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RESEARCH ARTICLE

Are IFRS Standards a 'trusted' language for private firm credit decisions? An analysis of country differences in users' perspective

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Abstract

This paper studies whether creditors trust and use IFRS-based information in the context of private firm loan decisions. Through an institutional theory lens, and based on information collected from 108 bankers, we find that IFRS numbers are more trusted and used than local-GAAP (non-IFRS Standards-based) numbers. Differences in countries' formal and informal institutions are related to observed cross-country differences in trust and use of financial information. We also find that mandatory IFRS Standards adoption in a country is associated with higher use of these numbers than when countries permit the adoption of IFRS Standards.

KEYWORDS
creditors, IFRS standards, institutional influences, private firms, the IFRS for SMEs standard

JEL CLASSIFICATION
M4, M41

1 | INTRODUCTION

Although the International Accounting Standards Committee (IASC) was founded in 1973, there was very little use of the Standards until the 1990s. This changed at the beginning of the twenty-first century when important market economies (e.g., Australia, European Union) made

IFRS Standards mandatory for listed firms. In the first decade of the twenty-first century, the International Accounting Standards Board (IASB) also embarked on a standard-setting project for non-listed firms, which resulted in the publication of the *International Financial Reporting Standard for Small and Medium-sized Entities* (the IFRS for SMEs Standard) in 2009. Countries that require or permit non-listed firms to prepare their financial statements using the IFRS for SMEs Standard also allow compliance with full IFRS Standards for non-listed firms. Today, about 86 countries require or permit the use of the IFRS for SMEs Standard. The uptake of the IFRS for SMEs Standard is much larger in developing and emerging economies than in developed market economies (Warren et al., 2019). The uptake of IFRS Standards (both full IFRS Standards as well as the IFRS for SMEs Standard – referred hereafter as IFRS Standards) as a financial reporting framework for the private sector (both listed companies and non-listed or private[1] companies) in developing and emerging economies does not come as a total surprise. Following the 2008 Asian Crisis, both the World Bank and the International Monetary Fund (IMF) expanded the conditionality clauses associated with their loans to include a wide range of state and private sector governance reforms, which included the adoption of IFRS Standards as a financial reporting framework (Mehrpouya & Salles-Djelic, 2019). In the view of the World Bank (2021) 'the private sector is the primary engine of growth and job creation in most partner countries. To fund productive investment, it needs capital and credit. In turn, capital and credit require investors' or lenders' trust in the financial situation of companies, and therefore, transparent, high-quality and comparable financial reporting.' In the wake of this policy, in 2017 the IFRS Foundation entered into a cooperation agreement with the World Bank to provide greater support to developing economies in their use of IFRS Standards.

According to the mission statement of the IFRS Foundation, IFRS Standards bring transparency (through enhanced comparability), accountability (by reducing the information gap) and efficiency (by helping the identification of opportunities and risks, and thus improving capital allocation) to financial markets around the world. Related to this efficiency objective, the mission statement of the IFRS Foundation mentions that 'the use of a single trusted accounting language lowers the cost of capital and reduces international reporting costs for businesses' (IFRS Foundation, 2021). But are these IFRS Standards able to provide trust in the financial situation of private companies to investors and lenders? Also are financial statement numbers (prepared with IFRS Standards) used in investors' and lenders' decision-making with respect to private firms?

Whether IFRS Standards fulfil these roles has mainly been studied in the context of compliance with IFRS Standards by listed firms. Studies focusing on mandatory compliance with IFRS Standards have concluded that, while there may be benefits from application of IFRS Standards, their realisation is associated with a country's legal and institutional settings (Christensen et al., 2013; Daske et al., 2008; Florou & Pope, 2012; Landsman et al., 2011). Voluntary adoption of IFRS Standards is considered to be a firm-level strategic commitment to higher quality reporting (Kim & Shi, 2012). However, less research attention has been paid to the role and benefits of IFRS Standards-based financial information in a private firm context. Given the adoption by many countries of IFRS Standards as a reporting framework for non-listed/private firms, more research is needed on the benefits of this. Since evidence is available that creditors are the most important users of financial information of private firms (Cascino et al., 2014; Gassen, 2017), we therefore focus our study on the possible benefits of the adoption of IFRS Standards for non-listed firms in a country from a creditor's perspective. We do so by examining whether creditors' Trust and Use[2] is higher for IFRS-based financial statement information in comparison to financial statement information based on local Generally

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[1] In this paper we use 'private firms' as synonymous for 'non-listed firms'.

[2] When we refer to the concepts of trust and use, we state these words with capital letters – Trust and Use (otherwise, these are used as verbs in the sentence).

Accepted Accounting Principles (GAAP). Since IFRS Standards are adopted in many countries across the globe for private firm reporting, we conduct a multi-country study to answer the above research questions and examine how country-level characteristics are associated with the Trust and Use of financial statement-based information by creditors.

With this study, we also respond to a number of calls in the literature that argue that there is limited understanding on whether financial statement information prepared with IFRS Standards is useful for creditors. De George et al. (2016, p. 945) mentions that surveys conducted in countries that have adopted IFRS Standards may provide further insights into the relevance of IFRS Standards for lending decisions. Florou et al. (2017) further mention that since creditors' decisions and information needs differ from those of equity investors, evidence that IFRS Standards-based information is relevant to investors does not imply relevance for creditors. Hope and Vyas (2017) state that, although prior literature has examined the usefulness of financial reporting for bank lenders, there is still little systematic evidence on what constitutes useful or high-quality reporting for bankers, which might be addressed through carefully conducted field studies and interviews. Moreover, Gassen (2017, p. 544) mentions that research is needed to explore the role of the IFRS for SMEs Standard in emerging economies in more detail.

To respond to the question whether IFRS Standards-based financial information serves as a trusted language and is used in lending decisions, data were collected from 108 bankers living and working in the following ten countries: Africa (Nigeria, South Africa and Zimbabwe); Asia-Pacific (Hong Kong, Malaysia, the Philippines and Fiji); Latin America (Argentina, Brazil and Chile). Analysing the quantitative and qualitative data through an institutional theory lens, the results show that bankers trust and use IFRS Standards-based financial information more than local (non-IFRS based) GAAP information. In countries with weaker legal creditor protection rights, audited IFRS Standards-based financial information is used significantly more in the context of lending decisions for all private firms than in a country with stronger legal creditor protection rights. This result indicates that audited IFRS Standards-based financial information serves as a 'trusted' language in countries where collateral and bankruptcy laws protect the rights of creditors less. This finding indicates that IFRS Standards-based accounting numbers help to inform lenders on the financial situation of a company in emerging and developing economies with weaker informal institutions. In addition, our results suggest that when IFRS Standards are adopted as a mandatory reporting framework for private firm reporting in a country, bankers' Trust of IFRS Standards-based financial information is higher than when the adoption of IFRS Standards for private firms is voluntary in a country. In countries with conflicting informal institutions (i.e., high levels of corruption and a large informal economy), IFRS Standards-based information is used less for lending decisions. In those countries, information on the stewardship of owners, directors, managers and auditors becomes much more important in the context of lending decisions than the information originating from financial statements. In countries characterised by a market-driven adoption of IFRS Standards, financial statement information based on IFRS Standards is used more for lending decisions involving large and medium-sized private firms than in countries characterised by a donor-driven adoption of IFRS Standards. In all countries, bankers trust and use full IFRS Standards-based accounting numbers of private firms more than accounting numbers prepared with the IFRS for SMEs Standard by private firms. In addition, we observe that – irrespective of the standards applied – bankers' Use of financial statement information to guide lending decisions happens much less with small firms than with large and medium-sized firms.

We also observe that the introduction of the IFRS for SMEs Standard has improved the quality of financial reporting in a number of countries in our research population. However, bankers in many countries still report challenges to realise the benefits of the adoption of the IFRS for SMEs Standard. The realisation of benefits is hindered when the regulation of accounting standards is weak, when audit quality is not enforced and when there is a low level of (financial) education.

The results of the quantitative and qualitative analyses allow us to confirm that in bankers' lending decisions, IFRS Standards-based financial statement information is more trusted and used than local GAAP-based (non-IFRS based) financial statement information. For the countries included in our study, we do find that a country's decision to adopt IFRS Standards for private firm reporting enhances the information available in the credit market for private firms, especially when IFRS Standards are adopted as the mandatory reporting framework for private firms. Our findings are also useful for international financial institutions as they indicate that audit quality and (financial) education are another set of important mechanisms to stimulate the functioning of the credit market in a country.

The remainder of this paper is structured as follows. Section 2 reviews the literature related to the quality of IFRS Standards-based financial information and the Use of this information for credit decisions, and the Use in the context of private firms. Section 3 presents the development of our research propositions, while Section 4 introduces the research method. In Section 5, the quantitative and qualitative results are analysed, and the paper ends with a discussion in Section 6.

2 | LITERATURE REVIEW

2.1 | The quality of financial statement information prepared with IFRS Standards and its Use by creditors

Empirical evidence shows that high quality accounting information not only requires high quality accounting standards but also appropriate firm-level incentives and strong national institutions (Brown, 2011; Brüggemann et al., 2012; Byard et al., 2011; Cao & Patel, 2020; Daske et al., 2008; Pope & McLeay, 2011; Tarca, 2012). Accounting studies provide evidence that financial reporting standards co-develop with a country's economic, political and cultural institutions (Bradshaw & Miller, 2008; Bushman & Piotroski, 2006; Hail et al., 2010). The role that corporate reporting plays in the economy reflects the informational and contracting needs of key parties in an economy and changes in accounting standards do not necessarily affect accounting quality or have an effect on users (Leuz, 2010). It is far from clear if IFRS Standards will be superior or even effective in countries that have evolved different institutions, or which lack the necessary infrastructure to support the effective application and enforcement of uniform global standards (Walker, 2010).

With credit decisions, academic evidence illustrates that high quality accounting information influences the pricing of debt contracts and improves the monitoring of these contracts. For example, according to Hope et al. (2017), lenders are likely to demand high quality accounting reports from borrowers to reduce their information risk. Donelson et al. (2017), using survey evidence, indicate that lenders are much more likely to require additional collateral and guarantees from borrowers with poor reporting quality rather than increasing interest rates. In line with the results on equity markets, De George et al. (2016) state that although little evidence exists in the debt market (e.g., Álvarez-Botas & González, 2021), it is not unreasonable to expect enforcement and adoption incentives to cause cross-country variation in the effects of IFRS Standards in debt markets as well (De George et al., 2016, p. 945). In this study, we extend this observation of De George et al. (2016) to the private debt market and argue that institutional differences across countries can explain country variations observed in the Trust and Use of IFRS Standards-based financial information by bankers in the context of lending decisions.

2.2 | IFRS Standards as a reporting framework for non-listed/private firms

Private firms face differing financial disclosure and auditing regulations around the world. The location of a private firm substantially affects its financial reporting environment in terms

of the requirement to disclose financial information publicly or have the financial statements audited (Minnis & Shroff, 2017; Nobes, 2010). In private lending, lenders have superior information processing abilities and better data access to private information, which can be used in designing the contract and in subsequent monitoring (Cascino et al., 2014). According to Hope et al. (2017), private firms typically disclose less non-accounting information. Hence, there are fewer competing sources of information, increasing the potential importance of financial accounting information to external providers of capital for contracting purposes and the subsequent monitoring of activities.

Since 2008, IFRS Standards became more important as a reporting framework for non-listed firms. Based on their good governance programmes, the IMF and the World Bank 'gradually adopted' their standardised transparency programme, using the 12 standards central to the New Financial Architecture, to guide their lending decisions (World Bank, 2021). These standards are subdivided into three categories: transparency standards, financial sector standards and standards concerned with market integrity. In the latter category, we find standards on corporate governance (Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance), accounting (IFRS Standards), auditing (International Federation of Accountants (IFAC) International Standards on Auditing) and insolvency and creditor rights. The development of these good governance programmes boosted the adoption of IFRS Standards for private firm reporting by emerging and developing economies.

Lamoreaux et al. (2015) provide evidence of the role of a country's adoption of IFRS Standards in lending decisions made by the World Bank to developing economies. Using a sample of 258 country-year observations from 42 countries between 1999 and 2008, these authors find that the World Bank lends more to countries where fewer differences exist between local GAAP and IFRS Standards (e.g., Bae et al., 2008) or where IFRS Standards are mandated. Tyrall et al. (2007) and Gordon et al. (2012) also found that a country's adoption of IFRS Standards led to easier lending conditions by institutions such as the IMF and the World Bank. Ramanna and Sletten (2014) and Kaya and Koch (2015) provide evidence that the IFRS for SMEs Standard is adopted mainly in countries with weaker institutions.

3 | DEVELOPMENT OF RESEARCH PROPOSITIONS

As prior literature provides evidence on the importance of a country's institutions on the quality of accounting information and the role of accounting quality for decision-making by users, we adopt an institutional theory perspective to formulate research propositions that will guide the analysis of the data collected from bankers in ten countries across the globe. Institutional theory (North, 1990; Scott, 1995; Wysocki, 2011) provides a framework for understanding how the institutional context influences firms' activities and vice versa. The adoption of an institutional perspective can shed light on contingencies and boundary conditions in which other theoretical frameworks (like agency or resource-dependency theory) failed to offer conclusive interpretations about firm behaviour (Soleimanof et al., 2017). Institutions place pressures on firms to behave in certain ways and to produce desirable outcomes (DiMaggio & Powell, 1983). In the context of our multi-country study, considering institutions will help to discover underlying variables that can be linked to cross-country variation in bankers' Trust and Use of IFRS Standards-based accounting information in the context of their lending decisions to private firms. Different institutions might lead to differences in accounting quality of the IFRS Standards-based accounting information prepared by companies and be associated with differences in the Trust and Use of this information by creditors in loan decisions across different countries.

