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Firms' disclosure compliance with IASB's Management Commentary framework: an empirical investigation[1]

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ABSTRACT: (FIRMS' DISCLOSURE COMPLIANCE WITH IASB'S MANAGEMENT COMMENTARY FRAMEWORK: AN EMPIRICAL INVESTIGATION). *The continuous demand for enhanced financial reporting has highlighted the decline of the usefulness of traditional financial statements in satisfying the informational needs and requirements of users. Despite there being several points of view, many proposals revolve around the increase of narrative disclosure accompanying financial statements. It is apparent that the regulatory attention regarding narrative reporting has mainly focused on the Management Commentary (MC) report. As a result, the accounting standard setters have promoted different approaches to improve the comparability and usefulness of the MC among the firms. In December 2010, the IASB completed the project on the MC disclosure framework, through the publishing of a non-binding IFRS practice statement (IFRSps).*

The aim of this study is to analyze the information conveyed by the MC report for a sample of firms listed on the Italian Stock Exchange at the end of 2010. More specifically, we investigated the determinants affecting the extent of firms disclosure compliance with the IASB's MC voluntary guidelines, reported in the IFRSps, soon after its implementation. To the best of our knowledge, this is the first empirical study which examines the explanatory factors affecting the extent of voluntary disclosure convergence in relation to IFRSps, with reference to Italy.

To analyze the informational content of each MC report, we created an index of disclosure compliance using a self-constructed checklist designed on the IASB's MC guidelines. To assess the relationship between the index of disclosure compliance and the firm characteristics, we used the regression analysis.

Consistent with previous accounting studies, our results suggest that firm size and ownership diffusion are positively related to the extent of disclosure compliance with IASB's MC guidelines. On the other hand, the leverage and profitability were found to be unrelated to the index of disclosure compliance. The results also show that the level of disclosure compliance to the IASB's MC guidance is low, ranging from 10% to 76%, averaging 39%. This means that despite the continued demand for better comparability in financial reporting practices, in Italy a large number of firms do not seem to converge towards a single set of standards for both the narrative and numerical-financial disclosure.

Keywords: *Management Commentary, Narrative Disclosure, IAS/IFRS, financial reporting*

1. Introduction

Over the last decades, the financial reporting model has long been debated. Academics and accounting policymakers have emphasized the importance of financial reporting quality, especially after several corporate scandals (DONOHER et al., 2007), in ensuring efficiency and transparency in capital markets. (DIAMOND and VERRECCHIA, 1991; HEALY and PALEPU, 2001; VERRECCHIA, 2001; ASB, 2009; CICA, 2009). The continuous request for improved corporate disclosure has highlighted the decline of the usefulness of traditional financial statements in satisfying investors' information needs (LEV and ZAROWIN, 1999; ROBB et al., 2001). Despite there being several points of view, many

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proposals revolve around the narrative disclosures accompanying financial statements (BEATTIE et al., 2008).

Recommendations from both academics (BEATTIE et al., 2004; MERKL-DAVIES and BRENNAN, 2007; BERETTA and BOZZOLAN, 2008) and accounting-professional policymakers alike (ICAEW, 1999; IASB, 2010; CICA, 2009) have placed pressure on asserting an increase of narrative disclosures provided in the financial reporting.

SHI YUN SEAH and TARC (2006) outline that the narrative sections of financial reporting, such as the management commentary (MC), are all becoming an important tool to enable firms to communicate with investors in capital markets.

MERKL-DAVIES and BRENNAN (2007) point out that the corporate narrative documents provide the opportunity to reduce the information asymmetries between managers and shareholders by presenting more detailed explanations.

BEATTIE et al. (2004 and 2008) emphasize the role of narrative disclosure in achieving the desired step-change in the quality of corporate reporting.

LI (2010) observes that the narrative information appears to be relevant for understanding the numerical financial data and for assessing corporate decision-making.

Globally, accounting policymakers and securities regulators have taken into account in their working agendas, narrative disclosure as being a relevant topic.

In many statements, they have emphasized the role of the MC as being an important component of attaining a high quality of financial reporting.

The USA Securities and Exchange Commission (SEC) states:

"*We believe that management's most important responsibilities include communicating with investors in a clear and straightforward manner. MD&A is a critical component of that communication. The Commission has long sought through its rules, enforcement actions and interpretive processes to elicit MD&A that not only meets technical disclosure requirements but generally is informative and transparent.*" (SEC, guidance)

The Canadian Institute of Chartered Accountants (CICA) points out that:

"It has long been recognized that financial statements alone are not sufficient to communicate overall performance of an entity. Senior management, boards of directors and investors now turn to a broad array of information in order to explain and evaluate the overall performance and prospects of an organization. In particular, Management's Discussion and Analysis (MD&A) has become a core element of the communication package for external reporting purposes". (CICA 2009, MD&A guidance, p.7)

In its recent IFRS practice statement (IFRSps) on MC, the International Accounting Standards Board (IASB) recognized the usefulness of the report being a tool used by firms to facilitate communication with investors. Indeed, the IASB observes:

"For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements." (IASB, IFRSps, p.5).

Our study investigates the information content conveyed through MC reporting by Italian firms.

We focused on the determinants of the extent of disclosure compliance with the IASB's MC voluntary guidelines reported in the IFRSps.

On the basis of IASB's MC guidelines, we developed a self-constructed disclosure checklist. The checklist was applied to a sample of 65 non-financial firms listed on the Italian Stock Exchange at the end of 2010. To assess the determinants of the extent of voluntary disclosure compliance, we adopted a regression analysis.

The decision to focus on the MC disclosures takes place for several reasons. First, the narrative disclosure is viewed as a relevant area for accounting research to test different economic hypothesis (Li, 2010). Second, the release of IFRSps represents a very useful opportunity to investigate the firm's convergence choices towards a single set of international standards for narrative reporting. Finally, the lack of Italian detailed requirements for preparing the MC report appears to be of interest in understanding the impact of the implementation of IASB's MC guidelines with reference to Italy.

Our main findings indicate that firm size and ownership diffusion are positively related to the extent of voluntary disclosure compliance with IFRSps.

Our study contributes to the previous empirical literature through an investigation of the narrative disclosure reported in the MC section of financial reporting. To the best of our knowledge, this is the first empirical study that examines the explanatory factors affecting the extent of voluntary disclosure convergence to IASB's MC guidelines with reference to Italy.

