statistics for the variables used in the tests. The mean for RBC1 in 2016 (2005) is 1.44 (1.40) and the mean for RBC2 in 2016 (2005) is 0.0005 (0.0003). These means show an increase that indicates the general standards become more complex (in terms of RBC2). This is also the perception of the interviewers: "The amendments and revisions, and specially the revisions, generally do not improve the quality of standards and only makes them more rules-based. It creates more 'noise' than it improves the accounting standard" (I5). "The financial crisis made accounting standards more rules-based because it is generally considered that more rules led to a true and fair view presentation" (I4). "The IAS are become more targeted to specific sectors. For example, IAS 39 and IFRS 9 are directed to the financial sector. When they are directed to certain sectors, the standards become necessarily more rules-based" (I6). "The IAS are constantly being amended. When an IAS has a rule, parties (auditors, preparers, regulators, etc.) with an interest against that rule lobby so as to include an exception in the IAS" (I2).

Table 6. Statistics and correlations.

Panel A: Statistics

	N	Min	Max	Mean	Std. dev.
RBC12005	36	0.00	3.00	1.4444	0.9085
RBC22005	36	−2.96	11.17	0.0003	2.8743
RBC12016	40	0.00	4.00	1.400	0.95542
RBC22016	40	−3.49	11.98	0.0005	2.9883
Revision	40	1.00	5.00	2.4500	0.8756
Amend	40	0.00	31.00	7.8750	6.3536
Total	40	2.00	34.00	10.3250	6.5959
Age	40	1.00	13.00	11.6750	2.7399
MoU	40	0.00	1.00	0.2750	0.4522
I20032006	45	0.00	2.00	1.2222	0.6356
I20072008	45	0.00	2.00	0.8889	0.4872
I20092016	45	0.00	2.00	0.2222	0.4714
A20032006	45	0.00	8.00	1.6667	1.8216
A20072008	45	0.00	2.00	0.9778	0.7227
A20092016	45	0.00	21.00	4.6667	4.4569

Panel B: Pearson correlation

	RBC12005	RBC22005	RBC12016	RBC22016	Issue	Amend	Total	Age	MoU
RBC12005	1								
RBC22005	0.738***	1							
RBC12016	0.289	0.346**	1						
RBC22016	0.269	0.341**	0.860***	1					
Issue	0.214	−0.023	0.147	−0.111	1				
Amend	0.219	0.498***	0.334**	0.448***	0.213	1			
Total	0.242	0.490***	0.341**	0.417***	0.338**	0.992**	1		
Age	0.052	−0.041	0.061	−0.084	0.618***	0.263	0.335*	1	
MoU	0.143	0.064	0.332**	0.271	−00.321**	−0.104	−0.142	−0.195	1

Notes: RBC12005 is the rules-based continuum score 1 for standards effective in 2005, RBC22005 is the rules-based continuum score 2 for standards effective in 2005, RBC12016 is the rules-based continuum score 1 for standards effective in 2016, RBC22016 is the rules-based continuum score 2 for standards effective in 2016, Revision is the number of IFRS/IAS issued or revised between 2003 and 2015, Amend is the number of IFRS/IAS amended between 2003 and 2015, Total is the total number of changes and is equal to the number of IFRS/IAS issued/revised plus the number of IFRS/IAS amended. Age is the difference between 2016 and the year the standards were initially adopted. MoU assumes the value of one if an IFRS/IAS was included in the Memorandum of Understanding between the FASB and the IASB and zero otherwise.

*Significance at the 10% level.

**Significance at the 5% level.

***Significance at the 1% level.

Panel B of Table 6 presents the Pearson correlations for the variables. Consistent with my prediction, the RBC1 and RBC2 for standards effective in 2005 and in 2016 are significantly and positively correlated with amendments and total changes. Overall, this evidence is consistent with the concept that amendments affect the RBC. I find no association between RBC and Age and with the variable issue or revision of accounting standards.