In the context of institutional theory, scholars distinguish between formal and informal institutions (North, 1990). Formal institutions refer to a society's written rules, regulations, laws,

as well as supporting apparatuses and infrastructures that prescribe expectations for societal behaviours and outcomes (North, 1990). Informal institutions encompass a society's norms, values and beliefs and provide a complementary set of prescriptions for what is appropriate (North, 1990). Whereas formal institutions are openly codified, established and communicated by official laws and rules, informal institutions represent non-codified rules which can include cultural and social norms (Baumol, 1990; Helmke & Levitsky, 2004). In addition, institutional theory (DiMaggio & Powell, 1983) identifies three forms of isomorphism to explain the behaviour of actors. These three forms are coercive isomorphism (standardisation brought about by law/regulation), mimetic isomorphism (standardisation through efficient copying behaviour after powerful first movers act) and normative isomorphism (standardisation brought about by authoritative agencies, such as professional associations and accreditation agencies). Applied to our study, isomorphism might explain the incentives or boundary conditions that apply to the preparers of financial statement information in a country and are associated with the quality of preparers' accounting numbers. The insights of institutional theory are relevant for all types of accounting standards. We expect that the level of Trust and the Use of financial information by bankers will be associated with a country's institutional characteristics.

Prior research (Brüggemann et al., 2012; Daske et al., 2008; Landsman et al., 2011; Pope & McLeay, 2011; Tarca, 2012) provides evidence that strong institutions incentivise firms to comply with IFRS Standards and will result in high quality accounting information. So, in case a country decides to make IFRS Standards the mandatory reporting framework for private firms, strong institutions will create a coercive pressure for private firms to be 'real' adopters of IFRS Standards instead of 'label' adopters. According to Daske et al. (2007), the distinction between 'real' and 'label' adopters captures the idea that some adopters seriously modify their financial reporting strategy after adoption (real adopter), whereas others use the flexibility of IFRS Standards to keep on using their usual financial reporting strategy under the new international label (label adopter).

The strength of the coercive pressure in a country to comply with IFRS Standards and, as a result, the incentive for preparers to produce high quality accounting numbers, is related to the strength of the formal institutions in a country. In countries with weak formal institutions, preparers have more opportunities to be so-called 'label' adopters of IFRS Standards instead of 'real' adopters (see also Daske et al., 2007). 'Label' adoption will not generate high quality information and, therefore, the accounting information will be less trusted and used by bankers in countries with weak formal institutions. When IFRS Standards are permitted but not required in a jurisdiction, firm-level incentives will be more prominent to drive a company's adoption of IFRS Standards as well as the type of company adoption ('label' or 'real'). As a result, we propose:

> **RP1**: Financial statement information prepared using IFRS Standards will be more trusted and used in a country characterised by strong formal institutions than in a country characterised by weak formal institutions.

According to Berrone et al. (2020), formal institutions are able to explain cross-country differences, but institutional imperfections or institutional voids are, on the other hand, important contingencies affecting a firm's behaviour and outcome. Formal institutions that do exist in emerging economies often do not promote mutually beneficial impersonal exchange between economic actors (North, 1990, 1994). As a result, organisations in emerging economies are, to a greater extent, guided by informal institutions (Peng & Heath, 1996). Based on Helmke and Levitsky's (2004) framework of informal institutions, Estrin and Prevezer (2011) distinguish three types of informal institutions, namely (1) substitutive informal institutions, whereby informal institutions substitute for and replace ineffective formal institutions leading to enhanced domestic and foreign investment, (2) competing or conflicting

informal institutions, whereby various informal mechanisms associated with corruption and clientelism undermine the functioning of reasonably, well set-out formal institutions relating to shareholder rights and relations with investors, and (3) accommodating informal institutions, which get around the effectively enforced but restrictive formal institutions and reconcile varying objectives that are held between actors in formal and informal institutions. Informal institutions (usually unwritten) are created, communicated and enforced outside the coercive power of the state (Estrin & Prevezer, 2011; Helmke & Levitsky, 2004). Informal institutions gain in importance once formal institutions are absent or weak (Peng et al., 2009, p. 68). Since conflicting informal institutions diminish the coercive pressure of formal institutions present in a country to comply with accounting standards, we propose:

> **RP2**: Financial statement information prepared using IFRS Standards will be less trusted and used in a country characterised by competing and conflicting informal institutions.

When a country's decision to adopt IFRS Standards for private firm reporting was more driven by donor considerations than market considerations, then the development of standards can become detached from the local context (Botzem, 2012). In the case of a donor-driven country adoption of IFRS Standards, the country's institutional framework might be lacking market-supporting institutions to support compliance with accounting standards. As a result, firms might have less of an incentive to comply with IFRS Standards because of the lack of strong market-supporting institutions; as a result, these firms might produce financial information of lower accounting quality. Therefore, we expect:

> **RP3**: Financial statement information prepared using IFRS Standards will be more trusted and used in a country characterised by a market-driven adoption of IFRS Standards rather than in a country characterised by a donor-driven adoption of IFRS Standards.

According to DiMaggio and Powell (1983), normative pressures influence firm behaviour as well. Networks define and promulgate normative rules about organisational and professional behaviour and exert normative pressures (DiMaggio & Powell, 1983). Accountants and auditors, as a profession, can exert normative pressures to comply with IFRS Standards if a firm adopts these standards because of a mandatory country adoption, or because of a voluntary firm-level adoption decision to comply with IFRS Standards. Hope et al. (2011) show across 68 countries that private firms with audited financials face lower financing costs and constraints. These observations reveal that auditing might be a mechanism to increase investors' and creditors' Trust in accounting information. Although Vanstraelen and Schelleman (2017) mention that mandating the audit is not necessarily an optimal solution, since private companies with low demand for a high-quality audit are able to find an auditor that meets their requirements even under a mandatory audit regime, evidence is available in the audit literature that the presence of the Big 4 audit firms is more related to the presence of high-quality information (Knechel et al., 2013). Therefore, we propose that in case a private company is subject to a mandatory audit or seeks voluntarily an external audit, a normative pressure to comply with IFRS Standards can be exerted when a high-quality auditor signs off the accounts. This point of view is also in line with signalling theory, whereby a firm choosing a high-quality auditor wants to signal compliance with accounting standards and faithful reporting of the underlying economic situation of the company. Thus, we propose that:

> **RP4**: Financial statement information prepared using IFRS Standards will be more trusted and used if audited and even more so if audited by a high-quality auditor than if not audited or audited by a low-quality auditor.

The institutional perspective highlights the important role institutions play in providing credible information and reducing transaction costs (North, 1990; Williamson, 1991). Many specific arguments derived within agency theory presuppose the existence of well-established market institutions (Luo & Chung, 2013). The availability and cost of information depend not only on external institutions but also on internal firm governance arrangements (Luo & Chung, 2013). Therefore, we assume that when formal and informal institutions do not incentivise firms to provide high-quality financial statement information, creditors might consider information outside the financial statements – for example, internal firm governance information or information on the firm provided by outside parties and databases – to guide their lending decisions.

> **RP5**: Additional information (outside the financial statements) will become more trusted and used in credit decisions in countries characterised by weak formal institutions and conflicting informal institutions than in countries with strong formal institutions and supportive informal institutions.

These research propositions will guide the quantitative and qualitative analyses of the data collected.

4 | RESEARCH METHOD

4.1 | Research population

Starting with the population of countries that require or permit IFRS Standards for private firm reporting, we have chosen three countries in Africa, Asia and Latin America and one country in the South Pacific to conduct our study. The choice of these regions was guided by the fact that the uptake of IFRS Standards for private firm reporting is larger in these three areas than in Western developed economies (Warren et al., 2019). Based on insights of studies grounded in institutional theory on the quality of accounting information for listed firms, we used a theoretical sampling approach to select countries in these areas that differed in terms of institutional and economic characteristics. These different characteristics included the quality of the formal institutions, the presence of conflicting informal institutions and the income level of the country according to the definition of the World Bank. The diversity of characteristics within these countries allows us to single out the association between Trust and Use of IFRS Standards-based information in loan decisions and the country characteristics – for example, the quality of the formal institutions, the presence of conflicting informal institutions, the donor pressure to adopt the IFRS Standards and the type of IFRS Standard country adoption (being required or permitted).

The application of these selection criteria led to the selection of the following countries: Argentina, Brazil, Chile, Fiji, Hong Kong, Nigeria, Malaysia, the Philippines, South Africa and Zimbabwe. These countries represent a wide variation of institutional and economic characteristics. Moreover, Leuz examined institutional differences in reporting regulation across the globe and found five distinct institutional clusters (2010, p. 246). The countries selected in our study are distributed almost equally over these five different institutional clusters reported in Leuz (2010).

In our selected countries, in line with Gassen (2017), we observe different types of country adoption of IFRS Standards for private firms. First, a country can choose between a mandatory adoption of IFRS Standards for private firms or permit private firms to voluntarily adopt IFRS Standards. Second, a country can choose a different adoption type for different size dimensions of private firms (large, medium-sized and small). When countries adopt IFRS Standards in their entirety, or with a few exceptions, and call these standards their national

TABLE 1 Country adoption choices of the IFRS Standards for private firm reporting

Large firms	Medium-sized firms	Small firms
IFRS Standards required	**IFRS Standards required**	**IFRS Standards required**
Chile	Chile	Chile
Fiji	Fiji	Fiji
Malaysia	Malaysia	Malaysia
Zimbabwe	Zimbabwe	Zimbabwe
the Philippines	the Philippines	**IFRS Standards permitted**
Brazil	Brazil	the Philippines
Hong Kong	**IFRS Standards permitted**	Brazil
Nigeria	Hong Kong	Hong Kong
South Africa	Nigeria	Nigeria
IFRS Standards permitted	South Africa	South Africa
Argentina	Argentina	Argentina

Source: (IFRS Foundation, 2019) – https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction.

standards[3] we have considered them as IFRS Standards in our classification of countries (depending on whether IFRS Standards are required or permitted). We collected each country's adoption decision (with respect to the full IFRS Standards and the IFRS for SMEs Standard for private firm reporting) by accessing the information on the IFRS Foundation's website (IFRS Foundation, 2019). We observed a patchwork of IFRS adoption decisions in the countries in our study. We present these different country adoption decisions in Table 1 (more extensive information can be found in Appendix I).

All countries which require or permit the IFRS for SMEs Standard as a reporting regime for private firms also allow private firms to comply with full IFRS Standards. Therefore, the data collection instrument included questions on Trust and Use of private firm financial information for firms in different size categories and for the different types of standards companies could comply with (full IFRS Standards, the IFRS for SMEs Standard or local GAAP).

4.2 | Data collection

4.2.1 | The interview process

To study our research question, we collected data through interviews with bankers in the ten countries selected. To ensure that we collected data from knowledgeable users of financial statement-based information for lending decisions, we targeted bankers who had extensive experience in credit analysis and had worked in the banking sector (on average) for more than ten years. All interviewees had to be well versed on credit approval processes in their respective financial institutions and knowledgeable of the IFRS Standards, and the application of accounting standards in their country. In addition, we targeted bankers from different sizes of banks. For the conduct of the interviews, approval of the ethics committee of the universities involved was obtained and participants were explained the purpose of the study and guaranteed confidentiality. The list of questions that would guide the interviews was pre-tested in a number of countries, in different continents. The questionnaire was adapted, taking into account their observations. The interviews were then conducted

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[3]For Hong Kong, Hong Kong Financial Reporting Standards (HKFRS) and HKFRS for private entities; for Malaysia, Malaysian Financial Reporting Standards (MFRS) and MPERS (Malaysian Private Entity Reporting Standards); for the Philippines, Philippine Financial Reporting Standards (PFRS) and PFRS for SMEs.

between January and October 2020. In the selected countries, private bankers were asked to participate in our study through LinkedIn invitations and the snowballing technique (mainly used in Africa). Bankers willing to participate in the study received closed, semi-open and open questions before the interview. Descriptives of the profiles of the bankers participating in this study are provided in Table 2.

All bankers willing to participate returned their answers on the closed and semi-open questions in writing before the interview. In total, we obtained 108 answers on the closed and semi-open questions. For our quantitative analysis we considered all 108 answers received on the closed questions. In the first countries where we set up the in-depth interviews, we noticed that we reached a saturation point after conducting eight interviews. The notion of saturation is often held up as a touchstone or gold standard (O'Reilly & Parker, 2012, p. 2) in determining when to exit the field. Consistent with Neu et al. (2014, p. 330), we continued the process until we reached a saturation point where the additional interviews neither contradicted the developed understanding nor added any significant new information. An analysis of the interview data showed that after eight interviews conducted in each country, no additional insights were generated. So for the qualitative analyses we used the written answers received from 108 bankers and the answers on the open questions from a total of 80 bankers.