The results of our study may also be of interest to accounting policymakers and securities regulators, in order to understand the firm's disclosure practices and to improve the transparency of financial reporting.

The remainder of this paper is organized as follows: the next section analyses the regulatory background for preparing MC in Italy. Section 3 reviews the existing literature and develops the hypotheses. Section 4 describes the research design and methodology. Section 5 presents the results and section 6 provides the conclusions of the study.

2. Regulatory background

In Italy the financial reporting model is mainly affected by law (NOBES and PARKER, 2010). Thus, the national accounting standard setter (Organismo Italiano di Contabilità – OIC) releases accounting standards in compliance with law requirements and/or recommendations (SANNINO, 1999).

Over the last few years, there have been crucial changes in the Italian financial reporting model due to the innovations, global competition and in the adoption of several European Directives and Regulations (POTITO and TARTAGLIA-POLCINI 2010; MACCHIONI, 2010). Notably, since 2005, all firms listed on the Italian Stock Exchange have been required to prepare their consolidated financial statements in accordance with IAS/IFRS principles.

On the other hand, article 2428 of the Civil Code requires all firms, both listed and unlisted, to prepare the MC - called *Relazione sulla Gestione*, as a part of their financial reporting.

Academics agree that the MC is a narrative and supplementary report, whose purpose is to assist users in better assessing of the firm's performance and prospects (Bagnoli and Vedovato, 2004; Bruni, 2007; Viganò, 2008; Caldarelli, 2010).

Article 2428 of the Civil Code has been modified by different European Directives (Directive n. 660/1978, Directive n. 349/1983 and Directive n. 51/2003). The European Directive n. 51/2003 adopted in Italy through the legislative decree 32/2007 has extended the content of MC, requiring a new range of information, i.e. risks, financial and non-financial performance indicators and the disclosure on the environment and employees.

The new disclosure requirements have become effective for all firms since fiscal year 2008.

The new version of article 2428 requires firms to provide a description of the following main topics:

1. *regulatory and economic environments in which the firm or its subsidiaries operate;*
2. *review of operations;*
3. *revenues and capital expenditures;*
4. *research and development activities;*
5. *inter-firm relationships;*
6. *the number and nominal value of both own shares and parent firms ones;*
7. *the number and nominal value of own shares, as well as shares of subsidiaries firms bought or transferred in the fiscal year;*
8. *the significant events occurring after the fiscal year-end closing;*
9. *corporate governance structure;*
10. *financial instruments;*
11. *the list of the sub-offices of the firm;*
12. *outlook information;*
13. *financial and non-financial performance indicators;*
14. *risks and uncertainties;*
15. *environment and employee information.*

Despite the above mentioned initiatives, Italian preparers still have discretion to choose the amount and the type of information to report in the MC. Therefore, in the absence of detailed compilation procedures, the information content of the Italian MC can be considered mostly voluntary (QUAGLI, 2004; GIUNTA and PISANI, 2006).

However, additional information is required from listed firms, by the Italian Securities and Exchange Commission (CONSOB). For example, statement nr. 6064293 has a requirement to include in the MC report:

- *reclassified financial statements adopted to evaluate a firm's performance;*
- *the description of atypical or unusual operations generated over the years;*
- *information related to "alternative performance indicators" (for example, EBIT, EBITDA, Net Financial position, CAPEX), which are different from the traditional performance measures.*

In 2009, to improve comparability among Italian firms, the Italian Institute of Accountants (Consiglio Nazionale Dottori Commercialisti ed Esperti Contabili – CNDCEC) issued a voluntary guidance to support the directors in preparing their MC. The guidance provides several recommendations and indications, especially relating to the new set of disclosure which is required by the European Directive n. 51/2003, such as the risks, uncertainties and financial/non-financial performance indicators.

In December 2010, IASB completed the project on MC, through the publishing of non-binding IFRSps. The issuing of the IASB's MC guidelines stems from the aim to improve comparability across all firms which apply IAS/IFRS principles, thereby enhancing the usefulness of financial reporting. Thus, since the fiscal year 2010, IAS/IFRS adopters, could use the same set of standards for narrative reporting as well as

financial statements.

Following comments received and the project team's discussions, IASB defined MC in IFRSps as:

"…*narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives narrative document, included in annual report and integrated with financial statements, whose aim is to present the management's view on the strategies of the company, the financial condition and the financial performance.*" (IASB, IFRSps p.5).

The IFRSps provides an informative framework for the preparers, that can be divided in two main sections:

- *principles, users and qualitative characteristics of MC*;
- *the information content of the MC.*

The principles

The MC disclosure is required to be in line with the following principles:

- *to provide the management's view of the entity's performance, position and progress; and*
- *to supplement and complement information presented in the financial statements.*

According to these principles, the MC should include:

- *forward-looking information;*
- *information with the qualitative characteristics described in the Conceptual Framework for Financial Reporting.*

Despite different opinions, the IASB has also solved the problem relating to MC placement, establishing that this report is within the boundaries of financial reporting and, therefore, its users and qualitative characteristics are driven by the aim of the new conceptual framework for financial reporting.

Users

According to the Conceptual Framework for Financial Reporting, the main users of MC are *actual and potential investors, lenders and creditors.*

Qualitative characteristics

To be aligned with the aims of Conceptual Framework for Financial Reporting, the disclosure provided in the MC should possess the fundamental qualitative characteristics of *relevance* and *faithful representation* and enhancing characteristics, such as *comparability, verifiability, timeliness and understandability.*

Content of the MC

IFRSps does not require a detailed scheme or content for the MC, but indicate the main reporting sections which a functional management report should include.

The five key reporting sections and the relating user needs are explained in the following table.