Table 7 presents the results of the tests on the factors that affect the variation in RBC across standards. I introduce different variables in columns (1) through (3). First in column (1), I tabulate the results when Total (issue/revision and amendments), Age, and MoU are included in the model with RBC1 as the dependent variable. In columns (2), I tabulate the results when Total (issue/revision and amendments), Age, and MoU are included in the model with RBC2 as the dependent variable. Finally, in columns (3), I test the variation in RBC2 for all the standards issued between 2003 and 2015.

In line with the hypothesis, the results show a positive association between both RBC1 and RBC2 and Total. The coefficient for the independent variable Total is positive and statistically significant. This significance means that revisions and amendments are making standards more complex.

> The IAS should be stable, that is, revisions and amendments should not be frequent. The changes tend to be more frequent in the case of standards based on rules, since the rules tend to be adjusted according to the evolution of the markets. (I6)

Further, the frequency of changes might have a negative impact on the quality of financial information. Auditors recognise that matters that require the adoption of more rules-based accounting standards are easier to audit but those standards do not necessarily lead to an increase in the accounting quality of the financial information: "Some auditors prefer rules-based accounting standards because rules-based accounting standards require less professional judgment" (I6). "For principles-based standards there is a risk that in case of litigation, the supervisor does not accept the professional judgment made" (I1).

The coefficient for MoU is also positive and statistically significant, which shows that these standards are becoming more complex. This finding indicates that international accounting standards have come closer to US accounting standards that are more rule-

Table 7. Effect of total changes on RBC.

	(1)		(2)		(3)	
	RBC12016		RBC22016		Var RBC	
	Coeff	*T*-stat	Coeff	*T*-stat	Coeff	*T*-stat
Intercept	0.565	0.896	−0.463	−0.244	2.888	0.730
Total	0.057	2.594***	0.239	3.611***	0.044	1.847*
Age	0.002	0.028	−0.220	−1.364	−0.280	−0.929
MoU	0.823	2.663***	2.026	2.181**	0.296	0.903
F	4.313***		5.658***		2.265*	
Adjusted R^2	0.203		0.264		0.106	

Notes: RBC12016 is the rules-based continuum score 1 for standards effective in 2016, RBC22016 is the rules-based continuum score 2 for standards effective in 2016, and Var RBC is the variation in RBC2 (RBC22016–RBC22005). Total is the number of IFRS/IAS issued, revised, or amended from 2003 to 2015. Age is the difference between 2016 and the year the standards were initially adopted. MoU assumes the value of one if an IFRS/IAS was included in the Memorandum of Understanding between the FASB and the IASB and zero otherwise.

*Significance at the 10% level.

**Significance at the 5% level.

***Significance at the 1% level.

based (Donelson et al., 2012). Additionally, it provides evidence on how the claim of comparability (by reducing differences between international accounting standards and US accounting standards) contributes to more complex standards. "The MoU led to an approximation of IFRS to SFAS which are more based on rules and more difficult to adopt" (I5). However, the decrease in the level of cooperation between IASB and FASB since 2012 may influence the complexity of accounting standards in the future. Although the two boards still work together, it is not clear how IASB and FASB will maintain converged standards.

Age is not statistically significant, so there is no evidence that standards become more complex as they age. However, all the interviewees considered that the new international accounting standards (especially IFRS 9 and IFRS 13) were becoming more complex. This perception can be related to the extension of the accounting standards and also to the existence of implementation guidance. "The new standards are more rules-based because they have more implementation guidance that essentially are rules" (I1). "Because the new standards are more rules-based, there is a need to explain better the rules and how those rules must be applied" (I6).

> The rules have grown over a number of years due to the demands of preparers and auditors for more detailed guidance and certainty, and the demands from regulators for consistency. So, the desire for comparability increased the need for more rules-based accounting standards. (I2)

Overall, these results support the idea that standards are becoming more complex as they are amended and revised. This evolution can be justified with two main factors. The first one is the FASB/IASB MoU. It might be expected that the MoU would ensure convergence between IFRS and US accounting standards and would lead the IFRS to move toward US accounting standards, which are more rules-based and, therefore, more complex. This paper shows that the IFRS became more complex, although this evolution is not supported by US accounting standards (Donelson et al., 2012). However, since 2012, the MoU has been fading and although, the IASB and the FASB maintain the dialogue on many issues, the two boards will continue their work separately. Therefore, other factors, especially the influence that IASB's constituents may exert (Camfferman & Zeff, 2018), will certainly be decisive in defining the level of complexity of the international accounting standards.