All interviews were carried out via telephone or online communication technologies (such as Microsoft Teams, Zoom or WhatsApp) and were recorded with the permission of the interviewees.[4] All interviews were carried out in English, except those that were conducted in Argentina, Brazil and Chile. Interviews in these three countries were conducted in Spanish or Portuguese and later translated into English. All interviews were transcribed to ensure an accurate account of the discussion was captured and used in the study.

4.2.2 | The interview protocol

A rigorous interview protocol was followed to ensure the comparability of the data collected. As a starting point for our questions that would guide the interviews, we used four questions asked in the World Bank's (2017) *Report on the Observance of Standards and Codes (ROSC) Accounting and Auditing (A&A) – Module C: Observed Reporting Practices and Perceptions*[5] – part 3: perceptions. These questions related to the perception of the characteristics of financial statements prepared in the country (in relation to listed and non-listed firms). In addition, we included a number of open, semi-open and closed questions related to the level of Trust bankers have in the financial statement information produced in their country and whether they would use this financial statement information for their decision-making (see Appendix II for the questions used). Questions also asked if bankers complement these financial statement numbers with additional information for their lending decisions. For most of the closed questions, interviewees were asked to rate their Trust in and Use of financial information using Likert scales. After the pre-tests with bankers, we

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[4]Two interviewees preferred not to be recorded, so detailed notes were made during those interviews. Due to the cultural and political situation in Malaysia and Hong Kong, a number of bankers were not comfortable talking and preferred to respond to the open questions by email; they were happy to clarify or elaborate on their responses, as needed, again by email exchange.

[5]ROSC are used to benchmark a country's performance in relation to certain standards (e.g., IFRS, International Standards on Auditing (ISA), OECD corporate governance). In the ROSC Accounting and Auditing assessment, three modules are included (module A: Accounting and Auditing Standards; module B: Institutional Framework for Corporate Financial Reporting; module C: Observed Reporting Practices and Perceptions). This module C was added to the ROSC assessment structure in 2016 and applied from 2017 onwards. With respect to all countries in our population, only the Philippines was reviewed in the period 2017 until March 2021 with the new assessment structure.

TABLE 2 Profile of bankers who participated in this study

Country	No. of interviews		Role			Years of experience		
	No.	%		No.	%		No.	%
Argentina	10	9.3%	Credit risk analyst	44	40.7%	0–5	27	25.0%
Brazil	12	11.1%	Senior credit analyst	12	11.1%	5–10	17	15.8%
Chile	12	11.1%	Credit risk/evaluation manager	17	15.7%	10–15	25	23.1%
Fiji	10	9.3%	Credit relationship manager	6	5.6%	15+	39	36.1%
Hong Kong	9	8.3%	Head of credit/Director/VP of credit dept.	29	26.9%			
Malaysia	10	9.3%						
Nigeria	10	9.3%						
the Philippines	13	12.0%						
South Africa	11	10.2%						
Zimbabwe	11	10.2%						
Total	108	100%		108	100%		108	100%

ensured that they could express their opinion on audited and non-audited financial statement information, as it was revealed in the pre-tests that this was a major point of difference for them for loan negotiations (together with the size of the company providing the financial statement information – large, medium or small). Asking several separate questions on both Trust and Use of financial information allowed us to check for consistency in the answers of the individual bankers.

In the interview questions, we asked about the Trust and Use of financial information in relation to large, medium-sized and small firms. However, we did not refer to specific thresholds of size limits to distinguish between large, medium and small firms. The IASB does not define any size criteria to depict what is an SME and the World Bank identifies only the maximum threshold for defining SMEs, with no classification made between micro, small and medium enterprises to reflect the size of the enterprise. Moreover, the thresholds used in the individual countries also differed; therefore the concept of large, medium-sized and small firms refers to the local context of each banker.

We applied triangulation in the data collection process – the information collected from one interviewee was always cross-checked with other interviewees from the same country. The information received in the interview was also verified with relevant documentary evidence, where applicable, or by contacting an accountant or an academic in that country. This triangulation and the knowledge level of our interviewees means we are confident that the interview data collected are credible and representative.

4.3 | Method of analysis

4.3.1 | Quantitative analysis

We first analyse the 108 responses of the bankers to the closed questions in a quantitative way. We present below the measurement of the dependent variables, independent variables and the statistical methods used.

Dependent variables
The Trust bankers have in financial statement information is represented by the variable *TRUST*. Using a 7-point Likert scale, we capture bankers' levels of Trust in financial statement information prepared using either full IFRS Standards, the IFRS for SMEs Standard or local GAAP. We also asked this question on Trust in financial statement information for all size categories of private firms (i.e., large, medium-sized and small). This dependent variable is named *TRUST*, *firm size*, *type of accounting standards complied with*. Whether bankers use the financial statement information in their credit granting processes is captured by the variable *USE*, which allowed bankers to indicate the extent to which they use financial statement information in their lending decisions (see Table 3). Also, for bankers' Use of financial statement information in lending decisions, we distinguish between the type of standards complied with and the size of the private firm involved in the loan application. This dependent variable is named *USE*, *firm size*, *type of standards applied*. Table 3 indicates further how Trust and Use is measured by the variables *TRUST* and *USE*. The questions used in the survey related to *TRUST* and *USE* can also be found in Appendix II.

Independent variables
The independent variables reflect the country characteristics discussed in the research propositions. We capture the quality of a country's formal institutions (RP1) by using the widely used variable *RULE OF LAW*, as well as the variable 'strength of legal creditor rights (*LEGALRIGHTS*)'. This last variable captures the quality of the legislation (bankruptcy laws

TABLE 3 Dependent variables definition

Variable	Description: question in author survey	Company size	Accounting standard
TRUST Large full IFRS		Large	full IFRS
TRUST Medium full IFRS	Do you trust the financial statements prepared by the following companies?	Medium	full IFRS
TRUST Small full IFRS		Small	full IFRS
TRUST Large IFRS SMEs	Non-listed *[Company Size]* companies using *[Accounting Standard]* (audited).	Large	IFRS for SMEs Standard
TRUST Medium IFRS SMEs		Medium	IFRS for SMEs Standard
TRUST Small IFRS SMEs	Coded as: Scale 1 (strongly disagree) to 7 (strongly agree). If not applicable variable is left blank.	Small	IFRS for SMEs Standard
TRUST Medium local GAAP		Medium	local GAAP
TRUST Small local GAAP		Small	local GAAP
USE Large full IFRS		Large	full IFRS
USE Medium full IFRS	Do you actually use the information embedded in the financial statements of companies in your decision-making (granting loans, other credit decisions (determination of collateral), investment in equity capital) in the situations below (take into account the accounting standards used to prepare the financial statements)?	Medium	full IFRS
USE Small full IFRS		Small	full IFRS
USE Large IFRS SMEs		Large	IFRS for SMEs Standard
USE Medium IFRS SMEs	Non-listed *[Company Size]* companies using *[Accounting Standard]* (audited)	Medium	IFRS for SMEs Standard
USE Small IFRS SMEs		Small	IFRS for SMEs Standard
USE Medium local GAAP	Coded as: (1) Not at all; (2) To some extent but other information is more important; (3) To a large extent, it is of equal importance to other information; (4) To a very large extent, it is the most important source of information. If not applicable variable is left blank.	Medium	Local GAAP
USE Small local GAAP		Small	Local GAAP

Data Source: Author Survey.

and collateral laws) that protects bankers' interests. Also, we have chosen this variable as it reflects the formal institutions of the banking sector; criticism in the literature states that measures like the rule of law are too broad and capture items not related to the item studied (Brown et al., 2014). In order to examine the influence of conflicting informal institutions (RP2), we use the World Bank's Strength of Control of Corruption (*CORRUPTION*) estimate. In order to capture the possible pressure of a donor-driven adoption of the IFRS Standards in a country (RP3), we use the country income level (*INCOME*) classification used by the World Bank, which guides their lending arrangements applicable to a country. Low country income levels are a proxy for a donor-driven IFRS Standards adoption in a country. The definitions of the independent variables are included in Table 4.

We have introduced regional dummies (Africa, Asia and Latin America)[6] as control variables to control for region variation (Allison, 2009). In addition, we also control for the adoption type of IFRS Standards (mandatory or permitted for both full IFRS Standards and the IFRS for SMEs Standard) in a country for each size category of private firms (see Table 1 and Appendix I). We labelled these variables *IFRS SMEs Country adoption Large firms*, *IFRS SMEs Country adoption Medium firms* and *IFRS SMEs Country adoption Small firms*.

Descriptive statistics

Table 5 presents the descriptive statistics of the dependent and independent variables. The descriptive statistics of the dependent variables *TRUST* and *USE* (see Panel A of Table 5) indicate that bankers' Trust and Use of financial statement-based information is lower for smaller firms and is higher for full IFRS Standards, than for the IFRS for SMEs Standard or for local GAAP. Panel B of Table 5 presents the descriptive statistics of the country's institutional characteristics. We observe that there is variation in the scores which are proxies for the formal and informal institutions in the countries included in the research population. The countries do not score extremely weak or extremely strong on formal institutions and with the strength of control of corruption, the countries represented do not obtain the lowest scores or the highest. With the type of country adoption of IFRS Standards (being mandatory or permitted), we observe that for large private firms most countries require mandatory application of IFRS Standards, except for Argentina. For medium-sized companies, six countries require mandatory application of IFRS Standards and four countries permit application of IFRS Standards. For small firms, four countries require mandatory application of IFRS Standards and six countries permit application of IFRS Standards (see Table 1 and Appendix I).

Looking at the correlations between the variables (untabulated but available upon request from the authors), we observe the following significant positive correlations estimated with Spearman's pairwise correlations at 0.05%. First, there is a significant high positive correlation (0.9331) between *INCOME* and the variable representing the informal institutions of a country, namely *CORRUPTION*. As a result of this high positive correlation, *INCOME* is never included in the same regression with *CORRUPTION* so as not to trigger multicollinearity concerns. Second, we also observe high positive correlations between *RULE OF LAW* and *CORRUPTION* (0.9562) and *RULE OF LAW* with *INCOME* (0.9071). These high positive correlations also imply that we cannot include *RULE OF LAW* (formal institutional characteristic) with any of the other two country characteristics (presence of conflicting informal institutions – *CORRUPTION* and donor-driven adoption pressure – *INCOME*). The correlations between the other variables do not trigger multicollinearity concerns.

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[6]In which Africa is the reference category.

TABLE 4 Independent variables definition

Variable	Description	Data source	URL
IFRS SMEs Country Adoption Large F	IFRS/IFRS for SME mandatory for non-listed large companies coded as: IFRS mandatory = 1 Different possibilities = 0[a]	IFRS Foundation's website	https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-juris diction
IFRS SMEs Country Adoption Medium F	IFRS/IFRS for SME mandatory for non-listed medium companies coded as: IFRS mandatory = 1 Different possibilities = 0[a]	IFRS Foundation's website	https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-juris diction
IFRS SMEs Country Adoption Small F	IFRS/IFRS for SME mandatory for non-listed small companies coded as: IFRS mandatory = 1 Different possibilities = 0[a]	IFRS Foundation's website	https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-juris diction
Corruption	Control of Corruption: Estimate 'Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from −2.5 to 2.5.'	The World Bank World Governance Indicators (WGI)	https://info.worldbank.org/governance/ wgi/
Legal Rights	Strength of legal rights index (0 = weak to 12 = strong) 'Strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index ranges from 0 to 12, with higher scores indicating that these laws are better designed to expand access to credit.'	The World Bank Environment, Social and Governance (ESG) Data	https://datatopics.worldbank.org/esg/ framework.html
Rule of Law	Rule of law: Estimate 'Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from −2.5 to 2.5.'	The World Bank World Governance Indicators (WGI)	https://info.worldbank.org/governance/ wgi/

(Continues)

TABLE 4 (Continued)

Variable	Description	Data source	URL
Income	Country classification by income level coded as: Lower middle-income economies (Nigeria, the Philippines, Zimbabwe) = 1 Upper middle-income economies (Argentina, Brazil, Fiji, Malaysia, South Africa) = 2 High-income economies (Chile, Hong Kong) = 3	The World Bank	https://datahelpdesk.worldbank.org/ knowledgebase/articles/906519-world -bank-country-and-lending-groups
Latin America	Dummy variable coded as 1 if the banker works in Brazil, Argentina, or Chile; 0 otherwise.		
Africa	Dummy variable coded as 1 if the banker works in Nigeria, Zimbabwe, or South Africa; 0 otherwise.		
Asia	Dummy variable coded as 1 if the banker works in Fiji, the Philippines, Hong Kong, or Malaysia; 0 otherwise.		

[a]In countries where IFRS Standards are mandatory, local GAAP in these countries is equal to IFRS standards (either IFRS Standards brand name or national GAAP based on IFRS Standards). For large firms, these are all countries except for Argentina. For medium-sized firms, local GAAP is equal to IFRS Standards in Brazil, Chile, Fiji, Malaysia, the Philippines and Zimbabwe. For small firms, local GAAP is equal to IFRS Standards in Chile, Fiji, Malaysia and Zimbabwe.