Table 1- *Content and user needs identified in IFRS practice statement*

Reporting Section	User Needs
A. The nature of the business	*The knowledge of the business in which an entity is engaged and the external environment in which it operates*

B. Management's objectives and its strategies for meeting those objectives	*To assess the strategies adopted by the entity and the likelihood that those strategies will be successful in meeting the management's stated objectives*
C. The entity's most significant resources, risks and relationships	*A basis for determining the resources available to the entity as well as obligations to transfer resources to others; the ability of the entity to generate long-term, sustainable net inflows of resources; and the risks to which those resource-generating activities are exposed, both in the near term and in the long term.*
D. The results of operations and prospects	*The ability to understand whether an entity has delivered results in line with expectations and, implicitly, how well management has understood the entity's market, executed its strategy and managed the entity's resources, risks and relationships.*
E. The critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives	*The ability to focus on the critical performance measures and indicators that management uses to assess and manage the entity's performance against stated objectives and strategies.*

3. Prior research and hypotheses

In academic literature, narrative corporate disclosure has been investigated in various ways. However, at last three different approaches can be identified in order to examine the narrative sections of financial reporting: i) the natural language processing approach (DAVIS and TAMA-SWEET, 2012; LEAVY et al., 2011); ii) modification disclosure score based on algorithm (BROWN and TUCKER, 2011); and iii) disclosure indeces and content analysis (BEATTIE et al., 2004; PRENCIPE, 2004; SHI YUN SEAH and TARC, 2006; BERETTA and BOZZOLAN, 2004 and 2008).

The natural language processing approach

Over the last few years, the natural language processing approach has become highly popular in accounting research. Recent studies have examined the readability aspects (determinants and effects in capital markets) of corporate reports and the managers' choice of optimistic or pessimistic language (tone).

LEAVY et al. (2011), using the Fog index, analyzed the effect of the readability of 10-K filing of a large sample of firms on the behavior of sell-side financial analysts. They found that analysts exert greater effort to cover firms with less readable communication. In addition, they found that the less readable 10-K reports are more informative to investors, but at the same time are associated to greater dispersion, lower accuracy, and higher levels of uncertainty in analyst earnings forecasts.

On the other hand, DAVIS and TAMA-SWEET (2012) analyzed the managers' language tone used in earnings press releases and in the MC report, for a large sample of firms between 1998 and 2003. Their main results provide evidence that managers use lower levels of pessimistic language and higher levels of optimistic language in earnings press releases rather than to the MC report.

Modification disclosure score

Taking a different approach, BROWN and TUCKER (2011) introduced to accounting literature, a methodology to measure year-over-year changes in narrative reporting. They applied to a large sample of firms, a tool of disclosure modification score based on an algorithm used by internet search engines to examine similarities between documents. The results indicate that firms with larger economic changes modify the MC disclosures more than the firms with smaller economic changes. In addition, they found that the MC disclosures score is not associated to the analyst earnings forecast revisions.

Disclosure indeces and content analysis

A large number of studies have examined the determinants and the consequences of narrative disclosure provided by the firms, using the disclosure indeces and content analysis (KRIPPENDORF, 1980; HOOKS and MOON, 1993; BERETTA and BOZZOLAN, 2004; BEATTIE et al., 2004; KOTARI et al., 2009).

Consistent with this strand of literature, our paper aims to investigate the factors affecting Italian firms in extending the voluntary disclosure compliance with IASB's MC framework.

In academic literature, the construction of disclosure indeces is viewed as a way that can assist the researchers to measure the extent (or amount) of disclosure provided in firms annual report documents (MARSTON and SHRIVES, 1991). The selection of items to be included in the index is generally guided by the creation of the checklist based on the mandatory requirements or voluntary guidelines relating to financial reporting content (BEATTIE et al., 2004). To identify the items to be included in the index, researchers have largely used a content analysis technique, especially to analyze narrative information.

Two kinds of disclosure indeces, i.e. weighted and unweighted, have been widely used in accounting studies.

The weighted disclosure index uses a different weight for every item (or group of items), which is representative of the relative importance of each of them (MEEK et al., 1995; SINGHVI and DESAI, 1971; BUZBY, 1975; BOTOSAN, 1997).

The unweighted disclosure index considers all items having the same relevance (COOKE, 1989 and 1992; WALLACE et al., 1994) and its score indicates the percentage of their presence in the examined documents.

The relationship between the extent of corporate disclosure, measured by a disclosure index, and firm characteristics, has been investigated in many empirical accounting studies.

COOKE (1989), using a disclosure index, analyzed the extent of disclosure provided in the annual reports of 90 Swedish firms, listed and unlisted. He found a significant association between the firm's size and the extent of corporate disclosure.

WALLACE et al. (1994) examined the characteristics of the firm that were likely to explain the "comprehensiveness" of the financial disclosure in the annual reports for a sample of 50 Spanish firms. The authors analyzed the corporate disclosure by an index of 16 mandatory disclosure items. The findings provide evidence that the disclosure index, firm size and the listing status, were found to be significantly associated.

PRENCIPE (2004), using two different disclosure indeces, investigated the segment disclosure of 64 firms listed on the Italian Stock Exchange at the end of 1997. The results provide evidence that the correspondence between the segments and legally identifiable sub-groups of firms and the listing status age were noteworthy in relation to the extent of segment disclosure.

Several other characteristics of the firm are pointed out in literature, such as profitability, leverage and ownership structure, in order to explain the reasons for which firms have increased the amount of disclosure (MCKINNON and DALIMUNTHE, 1993; RAFFOURNIER, 1995; AHMED and COURTIS, 1999; HANNIFFA and COOKE, 2002; AJIKYA et al., 2005; GARCIA -MECA and SANCHEZ-BALLESTA, 2010; FITO et al., 2012).

Within the set of studies on narrative disclosure, during the last decades, researchers have increased their efforts on investigating the MC report.

HOOKS and MOON (1993) analyzed the disclosure compliance of MC provided by a sample of USA firms with SEC's rules. They developed a list of 60 items based on the SEC regulation to analyze the compliance of MC with post-FRR 36 disclosure requirements. They found that firms appear to have responded to the FRR 36 issue by increasing their disclosure.

BARRON et al. (1999) investigated the relationships between properties of analysts' earnings forecasts and MD&A quality. The quality of MC was measured by the level of compliance with the SEC's MC standards. They found that high MD&A ratings are associated with less error and less dispersion in analysts' earnings forecasts.

COLE and JONES (2004) analyzed the usefulness of several MC disclosures using a sample of 160 firms in the retail industry for 1996 to 1999. They found that the information on revenue changes (i.e. comparable store sales growth, store openings, and store closings and future capital expendituresplanned store openings and capital expenditures) have an explanatory power in predicting future revenues and future earnings and also contemporaneous stock returns beyond the information contained in financial statements.

