

International Financial Reporting Standards Implementation

CONTRIBUTIONS TO INTERNATIONAL ACCOUNTING

Series editor: Mohammad Nurunnabi

About the series

Contributions to International Accounting (CIA) aims to bridge the gap between academic researchers and practitioners and deals with all areas of international accounting, including financial reporting, auditing, management accounting, and taxation. Due to the increasing globalisation and the mobilisation of business, this series recognises that international accounting is influenced by a variety of forces (political, social, economic, behavioural, and cultural) and hence is devoted to examining how developments in these areas affect the financial reporting and disclosure practices, taxation, management accounting practices, and auditing, as well as accounting education from global perspective. This series welcomes a broad view of the international accounting using variety of methodologies, including theoretical research, empirical research, applied research, and cross-cultural studies. The core mission of CIA remains publishing the highest quality research that is relevant to our times. All manuscripts submitted for publication will undergo double-blind peer review.

About the volume

The purpose of this inaugural volume of *Contributions to International Accounting* book is to address an important gap in literature because there still remains a lack of research on International Financial Reporting Standards (IFRS) implementation. With regard to the commitment to a single set of global accounting standards, nearly all of the jurisdictions (156 of the 166) have made a public commitment supporting a single set of high-quality global accounting standards as of 13 January 2021. The jurisdictions that require or permit the use of IFRS for domestic publicly accountable entities (PAEs; listed companies and financial institutions) constitute 54% of the gross domestic product (GDP) of all profiled jurisdictions. The 10 jurisdictions have not made a public commitment of IFRS, including Albania, Belize, Bermuda, Cayman Islands, Egypt, Macao, Paraguay, Suriname, Switzerland, and Vietnam. The 166 profiles include all 31 member states of the European Union and the European Economic Area, in which IFRS are required for all companies whose securities trade in a regulated market. The 2018 GDP of those jurisdictions require IFRS for all or most domestic PAEs totals US \$39.474 trillion (<https://www.ifrs.org/>). This volume focuses on providing relevant and timely information for local and international policymakers.

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International Financial Reporting Standards Implementation: A Global Experience

BY

MOHAMMAD NURUNNABI

Prince Sultan University, Saudi Arabia



United Kingdom – North America – Japan – India – Malaysia – China

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INVESTOR IN PEOPLE

Dedication

For my mother who is my role model and for her endless support. Thank you for helping me to dream big in my life. Thanks for always being there for me.

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His most recent book is *The Role of the State and Accounting Transparency* (Routledge: London and New York). He has published over 130 articles in international journals including ABDC Ranked, ERA Ranked, ABS Ranked, and Scopus/ISI indexed. His paper was ranked first in 2014, 2015, and 2016 as the most downloaded published articles in Research in Accounting Regulation. He currently serves as Editor-in-Chief of *PSU Research Review: An International Journal*, Emerald, and Series Editor-in-Chief of *Contributions to International Accounting*. He serves on the editorial boards over 20 journals. In addition, he is regularly reviewing books for Routledge, UK, and John Wiley & Sons, Inc., USA, and conference reviewers (Strategic Management Society – SMS). He is also the reviewer of 97 leading international journals including *Journal of Business Ethics*, *Journal of Business Research*, *Journal of International Business Studies*, *Organization & Environment*, *Development and Change*, *Polity*, *Critical Perspectives on International Business*, *Corporate Governance: An International Review*, *Accounting Horizons*, *Accounting Education: An International Journal*, *Journal of Accounting and Public Policy*, *Accounting, Auditing & Accountability Journal*, *Journal of Asia-Pacific Business*, *Critical Asian Studies*, and *International Journal of Emerging Markets*. He has also presented papers in international conferences including AAA, BAFA, Irish Accounting and Finance Association, Financial Reporting and Business Communication Conference, Scottish Doctoral Colloquium in Accounting and Finance, and The Institute of Chartered Accountants of Scotland.

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Preface

Based on the extensive literature, this book offers an important aspect that analyses the various issues related to International Financial Reporting Standards (IFRS) implementation. This book is an invaluable source for *undergraduate final year accounting students* (Advance Accounting/International Accounting/IFRS), *masters* (MSc Accounting and Finance, MSc in International Accounting, MRes in Accounting, and Master in Professional Accounting) for postgraduate research courses, and *PhD/doctoral-level* students.

This book also aims to assist policymakers (at local level, regional level, and international level), namely the International Accounting Standards Board, World Bank, International Monetary Fund, the United Nations Conference on Trade and Development, and G20 countries with necessary insights about financial reporting environment.