TABLE 5 Descriptive statistics

Variable	Obs.	Mean	Median	Std. dev.	Min	Max
Panel A: Bankers' data						
TRUST Large full IFRS	100	6.250	6	0.903	3	7
USE Large full IFRS	105	3.543	4	0.651	1	4
TRUST Medium full IFRS	98	5.622	6	1.031	2	7
USE Medium full IFRS	101	3.416	4	0.738	1	4
TRUST Small full IFRS	97	4.887	5	1.421	1	7
USE Small full IFRS	98	3.122	3	0.900	1	4
TRUST Large IFRS SMEs	90	5.833	6	1.019	3	7
USE Large IFRS SMEs	96	3.427	4	0.707	1	4
TRUST Medium IFRS SMEs	92	5.446	5	1.062	2	7
USE Medium IFRS SMEs	95	3.305	3	0.745	1	4
TRUST Small IFRS SMEs	91	4.813	5	1.406	1	7
USE Small IFRS SMEs	95	3.053	3	0.927	1	4
TRUST Medium local GAAP	71	5.423	6	1.142	2	7
USE Medium local GAAP	73	3.055	3	0.880	1	4
TRUST Small local GAAP	71	4.761	5	1.553	1	7
USE Small local GAAP	72	2.847	3	0.914	1	4

Variable	Obs	Mean	Median	Std. dev.	Min	Max	Theoretical min	Theoretical max
Panel B: Country characteristics								
IFRS SMEs Country Adoption Large F	10	0.9	1	0.316	0	1	0	1
IFRS SMEs Country Adoption Medium F	10	0.6	1	0.516	0	1	0	1
IFRS SMEs Country Adoption Small F	10	0.4	0	0.516	0	1	0	1
Corruption	10	0.034	0.007	0.915	−1.239	1.672	−2.5	2.5
Legal Rights	10	4.9	5	2.685	1	9	0	12
Rule of Law	10	−0.008	−0.129	0.876	−1.257	1.604	−2.5	2.5
Income	10	1.9	2	0.738	1	3	0	3

Notes: Panel A presents descriptive statistics on the dependent variables used in the statistical analysis. The full sample consists of 108 bankers' surveys from ten countries. The number of observations drops from 108 because many bankers left some firm sizes and/or accounting standards empty for the following reasons: (1) Some bankers only worked with certain firm size. For example, some only worked with medium and large-sized companies (sometimes because there was a different department for small firms, sometimes because the whole bank itself did not lend to/invest in small companies); (2) Other bankers left answers blank because only one type of standard was permitted for a certain size category in a country. For the definitions of the dependent variables, see Table 3.

Panel B presents descriptive statistics of the independent variables for the ten countries rather than for the whole dataset of bankers. For the definitions of the independent variables, see Table 4.

Statistical method used

For the univariate analysis, we use the Wilcoxon signed-rank test to analyse the differences between two groups. Thereafter, we test the association between country characteristics and the variable *TRUST* and *USE* of financial statement information by bankers in their lending decisions using the technique of ordinal probit regressions. This is an appropriate and widely used technique when the dependent variable is an ordinal variable.

We run the following ordinal probit regressions:

$$TRUST/USE = \beta_0 + \beta_1 CountryAdoption_i + \beta_2 LegalRights_i + \beta_3 Corruption_i + \alpha_i \qquad (1)$$

$$TRUST / USE = \beta_0 + \beta_1 Country Adoption_i + \beta_2 LegalRights_i + \beta_3 Income_i + \alpha_i \qquad (2)$$

where i refers to the interviewed individual, α is a region fixed effect, and the error term (ε_i) is not explicitly included in the formula.[7,8] The results of Model (1) are tabulated in this paper in Table 7, the results of Model (2) are untabulated and available from the authors upon request. We also ran regressions which only included the formal institutions (*RULE OF LAW* and *LEGAL RIGHTS*) in a country (untabulated and available on request from the authors). As dependent variables, we include in the regressions reported in this paper the closed question responses related to *TRUST* and *USE* of audited financial statement information.

4.3.2 | Qualitative analysis of the interview data

We undertake a qualitative analysis of the answers to the open questions, which serves two purposes. First, it allows us to better understand the quantitative results and, second, it allows us to deepen our insights into the different steps bankers take before they trust and use financial statement information in their lending decisions, and whether these steps are different in each country.

Consistent with Yin (1989, p. 106), we analyse the interview data in a qualitative way using NVivo text analysis. All interview transcripts were read and coded by one author. All the codes developed were cross-checked by a second author and any conflicting views regarding the codes were discussed and resolved. Next, the interview transcripts were coded using NVivo into key themes that emerged from the material. Drawing upon the research propositions used in the study, additional codes were developed if these were not captured in the first round of coding. The codes were then organised based on the countries and, subsequently, on the regions Africa, Asia-Pacific and Latin America, which enabled us to note the similarities and differences between the countries and the regions. The relationships among the codes were visualised using hierarchical charts in order to see the patterns between these elements.

5 | RESULTS

In this section, first we present the results of the univariate analysis, then we discuss the results of the multivariate analyses (Model (1) and Model (2)). The results of Model (1) and Model (2) allow us to discuss the research propositions related to a country's institutions (RP1 and RP2) and whether a country has adopted IFRS Standards as a result of a donor-driven pressure or market-driven forces (RP3). The results of the qualitative analyses inform us on the research propositions related to Trust and Use of audited versus non-audited information (RP4), and with the Trust and Use of information outside the financial statements in lending decisions (RP5).

5.1 | Univariate results

We conducted a number of two-by-two comparisons to find out whether the levels of Trust and Use of financial statement information differed according to the size of the company, the type of accounting standards applied and the audit status of financial statement numbers.

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[7]In this equation i refers to the interviewed individual, α is a region fixed effect, and the error term (εi) is not explicitly included in the formula.

[8]In this equation i refers to the interviewed individual, α is a region fixed effect, and the error term (εi) is not explicitly included in the formula.

Panel A of Table 6 presents the results on whether *TRUST* and *USE* differ according to the size of the company, while keeping the accounting standards applied constant. This panel informs us that *TRUST* and *USE* of financial statement information for lending decisions is significantly different according to the size of the company involved in the credit granting decision. Financial statement information provided by smaller companies is less trusted and used than the financial statement information provided by larger firms. The interview data allow us to understand this observation; bankers in all countries mention that, for credit decisions related to small firms, they rely less on accounting numbers since these are usually of a low quality and, if audited, they are often audited by a low quality auditor (extracts of interviews related to this topic are provided in Section 5.3.1).

In Panel B of Table 6, we concentrate on the differences with respect to *TRUST* and *USE*, depending on the type of standards applied by the company involved in the credit application, keeping the size of the firm constant. This panel shows that when private firms apply full IFRS Standards, the accounting numbers are always more trusted and used than when the financial statements are prepared with local GAAP. If we compare *TRUST* and *USE* of accounting numbers prepared with the IFRS for SMEs Standard versus the numbers prepared with local GAAP, we observe in Panel B of Table 6 that accounting numbers prepared with the IFRS for SMEs Standard are more used than local GAAP numbers (with large and medium-sized firms). The result for small firms can be explained by the observation that bankers use fewer financial statement numbers in loan decisions when firms are smaller. We observe that with *TRUST* of accounting numbers for credit decisions, in the case of medium-sized and small firms, accounting numbers prepared with the IFRS for SMEs Standard are more trusted than the accounting numbers based on local GAAP. The result obtained for large firms can be explained by the fact that all countries, except for Argentina, mandate IFRS Standards. So there is very little variation between IFRS Standards and local GAAP for the category of large firms.

Panel C of Table 6 informs us on the differences in *TRUST* and *USE* of accounting numbers prepared with full IFRS Standards in comparison to accounting numbers prepared with the IFRS for SMEs Standards. It shows full IFRS Standards-based accounting numbers are always more trusted than accounting numbers prepared with the IFRS for SMEs Standard. In the case of large and medium-sized firms, full IFRS Standards-based numbers are always more used in credit decisions than accounting numbers prepared with the IFRS for SMEs Standard. Also in Panel C of Table 6, like in Panel B, we observe that with the use of accounting numbers of small firms, no differences are observed since accounting numbers of small firms are less used in loan decisions compared to the numbers of larger firms. The univariate results in Panel D of Table 6 inform us that, in all circumstances, audited financial statement information is more trusted and used in credit granting decisions than non-audited financial statement information.

5.2 | Multivariate results

5.2.1 | A country's institutions and the Trust and Use of IFRS Standards-based financial statement information in credit decisions

Table 7 presents the results of Model (1) in which the levels of Trust and Use in financial statements-based information are analysed in relation to the formal and informal institutional characteristics of a country, while controlling for a country's IFRS Standards adoption type. The dependent variables in these regressions are the *TRUST* and *USE* of audited accounting numbers prepared with the IFRS for SMEs Standard. We have also run the regressions with audited accounting numbers prepared with full IFRS Standards and the results (untabulated)

are similar. As a proxy for a country's formal institutions related to the credit market in a country, we have chosen a proxy that represents the strength of the legal creditor rights in a country, *LEGAL RIGHTS*. *LEGAL RIGHTS* can be inserted in the regressions with either the variable

T A B L E 6   Univariate tests

Null hypothesis (H0)	Variable	Mean	Variable	Mean	Z	Prob > |z|	Decision
Panel A: Firm size different – standards constant							
Wilcoxon signed-rank test							
Large Firms = Medium Firms	*TRUST Large full IFRS*	6.250	*TRUST Medium full IFRS*	5.622	6.916	<0.001	Reject H0
	USE Large full IFRS	3.543	*USE Medium full IFRS*	3.416	2.779	0.006	Reject H0
	TRUST Large IFRS SMEs	5.833	*TRUST Medium IFRS SMEs*	5.446	4.822	<0.001	Reject H0
	USE Large IFRS SMEs	3.427	*USE Medium IFRS SMEs*	3.305	2.264	0.024	Reject H0
	TRUST Large local GAAP	5.905	*TRUST Medium local GAAP*	5.423	5.103	<0.001	Reject H0
	USE Large local GAAP	3.227	*USE Medium local GAAP*	3.055	2.534	0.011	Reject H0
Medium Firms = Small Firms	*TRUST Medium full IFRS*	5.622	*TRUST Small full IFRS*	4.887	6.873	<0.001	Reject H0
	USE Medium full IFRS	3.416	*USE Small full IFRS*	3.122	4.996	<0.001	Reject H0
	TRUST Medium IFRS SMEs	5.446	*TRUST Small IFRS SMEs*	4.813	6.223	<0.001	Reject H0
	USE Medium IFRS SMEs	3.305	*USE Small IFRS SMEs*	3.053	4.203	<0.001	Reject H0
	TRUST Medium local GAAP	5.423	*TRUST Small local GAAP*	4.761	4.909	<0.001	Reject H0
	USE Medium local GAAP	3.055	*USE Small local GAAP*	2.847	3.638	<0.001	Reject H0
Large Firms = Small Firms	*TRUST Large full IFRS*	6.250	*TRUST Small full IFRS*	4.887	7.655	<0.001	Reject H0
	USE Large full IFRS	3.543	*USE Small full IFRS*	3.122	5.059	<0.001	Reject H0
	TRUST Large IFRS SMEs	5.833	*TRUST Small IFRS SMEs*	4.813	6.520	<0.001	Reject H0
	USE Large IFRS SMEs	3.427	*USE Small IFRS SMEs*	3.053	4.468	<0.001	Reject H0
	TRUST Large local GAAP	5.905	*TRUST Small local GAAP*	4.761	6.090	<0.001	Reject H0
	USE Large local GAAP	3.227	*USE Small local GAAP*	2.847	3.665	<0.001	Reject H0

TABLE 6 (Continued)

Null hypothesis (H0)	Variable	Mean	Variable	Mean	Z	Prob > |z|	Decision
Panel B: Difference between IFRS and local GAAP – firm size constant Wilcoxon signed-rank test							
full IFRS = local GAAP	*TRUST Large full IFRS*	6.250	*TRUST Large local GAAP*	5.905	3.484	<0.001	Reject H0
	USE Large full IFRS	3.543	*USE Large local GAAP*	3.227	3.507	<0.001	Reject H0
	TRUST Medium full IFRS	5.622	*TRUST Medium local GAAP*	5.423	3.993	<0.001	Reject H0
	USE Medium full IFRS	3.416	*USE Medium local GAAP*	3.055	3.601	<0.001	Reject H0
	TRUST Small full IFRS	4.887	*TRUST Small local GAAP*	4.761	3.865	<0.001	Reject H0
	USE Small full IFRS	3.122	*USE Small local GAAP*	2.847	2.999	0.003	Reject H0
IFRS for SMEs = local GAAP	*TRUST Large IFRS SMEs*	5.833	*TRUST Large local GAAP*	5.905	0.005	0.996	Cannot Reject H0
	USE Large IFRS SMEs	3.427	*USE Large local GAAP*	3.227	2.150	0.032	Reject H0
	TRUST Medium IFRS SMEs	5.446	*TRUST Medium local GAAP*	5.423	2.164	0.031	Reject H0
	USE Medium IFRS SMEs	3.305	*USE Medium local GAAP*	3.055	2.129	0.033	Reject H0
	TRUST Small IFRS SMEs	4.813	*TRUST Small local GAAP*	4.761	2.130	0.033	Reject H0
	USE Small IFRS SMEs	3.053	*USE Small local GAAP*	2.847	1.866	0.062	Cannot Reject H0
Panel C: Difference between IFRS for SMEs and full IFRS – firm size constant Wilcoxon signed-rank test							
IFRS for SMEs = full IFRS	*TRUST Large IFRS SMEs*	5.833	*TRUST Large full IFRS*	6.25	–5.114	<0.001	Reject H0
	USE Large IFRS SMEs	3.427	*USE Large full IFRS*	3.543	–2.315	0.021	Reject H0
	TRUST Medium IFRS SMEs	5.446	*TRUST Medium full IFRS*	5.622	–3.739	<0.001	Reject H0
	USE Medium IFRS SMEs	3.305	*USE Medium full IFRS*	3.416	–3.000	0.003	Reject H0
	TRUST Small IFRS SMEs	4.813	*TRUST Small full IFRS*	4.887	–2.131	0.033	Reject H0
	USE Small IFRS SMEs	3.053	*USE Small full IFRS*	3.122	–1.406	0.160	Cannot Reject H0