The second factor is the demands from constituents will likely lead to more complex accounting standards over time. Witzky, Gassen, and Maiterth (2015) find that IASB members with an auditing background tend to decrease the level of importance of principles relative to rules. There is evidence that the adoption of a more principles-based accounting standards has added complexity to the readability of financial reports that could lead to lower-quality disclosures (Richards & Van Staden, 2015). So, the users of financial information may exert influence toward having more complex accounting standards.

Finally, the results may question the discourse stating that the IFRS are more principles-based. As explained by Cunningham (2007), the competition between the IFRS and the US GAAP and the need to offer a different product and persuade consumers and other regulators that its product is superior to incentivize the description of the IFRS as principles-based, as opposed to US rules-based standards. The paper shows

that the IFRS are becoming more complex and, therefore, losing the distinctive feature in relation to US GAAP.

4.1. Additional tests

Since revisions and amendments can have a different effect on the RBC, I also test the following regression:

$$\mathrm{RBC}_i = \alpha + \beta 1\mathrm{Amend}_i + \beta 2\mathrm{Issue}_i + \beta 3\mathrm{Age} + \beta 4\mathrm{MoU} \quad (3)$$

where RBC is the rules-based continuum score that is determined as RBC1, RBC2, or the variation in RBC (Var RBC). Amend is the number of times a standard was amended between 2003 and 2015, and Issue is the number of times a standard was issued or revised between 2003 and 2015. Age is a control variable that is the difference between 2016 and the year each standard was initially adopted as a regulation. MoU assumes the value of one if a standard was included in the Memorandum of Understanding between the FASB and the IASB and zero otherwise.

Table 8 presents the results of tests that examine the effects of amendments and revisions on the RBC.

The results show that the coefficient for Amend is positive and statistically significant, which indicates that the amendments are making standards more rules-based. By contrast, the coefficient for Revision is not statistically significant. These results indicate that standards when issued are less complex, but the amendments make them more complex. This is consistent with the fact that the international accounting standards are considered to be less complex than the US GAAP but the Memorandum of Understanding has an important effect on the standards becoming more complex.

I also test if there is any difference between the standards included in the short-term convergence and in the major joint topics in the Memorandum of Understanding. I regress Equation (1) with a variable MoU short term (assumes the value of one if the standard was included in the short-term project and zero otherwise) and MoU major (assumes

Table 8. Effect of revisions and amendments on RBC.

	(1)		(2)	
	RBC12016		RBC22016	
	Coeff	*T*-stat	Coeff	*T*-stat
Intercept	0.466	0.739	−0.309	−0.160
Revision	0.317	1.552	−0.162	−0.260
Amend	0.053	2.377**	0.246	3.639***
Age	−0.044	−0.685	−0.150	−0.768
MoU	0.924	2.920***	1.870	1.934*
F	3.701***		4.280***	
AdjustedR^2	0.217		0.252	

Notes: RBC12016 is the rules-based continuum score 1 for standards effective in 2016, RBC22016 is the rules-based continuum score 2 for standards effective in 2016, and Var RBC is the variation in RBC2 (RBC22016–RBC22005). Revision is the number of IFRS/IAS issued or revised between 2003 and 2015, Amend is the number of IFRS/IAS amended between 2003 and 2015, and Age is the difference between 2016 and the year the standards were initially adopted. MoU assumes the value of one if an IFRS/IAS was included in the Memorandum of Understanding between the FASB and the IASB and zero otherwise.

*Significance at the 10% level.
**Significance at the 5% level.
***Significance at the 1% level.

the value of one if the standard was included in the major topics and zero otherwise). The results show (untabulated results) that the variables Total and MoU major have positive and statistically significant coefficients (1% and 5% respectively), which means that changes in the IFRS and IAS and the major topics project lead to more complex accounting standards.