The purpose of this inaugural volume of *Contributions to International Accounting* (CIA) book is to address an important gap in literature because there still remains a lack of research on IFRS implementation. With regard to the commitment to a single set of global accounting standards, nearly all of the jurisdictions (156 of the 166) have made a public commitment supporting a single set of high-quality global accounting standards as of 13 January 2021. The jurisdictions that require or permit the use of IFRS for domestic publicly accountable entities (PAEs; listed companies and financial institutions) constitute 54% of the gross domestic product (GDP) of all profiled jurisdictions. The 10 jurisdictions have not made a public commitment of IFRS, including Albania, Belize, Bermuda, Cayman Islands, Egypt, Macao, Paraguay, Suriname, Switzerland, and Vietnam. The 166 profiles include all 31 member states of the European Union and the European Economic Area, in which IFRS are required for all companies whose securities trade in a regulated market. The 2018 GDP of those jurisdictions require IFRS for all or most domestic PAEs totals US \$39.474 trillion (<https://www.ifrs.org/>). This volume focuses on providing relevant and timely information for local and international policymakers.

This book addresses the implementation of IFRS issues to ensure that readers are aware of recent thinking and development, focussing on their relevance to application, with enough detail to explain: ‘Introduction – International Financial Reporting Standards (IFRS): Where We Are Now?’ (Chapter 1), ‘Implementation of International Financial Reporting Standards (IFRS) in Developing Countries’ (Chapter 2), ‘The Cultural Impact of International Financial Reporting Standards (IFRS) Implementation’ (Chapter 3), ‘The Economic Impact of

International Financial Reporting Standards (IFRS) Implementation' (Chapter 4), 'Disclosure, Transparency, and International Financial Reporting Standards' (Chapter 5), 'Theory of International Financial Reporting Standards (IFRS) Implementation' (Chapter 6), and 'Antecedents of IFRS Adoption in BRICS Nations: A Meta-synthesis' (Chapter 7).

I appreciate your taking time to read this note. I encourage your questions or comments or feedback, please contact me at: mnurunnabi@psu.edu.sa or s_agor2001@yahoo.com

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Chapter 1

Introduction – International Financial Reporting Standards (IFRS): Where are We Now

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There is clear momentum towards accepting IFRSs as a common financial reporting language throughout the world. Today, multinational companies are benefiting from reduced compliance costs associated with the removal of the need for the consolidation of different national accounts into a single statement to meet their home country's requirements. Investors are able to make comparisons of companies operating in different jurisdictions more easily. Regulatory authorities are now more able to develop more consistent approaches to supervision across the world. (Sir David Tweedie, 2008, p. 3)

Following the uncertainty of regulatory reform under Brexit and the Donald Trump Administration Era, this instalment of Accounting Matters explores the future of IFRS, Mr Hans Hoogervorst, Chairman of the International Accounting Standards Board (IASB), and Mr Michael Izza, Chief Executive of the Institute of Chartered Accountants in England and Wales (ICAEW), were both optimistic about the future of IFRS (Nurunnabi, 2019; The International Financial Reporting Standards Foundation, 2020).

The adoption of IFRS increases the transparency of financial information and the globalisation of capital markets and attracts foreign direct investment (FDI; Albu, Albu, & Alexander, 2014; Ding & Su, 2008; Lin, 2012; Nurunnabi, 2014a, 2014b, 2015a, 2015b; The World Bank, 2011; Zeghal & Mhedhbi, 2012). The G20 and other major international organisations (International Organization of Securities Commissions (IOSCO), World Bank), as well as very many governments, business associations, investors, and members of the worldwide

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accountancy profession strongly support the goal of a single set of high-quality, global accounting standards ([The International Financial Reporting Standards Foundation, 2020](#)). According to [G20 \(2012\)](#), [G20 leaders' declaration, 2012](#), in Mexico:

We call for accelerated progress by national authorities and standard setting bodies in ending the mechanistic reliance on credit ratings and encourage steps that would enhance transparency of and competition among credit rating agencies. We support continuing work to achieve convergence to a single set of high-quality accounting standards. We welcome IOSCO's report on the functioning of the credit default swap markets and ask IOSCO to report on next steps by the November 2012 Finance Ministers and Central Bank Governors' meeting.