(Continued)

TABLE 6 (Continued)

Null hypothesis (H0)	Variable	Mean	Variable	Mean	Z	Prob > |z|	Decision
Panel D: Difference between audited and non-audited financial standards Wilcoxon signed-rank test							
Audited = Unaudited	*TRUST Large full IFRS Audited*	6.25	*TRUST Large full IFRS Unaudited*	5.045	8.049	<0.001	Reject H0
	TRUST Medium full IFRS Audited	5.622	*TRUST Medium full IFRS Unaudited*	4.349	8.087	<0.001	Reject H0
	TRUST Small full IFRS Audited	4.887	*TRUST Small full IFRS Unaudited*	3.667	8.169	<0.001	Reject H0
	USE Large full IFRS Audited	3.543	*USE Large full IFRS Unaudited*	2.742	8.026	<0.001	Reject H0
	USE Medium full IFRS Audited	3.416	*USE Medium full IFRS Unaudited*	2.551	7.627	<0.001	Reject H0
	USE Small full IFRS Audited	3.122	*USE Small full IFRS Unaudited*	2.330	7.265	<0.001	Reject H0
	TRUST Large IFRS SMEs Audited	5.833	*TRUST Large IFRS SMEs Unaudited*	4.667	7.688	<0.001	Reject H0
	TRUST Medium IFRS SMEs Audited	5.446	*TRUST Medium IFRS SMEs Unaudited*	4.268	7.867	<0.001	Reject H0
	TRUST Small IFRS SMEs Audited	4.813	*TRUST Small IFRS SMEs Unaudited*	3.614	7.914	<0.001	Reject H0
	USE Large IFRS SMEs Audited	3.427	*USE Large IFRS SMEs Unaudited*	2.593	7.638	<0.001	Reject H0
	USE Medium IFRS SMEs Audited	3.305	*USE Medium IFRS SMEs Unaudited*	2.506	7.255	<0.001	Reject H0
	USE Small IFRS SMEs Audited	3.053	*USE Small IFRS SMEs Unaudited*	2.326	6.874	<0.001	Reject H0
	TRUST Large local GAAP Audited	5.905	*TRUST Large local GAAP Unaudited*	4.613	6.352	<0.001	Reject H0
	TRUST Medium local GAAP Audited	5.423	*TRUST Medium local GAAP Unaudited*	4.180	6.429	<0.001	Reject H0
	TRUST Small local GAAP Audited	4.761	*TRUST Small local GAAP Unaudited*	3.581	6.403	<0.001	Reject H0

TABLE 6 (Continued)

Null hypothesis (H0)	Variable	Mean	Variable	Mean	Z	Prob > |z|	Decision
	USE Large local GAAP Audited	3.227	*USE Large local GAAP Unaudited*	2.569	5.371	<0.001	Reject H0
	USE Medium local GAAP Audited	3.055	*USE Medium local GAAP Unaudited*	2.379	5.454	<0.001	Reject H0
	USE Small local GAAP Audited	2.847	*USE Small local GAAP Unaudited*	2.152	5.185	<0.001	Reject H0

Panel A: We rejected null that the population are the same at any level below 0.05%.

Panel B: We rejected null that the population are the same at any level below 0.05% in all but two cases.

Panel C: We rejected null that the population are the same at any level below 0.05% in all but one case.

Panel D: We rejected null that the population are the same at any level below 0.05%.

proxying for the informal institutions in a country, *CORRUPTION*, or the variable proxying for a donor-driven adoption pressure, *INCOME*.

We observe in Table 7 a significant relationship, especially between the *USE* of accounting numbers based on the IFRS for SMEs Standard and *LEGAL RIGHTS*. However, the direction of the relationship is not positive, but negative. *LEGAL RIGHTS* measures the degree to which collateral and bankruptcy laws protect the rights of the borrowers and lenders, and thus facilitate lending. Higher scores for *LEGAL RIGHTS* indicate that these laws are better designed to expand access to credit. This finding indicates that audited accounting numbers (prepared with the IFRS for SMEs Standard) are more used when a creditor's legal rights in the banker's country are weak. The significance of *LEGAL RIGHTS* is the highest in the case of small companies. This finding indicates that when creditors' legal rights in a country are weak, audited accounting numbers based on IFRS Standards serve as a 'trusted language', since the financial statement numbers are used more in these circumstances.

If we run regressions that include only a country's formal institutional characteristics (*RULE OF LAW* and *LEGAL RIGHTS*) and the country's IFRS Standards adoption decision (untabulated), we find no significant association of *RULE OF LAW* with the dependent variables *TRUST* and *USE*. So, we are not able to confirm RP1 when using a general country proxy for the quality of the formal institutions like *RULE OF LAW*. However, if we consider only the quality of the laws regulating lending in a country being *LEGAL RIGHTS*, we can confirm there is a significant relationship between *USE* of audited financial statement information based on IFRS Standards and a country's institutional characteristics (as the relationship is negative with the country's quality of legal rights that protect creditors). Since the results indicate that the Use of accounting numbers in loan decisions is not associated with the overall general quality of a country's formal institutions, we are not able to confirm RP1. However, the results in Table 7 also indicate that audited IFRS Standards-based accounting information do not need the establishment of high-quality formal institutions for IFRS Standards-based accounting information to serve as a 'trusted language'. The findings are in line with the objective of the international financial institutions, which is the adoption of IFRS Standards in a country to provide financial information that bankers can use in their loan decisions and, as a result, enhance the credit market for private firms (see Section 2.2).

The results in Table 7 also show that accounting numbers prepared with the IFRS for SMEs Standard are used more in the case of large and medium-sized private firms when the strength of control of corruption is higher. This finding implies that accounting numbers prepared with the IFRS for SMEs Standard are used when the level of corruption in a country is lower.

TABLE 7 Trust and Use of financial statement numbers prepared with the IFRS for SMEs standard

Dependent variable	TRUST Large Firms IFRS SMEs (n = 90) (1)	TRUST Medium Firms IFRS SMEs (n = 92) (2)	TRUST Small Firms IFRS SMEs (n = 91) (3)	USE Large Firms IFRS SMEs (n = 96) (4)	USE Medium Firms IFRS SMEs (n = 95) (5)	USE Small Firms IFRS SMEs (n = 95) (6)
IFRS SMEs Country	−0.795			−0.129		
Adoption Large F	(0.623)			(0.614)		
IFRS SMEs Country		0.126			0.600	
Adoption Medium F		(0.299)			(0.322)	
IFRS SMEs Country			0.333			0.510*
Adoption Small F			(0.236)			(0.253)
Legal Rights	−0.132*	−0.081	−0.048	−0.172*	−0.137*	−0.181**
	(0.065)	(0.063)	(0.063)	(0.068)	(0.066)	(0.066)
Corruption	0.113	0.099	−0.079	0.406*	0.439*	0.244
	(0.185)	(0.199)	(0.181)	(0.206)	(0.212)	(0.190)
Asia	−0.026	0.016	0.241	−0.723	−1.05194*	−0.483
	(0.394)	(0.438)	(0.385)	(0.452)	(0.490)	(0.412)
Latin America	−0.540	−0.219	0.098	−0.485	−0.985	−0.298
	(0.489)	(0.509)	(0.473)	(0.567)	(0.563)	(0.504)
Constant	−3.932***	−2.751***	−2.032***	−3.911***	−3.219***	−2.908***
	(0.926)	(0.686)	(0.604)	(0.981)	(0.693)	(0.640)
LR χ^2	7.823	3.762	4.199	12.355	10.579	15.472
Prob > χ^2	0.166	0.584	0.521	0.030	0.060	0.009
Log likelihood	−117.325	−129.454	−150.093	−86.864	−93.630	−107.037

Note: This table reports ordinal probit regressions that test if the levels of *TRUST* and *USE* of financial statements for large, medium or small firms using the IFRS for SMEs Standard (audited) are significantly associated with IFRS Standards country adoption, legal rights, control of corruption and regional dummies. The dependent variables are Trust (*TRUST*) and Use (*USE*) of financial statements. More specifically, these variables reflect answers on the survey: (1) what is their level of Trust in financial statements prepared by [large, medium, and small] companies using the IFRS for SMEs Standard (audited) using a scale of 1–7, whereby higher values imply higher levels of Trust; (2) what is the Use of the information embedded in the financial statements of [large, medium or small] companies using the IFRS for SMEs Standards (audited) in bankers' loan decision-making (e.g. loans, determination of collateral, investment in equity capital) using a scale 1–4, whereby higher values imply higher levels of Use. Detailed definitions of the dependent and independent variables can be found in Appendices 1 and 2. Columns (1), (2) and (3) present results based on the level of Trust bankers have in financial statements of large, medium or small firms, respectively. Columns (4), (5) and (6) present results based on the level of Use of financial statement information by bankers for large, medium or small firms, respectively. The full sample consists of 108 bankers' surveys from ten countries. Standard errors are in parentheses. Two-tailed tests *** significant at 1%; two-tailed tests ** significant at 5%; two-tailed tests * significant at 10%.

The results (see Table 7) allow us to confirm RP2 for large and medium-sized firms, and so partially support RP2. In the interviews with bankers, the relationship between the informal economy in a country and the Use of accounting numbers in loan decisions became even more obvious. Bankers shared the following experiences:

> It is a problem. For example, the informality that exists in Argentina is that many companies declare less turnover than they actually have. This actually impacts everything, buying and selling of currencies or billing or even having employees who are not registered. This reduces the debt capacity of the company because there are indicators that a company cannot show. If the company has reserves of liquid assets in foreign currency that it bought in the parallel market that is illegal, it cannot declare it on the balance sheet. In the same way, if you had 20% in the black market, that is, not registered, you cannot express it in the balance sheet, which is used to give credit based on the information that company can show. The more informal the company is, the less access to credit it will have. It is definitely worse because we Argentines live with inflation. We have been used to having very high inflation for 50 years. But the issue of informality has a great impact. And the smaller the company, the greater the impact. For a medium to large company, this issue can be insignificant. In a small or micro business this can be very important.
> (Argentina_3)

> The black market is an issue but I believe it's largely driven by an inefficient currency allocation system. Currency being put in the wrong things … The holding of cash is common in our market and yes it does impact our lending decision because if one is not depositing their proceeds there is no way of validating their turnover.
> (Zimbabwe_1)

With respect to the three region dummies, we observe no differences in *TRUST* of financial statement information prepared with IFRS Standards on all categories of private firms. Also, with *USE* of financial statement information based on IFRS Standards in credit decisions, we do not observe differences between the regions for large and small firms. We only observed that accounting numbers of medium-sized firms based on IFRS Standards are more used in Africa than in Asia.

The control variable '*IFRS SMEs Country adoption firm type*', which refers to whether IFRS Standards are adopted in a country as a mandatory or voluntary reporting framework, shows that a mandatory adoption of IFRS Standards in a country is not associated with the level of *TRUST* bankers have in the accounting numbers. With *USE* of these numbers in credit decisions, we notice that with small firms, a mandatory adoption of IFRS Standards in a country is significantly more related to the *USE* of these numbers by bankers in credit decisions. We do not observe a significant relationship between mandatory adoption of IFRS Standards in a country and the *USE* of these numbers by bankers for medium-sized and large firms. The non-significance of a mandatory adoption of IFRS Standards in a country for large firms can be explained. In our research population all countries, except for Argentina, have chosen a mandatory adoption of IFRS Standards (either using the IFRS Standards brand name or national GAAP based on IFRS Standards) for large firms. As a result, there is almost no variation in the *IFRS SMEs Country Adoption Large Firms* for the regressions with *TRUST* and *USE* related to large firms.

With respect to medium-sized firms and small firms in a number of countries in our study (see Table 1), firms can choose to voluntarily adopt IFRS Standards. In four countries in our research population, medium-sized firms can opt for a voluntary adoption of IFRS Standards and in six countries of our population, small companies can opt for a voluntary adoption of

IFRS Standards. Therefore, we perform an additional analysis with respect to these medium-sized and small companies and consider the observation made in the interviews that bankers often do not distinguish between IFRS-based standards and local-GAAP standards in those countries where IFRS Standards are translated into the national standards.