Finally, I recalculate RBC2 by using the total number of words in each interpretation (SIC and IFRIC) in English. Then, I use regression (2) with this RBC2 as the dependent variable. All of the conclusions remain unchanged. The untabulated results show that Total and MoU have positive and statistically significant coefficients.

5. Conclusions

The objective of this paper is to explore the relation between changes in the IFRS and IAS and whether these standards become more complex. I distinguish between the revisions and amendments of these standards. The results show an increase in the RBC2 scores from 2005 to 2016 that indicates the IFRS and IAS have become more complex. I test the variation in the extent to which standards contain more rules-based characteristics and I find a positive relation between the RBC and total changes (revisions and amendments). These results are consistent with the interviewees' perceptions.

This study provides initial evidence that the IFRS and IAS are becoming more complex and that the amendments of IFRS and IAS and the Memorandum of Understanding between the IASB and the FASB have contributed to this change. These results show the IASB's difficulty in straightforwardly applying its principles. As Gallhofer and Haslam (2007) point out the IASB's rhetoric is based on a financial-economic discourse and does not consider IASB's social and political context. But, the issue of and the change in accounting standards reflect how accounting is political. The contribution of the Memorandum of Understanding to more complex accounting standards seems to reflect the influence of some interests, like the UK and US accounting professional and securities regulators (Gallhofer & Haslam, 2007).

The findings of this paper should be of interest to the setters of national and international accounting standards and the accounting profession. In particular, the findings could offer useful insights to interested parties involved in the future development of the international accounting standards.

These results are subject to limitations. Firstly, I use a specific concept of complexity, a rules-based continuum score, which considers the level of detail, the existence of exceptions and bright-line thresholds, and the interpretations and application guidance of each standard. There might be other factors that characterise the level of complexity of an accounting standard. Additionally, the RBC score does not capture the lack or the poor conception of principles in a principles-based accounting standard. Secondly, I measure the level of detail by counting the number of words in each accounting standard. This measure is clearly imperfect since a simple subject needs fewer words than a complex one.

I start the analysis in 2003, the first date when the European Union published a regulation that oversees the IFRS and IAS. However, some standards were issued by the IASB before that date.

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Appendix

A1. List of interviewees

Code	Date	Job title	Type of company	Duration
I1	16 October	Auditor	Big 4	31 min
I2	17 October	Auditor	Big 4	16 min
I3	17 October	Accountant	Listed company	26 min
I4	19 October	Financial manager	Listed company	20 min
I5	24 October	Accountant	Listed company	34 min
I6	30 October	Auditor	Big 4	28 min

A2. Interview guide

1. Explain the purpose of the research and ask if there are any clarifications required. Collect some background information about the interviewee's profile
1.1. For accountants/financial managers

Description of the role in the company
Professional background and experience with IFRS/IAS

1.2. For auditors

Professional background and experience with IFRS/IAS
Type of clients that adopt IFRS/IAS (industry, listed or non-listed companies, …)

2. What are the main differences between an accounting standard considered to be principles-based and an accounting standard considered to be rules-based?
2.1. Do you think that an accounting standard that has more implementation guidance is more rules-based? Why or why not?
2.2. Do you think that an accounting standard that has more exceptions is more rules-based? Why or why not?
2.3. Do you think that an accounting standard with a high level of detail (more words) is more rules-based? Why or why not?
2.4. Do you think that an accounting standard with more bright-line thresholds is more rules-based? Why or why not?

3. From the list of accounting standards effective in 2016:
3.1. Select the accounting standards that company (or the company audited) generally does not apply (non-applicable standards)
3.2. Select three accounting standards that you consider more rules-based and three accounting standards that you consider more principles-based? Why?
3.3. Do you think that the accounting standards that you select as rules-based have higher quality than the accounting standards based on principles?

4. What is your opinion about the revision and amendments of IFRS/IAS?
4.1. Do you consider that those changes increase the accounting quality of standards? Why?
4.2. Do you think that accounting standards are becoming more complex? Why or why not? Any relation with those standards being principles-based or rules-based?