HOLDER-WEBB (2007) developed a new tool for evaluating the qualitative information contained in the MC section. The tool yields a quantitative measure of disclosure that can be used in a variety of empirical or experimental research, including as a dependent or independent variable in regression analysis.

Despite the large amount of international studies, few empirical researches have been developed for analyzing the narrative sections of financial reporting with reference to Italy.

Some of these provide interesting results.

BERETTA and BOZZOLAN (2004), using an adjusted quantity index that incorporates richness of information content, investigated the risk disclosure provided in the MC reports of all non-financial firms listed on the Italian Stock Exchange at the end of 2001. The main findings suggested that the index of risk disclosure quantity is not affected either by size or industry type.

BERETTA and BOZZOLAN (2008) analyzed the impact of forward-looking information, during the period 1999-2001, in the revision of analyst's earnings forecasts for a sample of 85 non-financial firms listed on the Italian Stock Exchange at the end of 2001. The findings provide evidence that the measure of disclosure quality has a positive association with accuracy, and a negative association with the dispersion of financial analysts' earnings forecasts rather than merely a simple index of disclosure quantity.

SILVI and BARTOLINI (2011), using a content analysis methodology, examined the disclosure of key performance indicators provided in MC reports for a sample of 111 firms of different European countries. The findings show that a large number of firms did not disclose an effective and balanced picture of the drivers that will lead their future performance.

This study examines the information content of MC in order to identify the firm characteristics affecting the extent of voluntary disclosure compliance with IFRSps. Consistent with the previous empirical studies, we believe that the firm size, leverage, profitability and ownership structure are the most common explanatory factors of the extent of voluntary disclosure compliance. Thus, we developed the following hypotheses.

Size. Size is the most popular independent variable used in empirical studies to explain the extent of disclosure provided by the firms (SCHIPPER, 1981; WALLACE et al., 1994; ROBB et al., 2001; PRENCIPE, 2004). SINGHVI and DESAI (1971) identified three main reasons to explain the influence of size on corporate disclosure. Firstly, large firms compared to small ones, can better afford the expenses relating to the external reporting of detailed information. Secondly, large firms are motivated to provide more information in order to obtain benefits in securities market and an easier access to external financing. Thirdly, small firms are likely to provide less information to avoid the loss of their competitive advantage. On the other hand, LANG and LUNDHOLM (1993) suggest that a fixed component of the cost of disclosure may be decreased in increasing of unit of firm size. INCAHUSTI (1997) indicates that larger firms are involved in major potential conflicts among stakeholders. Thus they tend to extend the corporate disclosure to mitigate the information asymmetries and agency costs. COOKE (1989) supports the argument that the larger firms are involved in complex business activities and they require more communication and detailed information to be relayed the stakeholders.
Academics also argue that large firms may extend corporate disclosure because they are more exposed than the smaller ones to the pressure of various stakeholders (WALLACE at al., 1994; WALLACE and NASER, 1995; SCHIPPER, 1981). Many empirical researches have found a positive relationship between firm size and the extent of corporate disclosures (COOKE, 1989; RAFFOURNIER, 1995; FITO et al., 2012). In this study we used as firm size variable *the natural logarithm of total assets* (WALLACE et al., 1994; INCHAUSTI, 1997).Thus, we expect that the size of firms has a positive influence on the extent of voluntary compliance with IASB's MC guidelines. Hence our first hypothesis is:

H1: The extent of the voluntary disclosure compliance with IASB's MC guidelines is positively related to a firm size.

Profitability. The influence of profitability on the firm's disclosure practices could be explained by different arguments. First, the firms with high profitability may be encouraged to disclose additional information to reduce information asymmetries with investors and thereby to avoid the adverse selection process (MCNICHOLS, 1984; DYE, 1985; LANG and LUNDHOLM, 1993). Indeed, many authors observe that firms with high level of profitability, compared with low profitability ones, are interested to disclose more information to avoid an undervaluation of their shares and to assure the market on the stability of their financial results (SINGHVI and DESAI, 1971; INCAHUSTI, 1997). In addition, the managers of the high profitability firms could be motivated to extend voluntary disclosure to promote a positive impression of their management's ability and skills in capital markets (HEALY and PALEPU, 2001). Other strands of studies have investigated the influence of firm performance on the specific properties (or qualities) of

corporate disclosure. SUBRAMANIAN et al. (1993) and LI (2008) indicate that firms with a high level of performance, compared to low level performance ones, tend to improve the quality of disclosure, through reports which are easier to read for users. On the basis of the above considerations, it can be expected that firms with high levels of profitability are likely to provide more information than firms with lower profitability. However, the empirical results on the relationships between profitability and the extent of disclosure appear heterogeneous (WALLACE et al., 1994). Indeed, there are empirical studies which have found a positive relationship between profitability and the level of corporate disclosure (WALLACE and NASER, 1995; INCHAUSTI, 1997), whilst others have reported no significant relationship at all (MEEK et al., 1995; MALONE et al., 1993; LEUZ, 1999). Although many empirical accounting studies have used different types of profitability ratio, such as *net profit/net sales, operating income/total assets*, *net income/equity*, *operating income divided by total assets* (INCHAUSTI, 1997; SINGHVI and DESAI, 1971; PRENCIPE, 2004), in this study we measured the profitability ratio as *earnings before tax/total sales* (WALLACE et al., 1994).

Therefore, we expect that the level of profitability has a positive influence on the extent of voluntary disclosure compliance with IASB's MC guidelines. Hence our second hypothesis is:

H2: The extent of the voluntary disclosure compliance with IASB's MC guidelines is positively related to a firm's profitability.

Leverage. The leverage may be considered as one of *structure-related variables* that could affect the amount of information provided by the firms (WALLACE et al., 1994; HANIFFA and COOKE, 2004). Specifically, it has been argued that the firms with high levels of leverage (such as *gearing ratio*) may be motivated to disclose additional and voluntary information in order to satisfy the needs of lenders and creditors, and also to enhance their chance of acquiring external financing (WALLACE et al., 1994).

The arguments to support such hypothesis come from the agency costs related to the relationships between stockholders and creditors. In this case, the firms with higher proportion of external financing have higher agency costs due to the demand for external financial reporting as a form of monitoring. RAFFOURNIER (1995) indicates that financial disclosure in annual reports can mitigate monitoring problems between stockholders and creditors and reduce agency costs. Therefore, it is expected that highly leveraged firms are motivated to extend the corporate disclosure through voluntary provision of additional information (DEPOERS, 2000).