In the interviews and the email exchanges with participating bankers, we noticed that in a number of instances, when IFRS standards were copied entirely in the local standards and named 'National GAAP', bankers considered these standards often as their local GAAP rather than as IFRS Standards. Often, they only think in terms of local GAAP even though they are equal or almost equal to IFRS Standards. Therefore, we also conduct multivariate analyses on the relationship between the level of *TRUST* and *USE* of local GAAP-based financial statement information and a country's institutional characteristics and the country adoption type of IFRS Standards (see Table 8). The dependent variable *TRUST local GAAP* and *USE local GAAP* can refer, in bankers' opinions, to either local GAAP based on IFRS Standards or local GAAP not based on IFRS Standards (depending on the country). In countries where IFRS

TABLE 8 The Trust and Use of financial statement information prepared with local GAAP

Dependent variable	*TRUST Medium Firms local GAAP (n = 71)* (1)	*TRUST Small Firms local GAAP (n = 71)* (2)	*USE Medium Firms local GAAP (n = 73)* (3)	*USE Small Firms local GAAP (n = 72)* (4)
IFRS SMEs Country Adoption Medium F	1.061***		0.6920*	
	(0.321)		(0.327)	
IFRS SMEs Country Adoption Small F		0.9815**		0.342
		(0.301)		(0.299)
Legal Rights	−0.105	−0.116	−0.133	−0.135
	(0.086)	(0.085)	(0.086)	(0.087)
Corruption	0.361	0.001	0.468	0.042
	(0.260)	(0.246)	(0.273)	(0.251)
Asia	−0.317	−0.069	−0.482	0.157
	(0.654)	(0.614)	(0.666)	(0.630)
Latin America	−0.809	−0.468	−0.108	0.315
	(0.768)	(0.739)	(0.783)	(0.768)
Constant	−2.806**	−2.246*	−2.164*	−1.960*
	(1.006)	(0.890)	(0.935)	(0.920)
LR χ^2	17.581	11.577	19.838	12.119
Prob > χ^2	0.004	0.041	0.001	0.033
Log likelihood	−97.279	−116.974	−77.485	−85.253

Note: This table reports ordinal probit regressions that test if the levels of Trust and Use of financial statements for medium or small firms using local GAAP (audited) are significantly associated with IFRS mandatory adoption, legal rights, control of corruption and regional dummies. The dependent variables are Trust (*TRUST*) and Use (*USE*) of financial statements. More specifically, these variables reflect seven answers on the survey: (1) what is the level of Trust in financial statements prepared by [medium and small] companies using local GAAP (audited) using a scale of 1–7, whereby higher values imply higher levels of Trust; (2) what is the Use of the information embedded in the financial statements of [medium or small] companies using local GAAP (audited) in bankers' loan decision-making (e.g. loans, determination of collateral, investment in equity capital) using a scale 1–4, whereby higher values imply higher levels of Use. Detailed definitions of the dependent and independent variables can be found in the Tables 3 and 4. Columns (1) and (2) present results based on the level of Trust of bankers in financial statements for medium or small firms, respectively. Columns (3) and (4) present results based on the level of Use of financial statement information by bankers for medium or small firms, respectively. The full sample consists of 108 bankers' surveys from ten countries. Standard errors are in parentheses. Two-tailed tests *** significant at 1%; two-tailed tests ** significant at 5%; two-tailed tests * significant at 10%.

Standards are mandatory, local GAAP is equal to IFRS Standards (see bottom of Table 4 for more information). With the regression results presented in Table 8, we try to find out whether institutional characteristics or the country's adoption type of IFRS Standards (considered as local GAAP by bankers) are significantly more related to *TRUST* and *USE*.

The results in Table 8 show that *TRUST* in the local GAAP-based information is associated with those countries where local GAAP is based on IFRS Standards and, as a result, equal to IFRS Standards and when adoption of these standards is mandatory (see significance of *IFRS SMEs Country Adoption medium firms* and *IFRS SMEs Country Adoption small firms* in Table 8, columns (1) and (2)). The financial statement information of medium-sized firms is more used in credit decisions when local GAAP is based on IFRS Standards and when the adoption of IFRS Standards is mandatory. The results provide evidence that IFRS Standards-based information is associated with more Trust and Use for lending decisions for medium-sized (see results in Table 8) and small firms (see results in Tables 7 and 8) when adoption is mandatory in a country.

5.2.2 | Donor- versus market-driven country adoption of IFRS Standards and the Trust and Use of IFRS Standards-based financial statement information in credit decisions

Model (2) (untabulated but available from the authors upon request) estimates the association between *TRUST* and *USE* of accounting numbers prepared with IFRS Standards in credit decisions, including all independent variables of Model (1) (except for the variable *CORRUPTION*). The variable *INCOME*, which measures a country's income level and is a proxy for a donor-driven versus a market-driven adoption of IFRS Standards, is introduced in the model. Due to the high correlation between the variables, both *CORRUPTION* and *INCOME* cannot be included at the same time in a regression model. The level of *TRUST* is not associated with a donor-driven or market-driven adoption of IFRS Standards. However, with the level of *USE*, we observe that the accounting numbers prepared with the IFRS for SMEs Standard of large and medium-sized private firms are significantly more used in credit decisions in higher income countries. This allows us to partially confirm RP3, since the results (untabulated) show – for large and medium-sized firms – that in countries characterised by a market-driven adoption of IFRS Standards, accounting numbers are more used by bankers in credit decisions. The significance levels of the other independent variables included in Model (2) are similar to the significance levels obtained for these variables in Model (1). When we run the regressions with *TRUST* and *USE* for full IFRS Standards-based numbers we obtain similar results.

5.2.3 | Robustness checks and additional analyses

Although we do not see a strong theoretical reason suggesting heteroskedasticity in our regressions, we ran multiple empirical tests. More specifically, we modelled the variance as a function of a variable or combinations of variables that could be leading to heteroskedasticity and used the Likelihood-ratio and Wald tests to verify homoskedasticity. After running tests using all independent variables and multiple combinations of variables (available upon request), we found that only three regressions, related to *TRUST IFRS SMEs medium firms*, indicated heteroskedasticity at a 0.05 level. In Table 9, in the section 'Insignma' (which indicates the coefficients for the variance function), *CORRUPTION* appears to be a significant contributor to the variance function when analysing the trust of bankers in financial statements for medium-sized firms. However, when running a generalisation of ordinal probit regression,

TABLE 9 Robustness test with respect to heteroskedasticity – IFRS for SMEs (medium firms)

	TRUST Medium Firms IFRS SMEs (n = 92) (1)	TRUST Medium Firms IFRS SMEs (n = 92) (2)	TRUST Medium Firms IFRS SMEs (n = 92) (3)	TRUST Medium Firms IFRS SMEs (n = 92) (4)
IFRS SMEs Country Adoption Medium F	0.107	0.050	0.049	0.126
	(0.285)	(0.347)	(0.253)	(0.299)
Legal Rights	−0.069	−0.082	−0.079	−0.081
	(0.072)	(0.097)	(0.079)	(0.063)
Corruption	0.032	0.034	0.066	0.099
	(0.208)	(0.271)	(0.195)	(0.199)
Asia	0.067	0.072	0.046	0.016
	(0.428)	(0.527)	(0.402)	(0.438)
Latin America	−0.069	−0.050	−0.106	−0.219
	(0.538)	(0.660)	(0.507)	(0.509)
Insigma				
Corruption	−0.349**	−0.399**	−0.3439*	
	(0.120)	(0.135)	(0.138)	
Legal Rights		0.047		
		(0.043)		
Asia			0.042	
			(0.294)	
Latin America			−0.267	
			(0.295)	
Constant	−3.199***	−4.447*	−3.233**	−2.751***
	(0.874)	(1.912)	(1.036)	(0.686)
LR χ^2	2.639	1.939	2.220	3.762
Prob > χ^2	0.756	0.858	0.818	0.584
Log likelihood	−124.904	−124.294	−124.037	−129.454

Note: This table reports heteroskedastic ordinal probit regressions (columns 1–3) that test if the levels of Trust in financial statements for medium firms using the IFRS for SMEs Standard (audited) is significantly associated with IFRS mandatory adoption, legal rights, control of corruption and regional dummies. The dependent variable is Trust (*TRUST*) in financial statements. More specifically, this variable reflects seven answers on the survey: (1) what is the level of Trust in financial statements prepared by [medium and small] companies using the IFRS for SMEs Standard (audited) using a scale of 1–7, whereby higher values imply higher levels of Trust. Detailed definitions of the dependent and independent variables can be found in Tables 3 and 4. Columns (1), (2) and (3) present results based on the level of Trust bankers have in financial statements of medium-sized firms. Column (4) is a copy of model (2) in Table 7 introduced for comparative purposes. The full sample consists of 108 bankers' surveys from ten countries. Standard errors are in parentheses. Two-tailed tests *** significant at 1%; two-tailed tests ** significant at 5%; two-tailed tests * significant at 10%.

which allows the variance to be modelled (using the 'hetoprobit' command in Stata) (Verbeek, 2013), the results do not significantly change in relation to the main regressions provided in Table 7, which increases the confidence in our statistical results. We only observed indications of heteroskedasticity when *TRUST* is the dependent variable, therefore no regressions with *USE* as dependent variable are included in Table 9.

We also ran additional tests to examine whether the results were associated with bankers' characteristics (untabulated results). To control for bankers' characteristics, we have introduced bankers' experience as a control variable in the ordered probit regressions for both Model (1) and
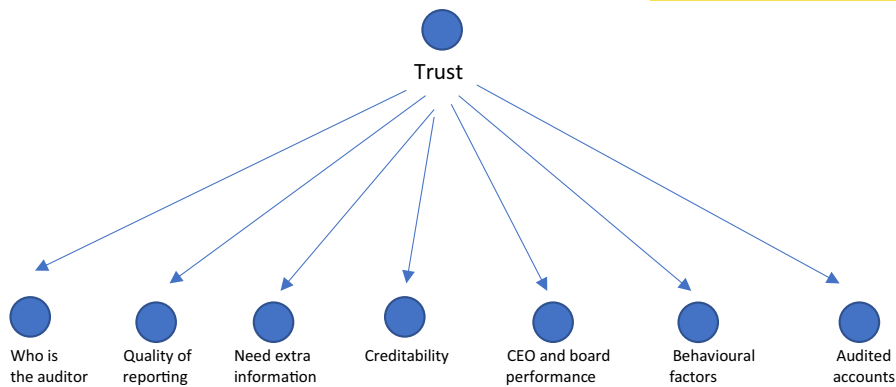
FIGURE 1   How trust is established by bankers [Colour figure can be viewed at wileyonlinelibrary.com]

Model (2), and for the dependent variable *TRUST*, as well as the dependent variable *USE*. As a proxy for bankers' experience, we have used the number of years a banker has been in service. The variable bankers' experience was never significant. This allows us to state that our results are not associated with individual bankers' characteristics.

5.3 | Results of the qualitative analyses

The results of these qualitative analyses provide more insight into the steps bankers take in their credit granting processes and allow us to discuss the research propositions RP4 and RP5. First, to understand what elements are related to the establishment of bankers' Trust, a hierarchical analysis of the coded data is undertaken to find out which nodes (other important constructs) are most related with the code Trust. Figure 1 presents this hierarchical relationship.

Figure 1 illustrates that Trust in the accounting numbers for loan decisions, in the mind of bankers, is related to much more than only the type of accounting standards applied. We observe two relationships between the code Trust and nodes related to auditing: 'are accounts audited?' and 'who is the auditor of the audited accounts?'. Trust is also related to the node 'quality of reporting'. This node refers to the type of accounting standards a firm uses to prepare its financial statements and to the quality of the balance sheet, and profit and loss information provided with these standards (a few single line items or more extensive), as well as the quality of the notes to the accounts, and the quality of the voluntarily disclosed information. 'Behavioural factors' relate to the stewardship attitude of the owners, the directors and the managers, and their knowledge of their business. Together with the node 'CEO and board performance', behavioural factors refer to the quality of the firm's internal governance. Another important element in a credit granting process is the 'credibility' of the project or the business for which a loan is demanded. The node 'need additional information' refers to information that bankers collect from parties outside the company on the credibility of the business or project included in the loan application or the viability of the firm.

To find out if there is a difference in importance with these nodes in the bankers' credit decision processes, we analysed which of these nodes was mentioned first, second, third and fourth in the interviews and how much each banker elaborated on each node. In addition, we were interested in detecting whether we could observe country differences in the sequence of importance of these nodes in bankers' loan decisions. Table 10 presents, per country, the four most important nodes revealed in the interviews with bankers from the ten different countries

TABLE 10 The importance of determinants that help bankers to establish Trust in financial statement information in the different countries

Country	First	Second	Third	Fourth
Argentina	Audited Accounts	Quality of reporting	Who is the auditor?	Credibility
Brazil	Audited Accounts	Who is the auditor?	Quality of reporting	Behavioural factors
Chile	Audited Accounts	Quality of reporting	Who is the auditor?	Credibility
Fiji	Audited Accounts	Who is the auditor?	Information from external parties	Quality of reporting
Hong Kong	Audited Accounts	Quality of reporting	Information from external parties	Credibility
Malaysia	Audited Accounts	Quality of reporting	Information from external parties	Who is the auditor?
the Philippines	Audited Accounts	Who is the auditor?	Information from external parties	Quality of reporting
Nigeria	Who is the auditor?	Audited accounts	Behavioural factors	Information from external parties
South Africa	Who is the auditor?	Audited accounts	Quality of reporting	Behavioural factors
Zimbabwe	Who is the auditor?	Behavioural factors	CFO and board performance	Audited accounts

Source: Author interviews and survey.

(from when they explained their steps in a credit-granting decision process). It also reveals differences across countries and similarities within regions.

5.3.1 | The role of audit in bankers' Trust and Use of financial statement information in credit decisions

The qualitative results in Table 10 indicate that in Latin America and Asia-Pacific the fact that financial statements have been audited is a key element in the establishment of Trust and Use of financial statement numbers for credit decisions. However, in Africa most important is the node 'who audited the accounts' instead of the fact that the financial statements are audited. In Africa, bankers use their own internal tests where they rank the auditors based on their experience, reputation, types of clients and quality of audits done in the past. Based on this ranking, they decide how much reliance they can place on the audited financial statements presented by firms in a credit application:

> [W]e have big four in Nigeria, we have local auditors, and tier 3 auditors … So depending on the criteria of the auditor, credibility in the financials of the company is established. … we carry out an investigation of [audit firms]. We check the audit firms, the quality of the experience that the partners in the audit firm, the quality of the auditor of the company.
>
> (Nigeria_1)

> What I'm looking for as a lender here is … who's the auditor, it's less for me about the standards that are being used, [when we] see names that we just simply don't know then the credibility for us declines. … when we get to unlisted companies, small corporates… you start to see auditors that you don't know, you ask yourself the question are they friends or family and to what extent is there credibility in these financials?
>
> (South Africa_6)

Bankers in all three regions did not place high levels of Trust, and at times no Trust, in audits done by small auditors. According to bankers, the lower quality of the audits performed by small audit firms results from the fact that small audit firms are more vulnerable and more likely to agree to what the company is asking them to do as they do not want to lose their client:

> Definitely, the top 4 auditors make a great impact on our assessment … the small type auditors, who are probably anonymous … in our country, they usually help the company to minimise taxes in an illegal way.
>
> (the Philippines_11)

> [T]here are many [small auditors] who show what the customer wants to show. Then the numbers would be diluted; they lower the numbers to pay less taxes.
>
> (Chile_4)

> I think this one [quality of reporting] … depends on which accountants they are using. If they're using some of the good ones apart from the Big Four, we have a lot of accounting firms in the country which are [good], so they would comply with requirements. But if they're using small scale accountants, then probably the quality of reporting is not quite good.
>
> (Fiji_7)

> Whereas with your smaller companies, especially if you go a lot more rural, you tend to find that they are using small, small [audit] companies … you can actually tell a smaller [audit] company to do financials in a certain way that would suit your purposes. And if that small [audit] company says 'no', then they lose you as a client. So they almost want to keep you as a client at all costs.
>
> (South Africa_4)

These quotes explain why bankers use less financial statement information for lending decisions in the case of small companies, irrespective of the financial reporting standard applied and also indicate that when small companies provide audited financial statements, they are often signed by a low-quality auditor. This confirms the observation of Vanstraelen and Schelleman (2017) who mentioned that private firms, even when audit is mandatory, are always able to find low-quality auditors. So this accounting quality, in combination with low-quality audits of small firms, do not allow bankers to establish Trust in the financial statement numbers of small firms and, as a result, these numbers are not used in loan decisions. This observation is in line with the univariate results found in relation to small firms in Table 6. Both the quantitative univariate results and the qualitative results allow us to confirm RP4. Trust and Use of financial statement information is higher when financial statements are audited, especially by a high-quality auditor.

5.3.2 | The role of information collected outside the financial statements in the credit-granting process

If we look at 'information outside the financial statements', we find the following nodes in Figure 1: 'need additional information', 'CEO and board performance', 'Behavioural factors' and 'Credibility'. In the Asia-Pacific countries, Table 10 reveals that bankers rank 'Information from external parties' as the third most important source of information in credit decisions. This is higher than the importance bankers in Latin America and, even more so, in Africa, attach to this type of information in loan decisions. Third parties include: tax authorities, credit rating agencies, other banks and the country's central bank. From the interview data we learn that for the data of third parties to be considered as an element in the credit-granting decision process, these third parties need to have a reliable reputation and be well governed.

For example, all the bankers in Fiji that were interviewed explained that with the recent tax reforms, the tax authority had established strict regulation around tax compliance and put in place mechanisms to directly track sales of companies, in order to avoid companies understating their turnover.

> This stricter regulation has significantly improved the reporting for tax purposes as previously many companies would understate their sales to pay less tax.
>
> (Fiji_3)

One of the bankers in Brazil explained that the quality of unaudited financial statements they receive is very low and often these statements have been signed by the business owner or the company's accountant. To establish some Trust in the numbers, the banks in Brazil normally:

> … use the central bank's risk report, and the 'SERASA report' which is a report of a credit bureau which exposes the company's situation before different suppliers and records if there is any type of delay in payment … bankers request the income tax statement to try to comfort the balance sheet information. There, we often find a lot of discrepancy in the presentation of the information. So, sometimes you have rejection, and you also end up losing the customer because you can't trust

the financial statement… That is why Brazil is also a very aggressive market in collateral, in the additional guarantees that companies are asked to take out loans.

(Brazil_1)

We notice that information from third parties is used as triangulation of the information presented by companies to bankers, but only when these third parties are considered well governed. In countries where tax authorities are considered to be effective, there is a spillover effect to Trust in the accounting information when this accounting information serves as input to the tax system. The weaker governance and effectiveness of these third parties in Africa probably explains why this type of information is less used in that region. This observation explains why, in Table 10, we find that behavioural information on owners, directors and managers is more important in the credit-granting process in African countries than in the other two regions. We observe that bankers in countries with weaker formal institutions and conflicting informal institutions put more importance on the information about the behaviour of owners, directors or managers (to establish Trust in the financial information of a company), than in countries with stronger formal institutions. Most bankers in countries like Nigeria, Zimbabwe, Brazil and Argentina undertake a comprehensive analysis of the board of directors so that they know who the directors are, what their level of experience is, their reputation in the market, their style of working and approach to taking risks. In Nigeria, for example:

> The quality of disclosure depends on the quality of the board: premium board or mainboard … Disclosures produced by companies that have premium board, the quality of these disclosure[s] are top-notch. Other board type companies produce lower quality disclosures.
>
> (Nigeria_2)

> … knowing the Board, we [mean] the character of [directors] and how [they] proceed in different situations, is important. For example, if a company sold part of its assets in order to meet its obligations … and if that was part of the decisions the company's Board made, that is a problem. What we consider here is the way that [directors] acted.
>
> (Argentina_1)

Banks often assess how knowledgeable the owner is about the accounts of the business, especially in the case of small firms. One of the bankers explained that:

> If the owner knows how the accounts have been put together it is a very good sign and it shows the owner's level of commitment to the business. There are many times when owners have no idea of what is in their financial statement and they refer all questions to their auditors.
>
> (South Africa_6)

Along these lines, bankers in all countries in our sample (except Fiji and Hong Kong) referred to the importance of collecting information on the board of directors and managers:

> When assessing a company, qualitative information is also important such as the background of the company's board of directors and the promises made by the board in the past. It provides me with a better understanding on the creditability of the management team and their interest towards creating continuous shareholders' benefits.
>
> (Malaysia_3)

> Yes, I think it does matter because the [board] … takes a lot of decisions for the business. You know that there are [board of directors] who are aggressive, and this is common information in the industry. For example, this director likes to borrow a lot to engage in new projects. Be aware of that! Also, you know directors who are conservative in their businesses. So, the lending decision can be affected by this type of information.
>
> (Philippines_11)

In all three regions, most bankers meet the board of directors and visit the business to understand their need for a loan and to understand more about how the company will use the funds to generate value for their business, and whether there is a backup plan for the company if the project included in the loan proposal fails. They explained that this information about future projections is also important and adds to their confidence about the business. This information gathering is included in the node 'credibility'.

Looking at RP5, we notice a link between the type of additional information collected, its importance and the institutions in a country. In countries with weak formal institutions and conflicting informal institutions, information on the stewardship of owners, directors and managers is a more important element in the loan decision process than in countries with stronger formal institutions and market supportive informal institutions. In countries with stronger formal institutions, information provided on the company by third parties (such as tax authorities and credit agencies) is more important in the loan decision process than information on the internal firm governance quality. Only when external institutions are weak does internal governance information become important. With this finding, we confirm the observation of Luo and Chung (2013) that the availability and cost of information is influenced by both external institutions and internal governance quality, the latter becoming more important when external institutions are weaker.

5.4 | Qualitative results on the introduction of the IFRS for SMEs Standard in a country

In 2009, the IFRS for SMEs Standard was issued by the IASB to accommodate the needs of private firms. In the interviews, we asked bankers whether or not they thought that the introduction of the IFRS for SMEs Standard, as a reporting framework for private firms, enhanced the quality of the financial statement information in their country. Bankers with more than ten years' experience were able to comment on the influence of the introduction of the IFRS for SMEs Standard on the quality of accounting information available in their country. The qualitative analysis shows hierarchical relations between the codes 'the IFRS for SMEs Standard' and three frequently occurring nodes, 'improvement', 'challenges faced' and 'no change'. These hierarchical relationships are presented in Figure 2 together with the countries in which these nodes occurred most.

5.4.1 | Improvement in quality of reporting

In a number of countries, bankers saw an improvement in the quality of reporting by private firms after the introduction of the IFRS for SMEs Standard. For example, bankers from South Africa, Nigeria, Malaysia and Fiji reported that companies using the IFRS for SMEs Standard provided more information than before the introduction of the standard. Under old local GAAP, companies would provide only a basic profit and loss statement and a balance sheet, without any disclosure notes, and this made it difficult for bankers to understand how
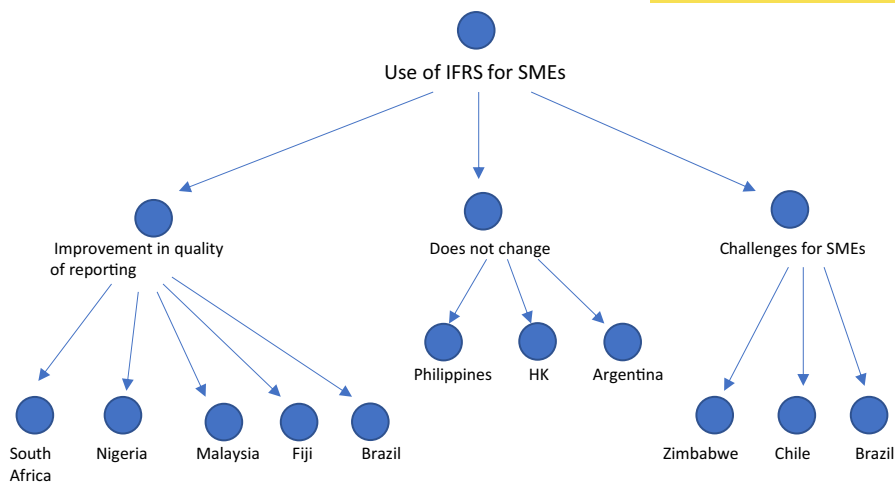
FIGURE 2 Banker's perception of the adoption of IFRS for SMEs [Colour figure can be viewed at wileyonlinelibrary.com]

the figures were calculated. The introduction of the IFRS for SMEs Standard has also brought more comparability of accounting numbers of private firms:

> I actually do think that IFRS [for SMEs] has brought a little more structure.
>
> (South Africa_4)

> Financial statements based on IFRS for SMEs provide an improvement as it includes some disclosure notes and accounts for items that were previously not recorded.
>
> (Nigeria_4)

> It has surely increased the quality as we see more disclosures than just a profit and loss account and balance sheet that was produced before.
>
> (South Africa_7)

> Financial statements prepared with IFRS for SMEs have great transparency and better quality of information when compared to Brazilian GAAP.
>
> (Brazil_6)

> From the user's perspective, the IFRS for SMEs is a welcomed standard as compliance with IFRS for SMEs brings in comparability. Using IFRS for SMEs make financial statements better.
>
> (Malaysia_5)

> Especially in the last few years we are seeing a trend of improvement in the financial statements the companies are able to give us.
>
> (Fiji_4)

> The interpretation of the information is much easier and more direct, being comparable with the accounting data of companies from other countries.
>
> (Chile_11)

5.4.2 | Challenges involved in the adoption of the IFRS for SMEs Standard

Bankers in a few countries like Zimbabwe, Chile and Brazil highlighted several challenges related to the adoption of the IFRS for SMEs Standard. One of the immediate challenges noted in Zimbabwe was that private firm reporting was considered to be unregulated (Zimbabwe_3 and 10). In addition to that, when the IFRS for SMEs Standard was adopted, there was not enough outreach done by the regulators in the country to educate businesses about this new standard and to encourage them to adopt it:

> My understanding is that the regulation of IFRS for SMEs is probably not as regulated as one [would] want. So, people do not see this regulation right, people do not give it as most seriousness as they should be doing it. There are no rules for [non-listed companies] that is what probably it is … they do what they want, when they want. … You be shocked with some of them … the accountants will tell you that there is a range of accounts, one for the bank, one for … shareholders, and one for the taxmen. So you can imagine.
>
> (Zimbabwe_2)

Consequently, the compliance with the IFRS for SMEs Standard is quite low in Zimbabwe. While some bankers in Brazil were of the view that the cost of preparing financial statements in accordance with the IFRS for SMEs Standard is higher than the benefits gained with respect to accessing credit, others have a more positive view:

> As the flow of information about small and medium-sized firms is, in general, incomplete, fragmentary and less transparent when compared to large corporations, the lack of secure information is one of the causes for SMEs to have more difficulties in accessing credit. The robust set of IFRS rules [IFRS for SMEs] applied to SMEs meet this demand for transparent and detailed information in this segment. In addition, I believe that the costs of preparing information along IFRS for SMEs are less than the benefits gained from accessing credit. However, it is true that, in Brazil, the level of knowledge of professionals on the subject is still incipient, which makes it an obstacle in the process of migration of the accounting standard and in the process of analysis by the Financial Institutions.
>
> (Brazil_8)

We can conclude this section by stating that in Hong Kong and the Philippines, not much change was observed after the introduction of the IFRS for SMEs Standard into their national accounting standards.