However, the empirical studies regarding the relationship between leverage and the level of corporate disclosure provide mixed evidence. Some studies found a positive relationship between the level of leverage and the amount disclosure (MALONE et al., 1993; GINER et al., 1997; FRANCIS et al., 2008), while others reported no significant relationship (HOSSAIN et al., 1994; RAFFOURNIER, 1995; FITO et. al., 2012). According to similar studies (Wallace et al., 1994), the leverage was measured as *the ratio of a firm's total long-term debt to its outstanding equity.*

Thus, we believe that the leverage could have a positive impact on the extent of voluntary disclosure compliance to IASB's MC guidelines. Hence our third hypothesis is:

H3: The extent of the voluntary disclosure compliance with IASB's MC guidelines is positively related to the leverage.

Ownership diffusion. The ownership structure is one of the corporate governance mechanisms that could affect the extent of firm's voluntary disclosure (GARCIA-MECA and SANCHEZ-BALLESTA, 2010). In accounting literature, authors indicate that a large portion of shares spread throughout capital market increases the separation between managers and investors and creates agency costs (DEPOERS, 2000; PRENCIPE, 2004). Indeed, firms with a wider number of shares spread in capital markets, may be subjected to the pressure of shareholders in disclosing additional information. On this point, COOKE (1989) observes that when there are a relevant number of shareholders, the firm is required to satisfy diversity information needs with greater disclosure. Furthermore, by providing extended information, managers could mitigate the conflicts with investors, obtaining the reduction of agency costs. RAFFOURNIER (1995) outlines that the presence of a relevant number of small shareholders creates a strong interested in a firm's annual report, which is the main and less expensive source of information to monitor the behavior of managers. Therefore, the firms whose ownership is widespread throughout the capital market have a pressure to extend the information reported in their annual reports to support the small shareholders in better investment decision-making. It is expected that firms with a higher amount of shares widespread in the capital market are motivated to extend the disclosure rather than those with a smaller number of floating shares (PRENCIPE, 2004). Different empirical studies support the positive influence of ownership diffusion on the extent of corporate disclosure (MCKINNON and DALIMUNTHE, 1993; LEUZ, 1999). However, RAFFOURNIER (1995) found no association between the extent of voluntary disclosure in Swiss firms disclosure and ownership diffusion. As in previous studies (RAFFOURNIER, 1995; PRENCIPE, 2004), we calculated the *ownership diffusion* as the percentage of share capital owned by unknown shareholders.

Therefore, we believe that firms with a high level of shares, widespread in the capital market, are more likely to voluntarily comply with IASB's MC guidelines. Thus, our four hypothesis is:

H4: The extent of the voluntary disclosure compliance with IASB's MC guidelines is positively related to the ownership diffusion.

4. Research design

4.1 *Sample*

Our sample was selected from the non-financial firms listed at the end of 2010 on the Italian Stock Exchange (Borsa Italiana s.p.a.). Similar to previous studies, the financial listed firms were excluded, as they are subjected to specific disclosure requirements (PRENCIPE, 2004; BERETTA and BOZZOLAN, 2004 and 2008).

The firms were chosen using a random sample, assuming a level of reliability equal to 95% and a confidence interval of 10%. The sample consists of 65 firms (see appendix 1) and it represents 32,50% of the entire population of the non-financial firms listed at the end of 2010.

The decision to consider the 2010 MC report was due to the fact that this is the first fiscal year where the IFRSps were available for the preparers. Thus, all IAS/IFRS adopters were encouraged to apply the IASB's MC guidelines starting from the fiscal year 2010. The MC was extracted from the annual report published on the web site of each listed firm. We focused our analysis on the information content of each MC report.

4.2 *Variables measurement*

Dependent variable. In academic literature, different empirical studies show that the adoption of both weighted and unweighted disclosure indeces tend to generate significant and analogous results (FIRTH, 1980; ROBBINS and AUSTIN, 1986; PRENCIPE, 2004). However, like COOKE (1989, 1992) and RAFFOURNIER (1995), in our study the extent of voluntary disclosure compliance with IFRSps is measured by an unweighted disclosure index[3], where it assumed each item as being equally important (COOKE 1989 and 1992). The index is composed of 21 disclosure items identified in our checklist (see appendix 2) designed on IASB's MC disclosure recommendations. The disclosure items can be applied to all firms included in the sample. The score of disclosure index indicates the level of the extent of disclosure compliance to the IFRSps.

To calculate the disclosure index score we followed a 'dichotomous' approach:

If a firm discloses an item included in the checklist, it was assigned a score of "1" (one) and of "0" (zero) if it was not disclosed.

The index of disclosure compliance can be shown as follows:

$$\mathrm{Dc} = \sum_{i=1}^{m} d_i$$

where:

d = is the score of each disclosure item ("1" or "0");

m = is the maximum number of disclosure items ("21") expected to be disclosed by firms in compliance with IFRSps.

Thereby, Dc expresses the degree of disclosure compliance to IFRSps provided by Italian listed firms in their MC

To identify the presence or absence of each item in the MC report, we applied a manual content analysis. The content analysis methodology required several steps (KRIPPENDORFF, 1980; WEBER, 1985; BEATTIE et al., 2004; BERETTA and BOZZOLAN, 2004; SEAH and TARC, 2006).

We first converted the MC of each firm from the PDF format in TXT file, removing all graphs, tables and images. We divided the overall content of MC in sections to align it to the five reporting areas identified by IFRSps. We defined the coding rules to determine

[3] In this study we use the disclosure checklist adopted in previous empirical research (see Ginesti et al., 2013).

the sentences and/or the themes that were related to the items included in the checklist. We tested the checklist on five firms included in the sample and we identified the final coding rules to be applied to all MC reports. One researcher has been involved in the analysis to avoid problems of coding rules among different researchers (stability). To ensure the reliability of the coding process, the researcher applied the checklist to the information content of all MC reports, in two different times. The results of the two classifications were subsequently compared and the identified misalignments were removed after the discussion among all authors. The accuracy of the analysis was ensured by using a disclosure checklist created on the basis of the recommendations reported in IFRSps.

Independent variables

We categorized the independent variables (WALLACE et al., 1994; HANNIFFA and COOKE, 2002) in:

- *corporate governance* variables (*ownership diffusion*); and
- *firm-specific* variables (*profitability, leverage, size*).

The three *firm-specific* variables were measured using the data obtained from the 2010 consolidated financial statements reported in annual firm reports, while the *corporate governance* variable (*ownership diffusion*) was measured using the CONSOB data-set..

The table 2 describes how the independent variables are measured.

Table 2- *Independent variables measurement*

Variable	Measurement	Source
TASSETS	Natural logarithm of total assets at the end of 2010	Annual report 2010
LEVERAGE	The ratio of a firm's total long-term debt to its outstanding equity at the end of 2010	Annual report 2010
PROFIT	The ratio of earnings before tax to total sales at the end of 2010	Annual report 2010
OWNERDIFF	Percentage of shares owned by shareholders, who possess less than 2% of the share capital at the end of 2010	CONSOB data-base 2010

4.3 *Method*

To assess the relationship between the Dc, as dependent variables, and the firm characteristics, as independent variables, we used an Ordinary Least Square (OLS) regression model. The regression equation is the following:

$$Dc = \beta_0 + \beta_1 TASSETS + \beta_2 OWNERDIFF + \beta_3 PROFIT + \beta_4 LEVERAGE + \varepsilon_t$$

where:
Dc = Index of Disclosure Compliance
TASSETS = Natural logarithm of total assets as firm size
OWNERDIFF = Ownership Diffusion
PROFIT = Profitability
LEVERAGE = Gearing Ratio

ε_t = Error Term

5. Results

Table 3 shows the descriptive statistical analysis (the minimum, maximum, mean and standard deviation for all the considered variables).

The results show that the extent of disclosure compliance with IASB's MC guidelines provided by Italian listed firms ranges from 10% to 76% with an average of 39%. These results mean that a large amount of firms included in our sample did not comply with the IASB's MC guidelines. As reported in the table 3, the difference between the mean and the median are not particularly relevant for the most of the variables considered in the analysis. The highest difference has been found for the leverage.

Table 3 - *Descriptive statistics*

VARIABLE	Nr. of observations	Mean	Median	Standard Deviation	Minimum	Maximum
Dc	65	0.39	0.33	0.167	0.1	0.76
TASSETS	65	2.81	2.76	0.806	1.08	4.95
OWNERDIFF	65	0.34	0.31	0.149	0.1	0.8
LEVERAGE	65	1.05	0.77	1.868	-1.48	13.87
PROFIT	65	0.03	0.04	0.155	-0.68	0.54

This table shows the descriptive statistics for all variables. Dc is the index of disclosure compliance. TASSETS is the natural logarithm of total assets at the end of 2010. OWNERDIFF is the percentage of shares owned by shareholders, who possess less than 2% of the share capital at the end of 2010. PROFIT is the ratio of earnings before tax to total sales at the end of 2010. LEVERAGE is the ratio of a firm's total long-term debt to its outstanding equity at the end of 2010.

The correlation matrix for the dependent and independent variables is reported in table 4. The results show that the firm size (TASSETS), ownership diffusion (OWNERDIFF) and the profitability (PROFIT) are correlated with the index of disclosure compliance. On the other hand, the leverage (LEVERAGE) does not appear to be correlated with the index of disclosure compliance. As would be expected, the ownership diffusion is positively correlated with the firm size.

Table 4 – *Correlation matrix for the dependent and independent variables*

	Dc	TASSETS	PROFIT	GEARING	MARKET
Dc	1				
TASSETS	0.548*	1			
PROFIT	0.353*	0.463*	1		
LEVERAGE	-0.039	-0.071	-0.191	1	
OWNERDIFF	0.506*	0.322*	0.211	-0.107	1

**Correlations coefficients significant at the 5% or better*

This table shows the correlation matrix for all variables. Dc is the index of disclosure compliance. TASSETS is the natural logarithm of total assets at the end of 2010. OWNERDIFF is the percentage of shares owned by shareholders, who possess less than 2% of the share capital at the end of 2010. PROFIT is the ratio of earnings before tax to total sales at the end of 2010. LEVERAGE is the ratio of a firm's total long-term debt to its outstanding equity at the end of 2010.

Before proceeding to the regression analysis, we tested the existence of collinearity among the independent variables.

The multicollinearity was analyzed using the Variance Inflation Factor (VIF) index.

Multicollinearity occurs when some predictors of the model are highly correlated and typically are redundant. VIF (mean variance inflation factor) and 1/VIF (or tolerance) are both used in order to measure the relevance of the multicollinearity in the regression analysis (Verbeek, 2008). The level of tolerance 1/VIF is considered as the degree of collinearity.

The table 5 reports the results of the VIF index. The results did not provide empirical evidence of a serious problem of high collinearity among the independent variables.

Table 5 - *Testing for multicollinearity*

DEPENDENT VARIABLES	VIF	1/VIF (Tolerance)
TASSETS	1.37	0.731
OWNERDIFF	1.13	0,885
LEVERAGE	1.04	0.957
PROFIT	1.32	0.757
MEAN VIF	1.22	

This table shows the Testing for multicollinearity. Dc is the index of disclosure compliance. TASSETS is the natural logarithm of total assets at the end of 2010. OWNERDIFF is the percentage of shares owned by shareholders, who possess less than 2% of the share capital at the end of 2010. PROFIT is the ratio of earnings before tax to total sales at the end of 2010. LEVERAGE is the ratio of a firm's total long-term debt to its outstanding equity at the end of 2010.

Table 6 presents the results of the regression analysis (standardized beta, coefficients, t-statistics, and probability levels are provided for each independent variable). The OLS regression produced an F-ratio of 11.39 and adjusted R^2 of approximately of 39%.

The empirical evidences indicate that the coefficient of firm size, measured as a natural logarithm of total assets, is significantly positive ($p < 0.001$) related to the index of voluntary disclosure compliance. This implies that the extent of disclosure compliance with IFRSps grows with the size of the Italian listed firm. These results confirm our first hypothesis and are similar to previous empirical studies (WALLACE et al., 1994; WALLACE and NASER, 1995; COOKE, 1989; HANIFFA and COOKE, 2002).

The results of the model also show that the coefficient of ownership diffusion is both significantly and positively related to the index of voluntary disclosure compliance ($p < 0.001$). These findings confirm our fourth hypothesis and suggest that the firms with a high level of share spread in the capital market tend to provide more information in compliance with IASB's MC guidelines. These results are also consistent with previous empirical studies (LEUZ, 1999; PRENCIPE, 2004).