6 | DISCUSSION AND CONCLUSION

The adoption of IFRS Standards as a financial reporting framework for private firms generated academic calls for research (De George et al., 2016; Florou et al., 2017; Gassen, 2017) on whether financial statement information based on IFRS Standards is useful for creditors. In emerging and developing countries, this adoption of IFRS Standards as the reporting framework for private firms was stimulated by the World Bank and the IMF, who often include the adoption of IFRS Standards as the reporting framework in the country in their lending conditions for countries applying for financial aid. According to these international financial institutions, the adoption of IFRS Standards as the reporting framework could result in transparent, high-quality and comparable financial reporting that would lead to Trust in the

financial situation of the companies by investors and lenders (World Bank, 2021). Therefore, in this study we focus on whether IFRS Standards-based financial statement information is more trusted and used in the context of private firm lending than financial information based on local (non-IFRS Standards-based) GAAP. Following this widespread adoption of IFRS Standards (both full IFRS Standards and the IFRS for SMEs Standard) for private firm reporting across the globe, we study this research question using interview data collected from 108 bankers across ten countries. We adopt an institutional theory lens and analyse the interview data in a quantitative and qualitative way. This institutional theory lens allows us to investigate whether country characteristics are associated with the Trust in, and Use of financial statement information prepared with IFRS Standards in loan decisions.

Responding to our key research question – whether IFRS Standards serve as a trusted language for creditors – our results confirm that IFRS Standards-based financial statement information is more trusted and used than local (non-IFRS Standards-based) GAAP information in the countries included in this study. In addition, the results of this study illustrate that the levels of Trust and Use of IFRS Standards-based financial information (in the context of private firm lending) are significantly associated with a country's institutional characteristics and with the type of country adoption (required or permitted) of the IFRS Standards as the reporting framework for private firms.

With a country's formal institutions, we do not find a significant relationship between *TRUST* and *USE*, and a country's *RULE OF LAW*; a variable widely used in accounting studies, and which captures the extent to which agents have confidence and abide by the rules of society, and which is a proxy for the general quality of enforcement in a country. However, when we include the variable *LEGAL RIGHTS*, which is a proxy for a country's formal institutions (concerning the credit market of that country), we do find a significant negative relationship between the *USE* of IFRS Standards-based information in loan decisions and the strength of a country's legal rights index. These results indicate that when bankruptcy and collateral laws are designed to protect creditors and facilitate the credit market, financial statement information prepared with IFRS Standards is used less by bankers in loan decisions compared to countries where the bankruptcy and collateral laws are not designed in a way to protect creditors. In the latter type of country, audited IFRS Standards-based information is significantly more used by bankers in loan decisions. These results illustrate that IFRS Standards-based financial statement information serves as a 'trusted' language in countries with weaker legal rights protecting creditors.

Our results further confirm that the Use of IFRS Standards-based information is significantly less in countries characterised by conflicting informal institutions. The informal economy, or the existence of the black market, was mentioned in a number of Latin American and African countries as an important factor that hinders Trust and Use of financial statement information by bankers in lending decisions. In these countries with conflicting informal institutions, information on the stewardship attitude of owners, directors, managers and the auditor (if the financial statements had been audited) becomes key information in a loan decision process. The observed significance levels of the variables representing the formal and informal institutions in a country confirm that the characteristics of a country's institutions are associated with difference in the Trust and Use of IFRS Standards-based information across countries in lending decisions involving private firms. So with this finding we contribute to the academic literature and are able to confirm the assumption of De George et al. (2016) that institutional characteristics also play a role on the benefits of IFRS Standards adoption in the credit market for private firms. The results further reveal that when the adoption of IFRS Standards in a country is driven by market incentives, IFRS-based financial information is more used for lending decisions than in countries where the adoption of IFRS Standards was donor-driven. Moreover, the Trust and Use of IFRS Standards-based information increases when the IFRS Standards are adopted as a mandatory reporting framework for private firms in the country.

The results of the quantitative and qualitative analyses allow us to shed more light on the question raised by Hope and Vyas (2017): what do bankers consider to be useful and high-quality reporting in the context of lending decisions? A general result, irrespective of the standards applied by firms, is that the use of financial statement information by bankers decreases when financial statements are not audited and when companies are small. The quantitative results provide evidence that audited IFRS Standards-based numbers are always more trusted and used than non-audited accounting numbers. Moreover, in countries with weak formal institutions and conflicting informal institutions, the reputation and the quality of the person or the team that performed the audit is key for the bankers' perception of the quality of the audit. In countries with weaker institutions, importance is only attached to audited information in loan decisions if the auditor is perceived as a high-quality auditor. Quite often, the financial statements of small companies aren't audited very well and this leads bankers to use information outside of the financial statements to make loan decisions. With respect to the availability and reliability of other information sources outside of the financial statements, a country's institutions can play a role. When tax authorities are considered efficient and able to enforce reliable tax data, this can serve as a substitute for less trusted financial statement information. Therefore, this study also shows that to improve transparency of company information in a country to enhance the market for credit, reforms in the area of taxation are a supportive mechanism to stimulate an additional source of trusted information for credit decisions.

In the perception of the bankers interviewed, the introduction of the IFRS for SMEs Standard has led to an improvement in the quality of financial information. Bankers appreciate the more extensive disclosures that are provided by companies when they switch from their local GAAP to the IFRS for SMEs Standard. Related to the second comprehensive review of IFRS for SMEs (recently undertaken by the IASB), this result shows that disclosures are used in lending decisions and high-quality disclosures help to establish Trust in financial statement numbers. However, in countries with conflicting informal institutions, the benefits of the adoption of the IFRS for SMEs Standard were not yet realised. In all countries where the IFRS for SMEs Standard is permitted or required for private firm reporting, companies can also choose to apply full IFRS Standards. Our results show that financial information based on full IFRS Standards is more trusted by bankers than financial information prepared with the IFRS for SMEs Standard for credit decisions.

Therefore, we provide evidence that IFRS Standards-based information is relevant and used in the context of credit decisions for private firms, especially in the context of large and medium-sized private firms. In addition, the results of this study show to international financial institutions that reforms in the area of auditing and (financial) education are an additional important mechanism to enhance the functioning of the credit market in a country.

Besides its contributions, this study also has limitations, of which a number of them provide avenues for future research. Given the nature of our research question, we had to collect data through interviews. Although we took several measures to ensure that our collected interview data are credible and reliable (interviewing only knowledgeable experts and using triangulation), our study is also subject to the limitations of interview research. In our study, we focused mostly on the use of accounting numbers by bankers in emerging and developing economies. Extending the research to higher income countries might provide more worldwide insights into bankers' attitudes towards IFRS accounting numbers of private firms. In countries in which IFRS Standards are translated into national GAAP and are referred to as local GAAP, bankers often did not distinguish explicitly between IFRS Standards and local GAAP; this is an element that complicated the interpretation of the data. By undertaking additional analyses on bankers' levels of Trust and Use of financial statement information based on local GAAP (including IFRS Standards-based local GAAP and non-IFRS Standards-based local GAAP), we hope to single out the Trust and Use of IFRS Standards-based accounting numbers.

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APPENDIX I

COUNTRY ADOPTION OF IFRS

1 = IFRS only possibility 0 = different possibilities	Large firm	Medium-sized firms	Small firms
Argentina	IFRS/IFRS for SMEs/ local GAAP All permitted – value 0	IFRS/IFRS for SMEs/ local GAAP All permitted – value 0	IFRS/IFRS for SME/local GAAP All permitted – value 0
Brazil	IFRS/IFRS for SMEs required – value 1	IFRS/IFRS for SMEs required – value 1	Choice between IFRS for SMEs or simplified accounts – value 0
Chile	IFRS/ IFRS for SMEs required – value 1	IFRS/IFRS for SMEs required – value 1	IFRS/IFRS for SMEs required – value 1
Fiji	IFRS/ IFRS for SMEs required – value 1	IFRS/ IFRS for SMEs required – value 1	IFRS/ IFRS for SMEs required – value 1
Hong Kong	IFRS/ IFRS for SMEs required – value 1	IFRS/ IFRS for SMEs/ HK- SME reporting framework – value 0	IFRS/ IFRS for SMEs/ HK- SME reporting framework – value 0
Malaysia	Malaysian standards equal to IFRS/IFRS for SMEs = required – value 1	Malaysian standards equal to IFRS = required – value 1	Malaysian standards equal to IFRS = required – value 1

1 = IFRS only possibility 0 = different possibilities	Large firm	Medium-sized firms	Small firms
Nigeria	IFRS/ IFRS for SMEs required – value 1	IFRS for SMEs or SME entity guidelines on accounting level 3 issued by UN – value 0	IFRS for SMEs or SME entity guidelines on accounting level 3 issued by UN – value 0
the Philippines	Philippines' standards equal to IFRS/IFRS for SMEs – value 1	Philippines' standards equal to IFRS – value 1	IFRS framework (Philippines' standards)/local GAAP or tax statements – value 0
South Africa	IFRS/IFRS for SMEs required – value 1	IFRS standard or if score of public interest below 300 – own standards – value 0	IFRS standard or score of public interest below 300 – own standards – value 0
Zimbabwe	IFRS/ IFRS for SMEs required – value 1	IFRS/ IFRS for SMEs required – value 1	IFRS/ IFRS for SMEs required – value 1

Source: (IFRS Foundation, 2019) – https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction.

APPENDIX II

SURVEY QUESTIONS USED IN THE DEVELOPMENT OF THIS STUDY

1. What is your role in the organisation in which you are working? What kind of decisions do you take (e.g., lending decisions, credit approval, and investment in the equity of a company)?

2. For these decisions (lending, credit approval, equity investment), what kind of information do you use? (e.g., financial information taken from the financial statements, financial information disclosed outside the financial statements, industry information, non-financial information disclosed by the company, e.g. CSR information, other disclosures). How important are these different types of information with respect to your decision-making? Or do you look at historical information about the company and relationships with the owners of the company?

3. For which of the listed is financial statement information the most important source of data for decision-making: e.g., approval of mid-term and long-term loans, approval of short-term credit, investment in equity.

4. Do you actually use the information embedded in the financial statements of companies in your decision-making (granting loans, other credit decisions (determination of collateral), investment in equity capital) in the situations below (take into account the accounting standards used to prepare the financial statements). Please do consider as well whether the financial statements are audited or not audited. Please select one 'Audited' and one 'Unaudited' option per row in this question.

	Not at all	To some extent but other information is more important	To a large extent, it is of equal importance to other information	To a very large extent, it is the most important source of information	Not applicable
Listed companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Listed companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed large companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed large companies – IFRS for SMEs	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed large companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed medium-sized companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed medium-sized companies – IFRS for SMEs	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed medium-sized companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed small companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed small companies – IFRS for SMEs	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed small companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited

5. What are the main drivers that make you use financial statement information and what are the main drivers that are responsible for not using financial statement information in your decision-making?

6. How important are financial figures provided in the following statements for your decision-making process: Profit and Loss, Balance sheet, Cash flow statements? Rate the importance from 1 (not very important) to 7 (extremely important).

7. How important is information provided in the disclosure notes of the financial statements for your decision-making process? Rate the importance from 1 (not very important) to 7 (extremely important).

8. How important is information disclosed on a voluntary basis outside the financial statement for your decision-making process? Rate the importance from 1 (not very important) to 7 (extremely important).

9. Do you trust the financial statements prepared by the following companies? Please select one 'Audited' and one 'Unaudited' option per row in this question.

| | Strongly disagree | | | | | | Strongly agree | Not applicable |
	1	2	3	4	5	6	7	
Listed companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
List companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed large companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed large companies – IFRS for SMEs	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed large companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed medium-sized companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed medium-sized companies – IFRS for SMEs	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed medium-sized companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed small companies – full IFRS	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed small companies – IFRS for SMEs	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited
Non-listed small companies – local GAAP	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited	□Audited □Unaudited

10. If local GAAP has been replaced by the IFRS for SMEs Standard in your country or when both standards are allowed for the preparation of financial statements, to what extent do you think financial statements prepared using IFRS for SMEs provides better quality information for non-listed companies in comparison to local GAAP? Consider large, medium-sized and small companies separately in your answer. Mention for each of the three categories if you agree with this statement using 1 for strongly disagree to 7 for very strongly agree. Please explain your choice above.

11. Please provide any additional comments (if any) on the quality of financial reporting of listed and non-listed companies in your jurisdiction.