Consistent with previous studies (RAFFOURNIER, 1995; WALLACE et al.,1994; FITO et al., 2012), the other two proposed determinants (*leverage and profitability,*) do not appear to explain the voluntary disclosure compliance choices of Italian listed firms. Thus, the second and the third hypothesis do not find empirical support.

In summary, we found that firm size and ownership diffusion can be identified as the main explanatory factors that affected the extent of voluntary disclosure compliance with IFRSps, provided by the Italian listed firms.

This means that with reference to Italy, where there are many smaller size firms, it can be expected that, despite the mandatory adopting of the IAS/IFRS principles, a large

amount of listed firms, could not comply with the IASB guidelines for the preparation of MC.

Table 6 - *Regression results: OLS estimation*

Disclosure	Coef.	Std. Error	T	p>t
TASSETS	*0.0797*	*0.023*	*3.38*	*0.001**
OWNERDIFF	*0.407*	*0.115*	*3.52*	*0.001***
LEVERAGE	*0.004*	*0.008*	*0.48*	*0.634*
PROFIT	*0.115*	*0.120*	*0.95*	*0.344*
CONS	*0.019*	*0.069*	*0.28*	*0.778*
**P<0.01; **P<0.001*				

R^2	0.431
Adjusted R^2	0.393
F=	11.39
Prob. (F-statistic)	0.000
Root MSE	0.130

Source	Sum of Squares	Df	Mean square
Model	0.770	4	0.192
Residual	1.015	60	0.016
Total	1.785	64	0.027

This table shows the regression results. Dc is the index of disclosure compliance. TASSETS is the natural logarithm of total assets at the end of 2010. OWNERDIFF is the percentage of shares owned by shareholders, who possess less than 2% of the share capital at the end of 2010. PROFIT is the ratio of earnings before tax to total sales at the end of 2010. LEVERAGE is the ratio of a firm's total long-term debt to its outstanding equity at the end of 2010.

The model has been verified for heteroscedasticity. One of the relevant assumptions of the econometric model used in this study is the homogeneity of variance of the residuals. We used the Cameron-Trivedi's decomposition of IM-test and Breusch Pagan-Cook Weisberg test. We didn't find evidence of heteroscedasticity. Both tests are sensitive to the assumption of normality.

We have also considered the kernel density estimate of the residuals to check the normality of the residuals. The results indicate that the normality of the residuals seem to be empirically reasonable Further negative evidence is also obtained by using the Shapiro-Wilk

Robustness check

We tested the regression model used in this study with additional tests, in order to check the robustness of the results.

First, we excluded one outlier from the sample, identified on the basis of overall measures of influence (Cook's D and Difference in Fits DFITS). In this case, we did not find any statistically significant differences with the results of the model without outliers.

Second, we used other common specification for firm size (measured as natural logarithm of total sales) and considered two popular determinants used in accounting studies as explanatory factors of corporate disclosure, i.e. the auditor firm type (measured as "1" if the firm is audited by one of the big four auditors otherwise as "0") and institutional investors (calculated as the number of institutional investors who possess more than 2 of the share capital at the end of 2010), but the main effects represented in our model results did not show any significant changes. These results are reported in table 7.

Table 7 - *Alternative model specifications*

VARIABLE	MODEL 1	MODEL 2	MODEL 3	MODEL 4	MODEL 5	MODEL 6
TASSETS	0.079**	0.072**	0.066*			
PROFIT	0.115	0.106	0.113	0.135	0.127	0.136
LEVERAGE	0.004	0.004	0.004	0.004	0.005	0.005
OWNERDIFF	0.407***	0.397**	0.392**	0.450***	0.436***	0.426***
INV_IST		0.015	0.014		0.015	0.015
AUDIT			0.018			0.028
TSALES				0.065**	0.057*	0.514
CONS	0.019	0.033	0.032	0.057	0.070	0.648
N	65	65	64	65	65	64
Adjusted R^2	0.393	0.390	0.363	0.377	0.373	0.348
R^2	0.431	0.437	0.423	0.416	0.422	0.410

*Legend: * p<0.05; ** p<0.01; *** P<0.001*

This table shows the alternative model specifications. Dc is the index of disclosure compliance. TASSETS is the natural logarithm of total assets at the end of 2010. OWNERDIFF is the percentage of shares owned by shareholders, who possess less than 2% of the share capital at the end of 2010. PROFIT is the ratio of earnings before tax to total sales at the end of 2010. LEVERAGE is the ratio of a firm's total long-term debt to its outstanding equity at the end of 2010.AUDIT is auditor firm type. INV_IST *is the number of number of institutional investors who possess more than 2 of the share capital at the end of 2010. TSALES is the natural logarithm of total sales at the end of 2010.*

6. Discussions and conclusions

This paper investigates the content included in the MC report for a sample of non-financial firms listed at the end of 2010 on the Italian Stock Exchange.

Our study makes a contribution to the existing literature by showing which factors affected the Italian listed firms in extending the voluntary disclosure compliance with the IASB's MC guidelines, soon after its implementation.

Our results could be also of interest for regulatory securities and accounting standard setters in order to identify new approaches to ensure a better comparability of narrative disclosure amongst firms.

We analyzed the information content of the MC using a self-constructed checklist guided by IFRSps disclosure recommendations. The evidence found in this study shows interesting results.

First, in the Italian context, the amount of voluntary disclosure provided by the firms in compliance with IASB's MC guidelines, appears to be low. However, the low level of compliance could be due to the limited time elapsed from the release of IASB's MC guidelines and the publication of the firm's annual report for the fiscal year 2010. For these reasons, we expect that the level of compliance with IASB's guidelines should increase over the years. Consistent with previous empirical studies, the regression analysis provides evidence that size and ownership diffusion are the main determinants of the extent of voluntary disclosure. Indeed, the relationships between the index of disclosure compliance with firm size and ownership diffusion were found to be significantly positive. Therefore, the release of non-binding IFRSps does not appear to encourage smaller size listed firms to comply with international recommendations. This means that in Italy, a

large amount of firms do not converge towards a single set of principles in preparing their financial reporting, thus reducing the comparability and usefulness of narrative reporting accompanying financial statements.

In Italian context the association between size and disclosure could be explained by different reasons as identified in exiting literature. Firstly, the large Italian firms are able to manage the cost relating to the extended information due to the existence of internal organization reporting system. Secondly, the large Italian firms have a consolidated competitive advantage that should not be compromised by the increasing of disclosure in annual report. Thirdly, the Italian large firms have a high level of international business activities and in some cases are cross-listed. These conditions imply a wider range of stakeholders which leads to various information needs to satisfy.

The second explanatory variable of the level of disclosure has been identified in ownership diffusion. This variable has an explanatory power also in the Italian context where the listed firms are in many cases family controlled, without a clear separation between managers and investors. However, the influence of ownership diffusion on corporate disclosure could be related to the increasing role of Italian capital markets and the stronger attention made by the regulatory authorities to protect the smaller shareholders after some corporate scandals (e.g. Parmalat). Therefore, the managers appear to monitor the agency relationships with the small shareholders, providing extended information in the annual report.

On the other hand, the leverage and profitability were found to be unrelated to the index of disclosure compliance.

Previous studies consider the level of leverage as one of the explanatory variables of corporate disclosure. However, the empirical evidences provide mixed results. In our study, we found no significant association between leverage and the disclosure of Italian firms. Thereby in Italian context, the firms tend to create confidential relationships with creditors and lenders, which are in most cases banks. As indicate in previous studies, additional information could be provided outside the annual report, through a direct contact with lenders.

In accounting studies the investigation of influence of profitability on firm disclosure is a complex one. With reference to Italy, we found no significant association between profitability and disclosure. From these results it is possible to suggest that managers feel that stakeholders, and in particular the investors, are satisfied with good performances achieved by firms and they do not require additional information. In this case, it is expected that in times of financial crisis, it is more likely that high profitability firms do not want to communicate detailed information which could generate a negative impact on their competitive advantage.

This study presents several limitations. Firstly, despite the controls applied throughout the content analysis process, the assessment of disclosure items inevitably involves the subjective judgment of the coder. Secondly, this study focused on the amount of information offered by Italian firms, without considering its usefulness for investors, analysts and capital markets. Thirdly, this study examined a sample of non-financial listed firms in Italy soon after the implementation of IFRSps, thus the conclusions cannot be generalized without future investigations. Further developments of this study can be achieved by considering the following aspects: a larger sample of firms; the consequences of disclosure compliance with IASB's MC; and a longer period of observation.

Appendix 1 - *List of sample firms*

1.ACEAGAS	24.CAMPARI	47.KMEGROUP
2.ACQUE POTABILI	25.CARRARO	48.LA DORIA
3.ALERION	26.CLASS EDITORI0	49.LUXOTTICA
4.AMPLIFON	27.DE LONGHI	50.MEDIASET
5.ANSALDO STS	28.EDISON	51.NOEMALIFE
6.ANTICHI PELLETTIERI	29.EL.EN.	52.PANARIA GROUP
7.ASTALDI	30.EMAK	53.PIAGGIO
8.AUTOGRILL	31.ENERVIT	54.PIERREL
9.AUTOSTRADA TO-MI	32.ERG	55.PININFARINA
10.AUTOSTRADE MERIDIONALI	33.ESPRINET	56.POLIGRAFICI EDITORIALI
11.BASICNET	34.EUROTECH	57.RENO DE MEDICI
12.BASTOGI	35.FIDIA	58.RICHARD GINORI
13.BEGHELLI	36.FIERA MILANO	59.SAIPEM
14.BEST UNION COMPANY	37.FINMECCANICA	60.SNAI
15.BIALETTI	38.FULLSIX	61.SNAM RETE GAS
16.BOERO BARTOLOMEO	39.GREEN VISION AMBIENTE	62.SOGEFI
17.BREMBO	40.COIN	63.TELECOM ITALIA
18.BRIOSCHI	41.IL SOLE 24 ORE	64.TERNA
19.BUONGIORNO VITAMINIC	42.IMA	65.ZIGNAGO
20.BUZZI	43.IMMSI	
21.CAD IT	44.IMPREGILO	
22.CALEFFI	45.ISAGRO	
23.CALTAGIRONE	46.KINEXIA	

Appendix 2 - *Disclosure Checklist*

	Disclosure items	Source
	The nature of the business	**IFRSps**
1.	*Industries in which the entity operates*	*page 12*
2.	*Entity's main markets and competitive position within those markets*	p. 12
3.	*Significant features of the legal, regulatory and macro-economic environments that influence the entity and the markets in which the entity operates*	p. 12
4.	*Entity's main products and services*	p. 12
5.	*Entity's main business processes and distribution methods*	p. 12
6.	*Entity's structure and how it creates value*	p. 12
	Management's objectives and its strategies for meeting those objectives	
7.	*Management's objectives and strategies*	pp. 12-13
8.	*Management's actions to achieve their objectives and strategies*	pp. 12-13
9.	*Relationship between objectives, strategy, management actions and executive remuneration*	pp. 12-13

	The entity's most significant resources, risks and relationships	
10.	*Critical financial resources available to the entity (e.g. entity's capital structure, financial arrangements, etc.)*	pp. 13-14
11.	*Critical non-financial resources available to the entity (e.g. human and intellectual capital resources, etc.)*	pp. 13-14
12.	*Significant relationships between the entity and main stakeholders*	pp. 13-14
13.	*Entity's principal (strategic, commercial, financial, operational) risks exposures*	pp. 13-14
	The results of operations and prospects	
14.	*Explanation of the results achieved by the Entities in the financial condition, liquidity and performance during the period and its position*	pp. 14-15
15.	*Explanation of the main trends, business segments and factors affecting the entity's performance*	pp. 14-15
16.	*Discussion and analysis of significant changes in financial position, liquidity and performance compared with those of the previous period or periods*	pp. 14-15
17.	*Discussion of the targets for the financial measure to achieve*	pp. 14-15
18.	*Discussion of the targets for the non-financial measure to achieve*	pp. 14-15
	The critical performance measures and indicators that management uses	
19.	*Financial performance indicators that are adopted by management to manage business and to assess progress against its stated objectives*	pp. 15-16
20.	*Non-financial performance indicators that are adopted by management to manage business and to assess progress against its stated objectives*	pp. 15-16
21.	*Comparison of performance indicators (both financial and non financial) adopted during the year to prior periods*	pp. 15-16

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