According to [The International Financial Reporting Standards Foundation \(2020\)](#), the gross domestic product (GDP) of jurisdictions that require or permit the use of IFRS for domestic publicly accountable entities (PAEs listed companies and financial institutions) constitutes 54% of the GDP of all profiled jurisdictions (based on the GDP data of 2018¹) (see [Table 1](#)). The GDP of jurisdictions that do not permit the use of IFRS for any domestic PAEs constitutes 46% of the GDP of all profiled jurisdictions. Three jurisdictions (China, India, and the

Table 1. GDP Analysis of 166 Jurisdictions.

	US\$ (billions)	Percentage
GDP of 166 profiled jurisdictions	84,417	100
GDP of jurisdictions that require IFRS <i>for all or most</i> domestic PAEs	39,474	46.8
GDP of jurisdictions that require IFRS <i>for some</i> (but not all or most) domestic PAEs	50	0.1
GDP of jurisdictions that permit IFRS <i>for all or most</i> domestic PAEs	5,926	7
GDP of jurisdictions that <i>neither require nor permit IFRS</i> for domestic PAEs	38,966	46.2

Data sources: World Bank,² United Nations,³ and CIA World Fact Book.⁴

¹2018 GDP data used were available. For profiled jurisdictions where 2018 GDP data were not yet available, the 2017 GDP data were used ([The International Financial Reporting Standards Foundation, 2020](#)).

²<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

³<https://unstats.un.org/unsd/snaama/Index>

⁴<https://www.cia.gov/the-world-factbook/>

United States) account for nearly all (95%) of the GDP of profiled jurisdictions that do not permit the use of IFRS for any domestic PAEs. The population of domestic listed companies that are required or permitted to use IFRS is 31,290, which represents 64% of the total 48,913 domestic listed companies on World Federation of Exchanges (WFE). Three jurisdictions (India, the United States, and China) account for nearly all (87%) of domestic listed companies that are neither required nor permitted to use IFRS.

As of 13 January 2021, 94% jurisdictions (156 of the 166) have made a public commitment supporting a single set of high-quality global accounting standards. The 10 jurisdictions have not made a public commitment of IFRS including Albania, Belize, Bermuda, Cayman Islands, Egypt, Macao, Paraguay, Suriname, Switzerland, and Vietnam have not. The 166 profiles include all 31 member states of the European Union (EU) and the European Economic Area (EEA), in which IFRS are required for all companies whose securities trade in a regulated market. According to [The International Financial Reporting Standards Foundation \(2020\)](#):

The 144 jurisdictions classified as requiring IFRS Standards for all or most domestic publicly accountable entities include the EU and EEA Member States to which the IAS 39 Financial Instruments ‘carve-out’ applies. The carve-out affects fewer than two dozen banks out of the 8,000 IFRS companies whose securities trade on a regulated market in Europe. The 144 also include several jurisdictions that have adopted IFRS Standards nearly word for word as their national accounting standards (including Australia, Hong Kong, New Zealand and Korea (South)). The 144 also include three jurisdictions that have adopted recent, but not the latest, bound volumes of IFRS Standards: Macedonia (2009); Myanmar (2010); and Venezuela (2008). Those jurisdictions are working to update their adoption to the current version.

In particular, 87% jurisdictions (144 of the 166) require IFRS for all or most domestic PAEs (listed companies and financial institutions) in their capital markets. All but one of those have already begun using IFRS. Bhutan will begin using IFRS in 2021. Some comments on the remaining 22 jurisdictions that have not adopted:

- 12 jurisdictions permit, rather than require, IFRS: Bermuda, Cayman Islands, Guatemala, Honduras, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland, Timor-Leste.
- One jurisdiction requires IFRS for financial institutions but not listed companies: Uzbekistan.
- One jurisdiction is in process of adopting IFRS in full: Thailand.
- One jurisdiction is in process of converging its national standards substantially (but not entirely) with IFRS: Indonesia.
- Seven jurisdictions use national or regional standards: Bolivia, China, Egypt, India, Macao SAR, the United States, and Vietnam.

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Table 2 provides the use of IFRS in the 166 jurisdictions by region of the world (see also Figs. 1–3):

Table 2. The Use of IFRS in the 166 Jurisdictions.

Region	Jurisdictions	Number of Jurisdictions			
		IFRS Required for All or Most Domestic PAEs	IFRS Required as % of Total Jurisdictions	IFRS Permitted or Required for at Least Some Domestic PAEs	IFRS Neither Required nor Permitted for Any Domestic PAEs
Europe	44	43	98	1	0
Africa	38	36	95	1	1
Middle East	13	13	100	0	0
Asia-Oceania	34	25	74	3	6
Americas	37	27	73	8	2
Totals	166	144	87	13	9
As % of 166	100	87		8	5

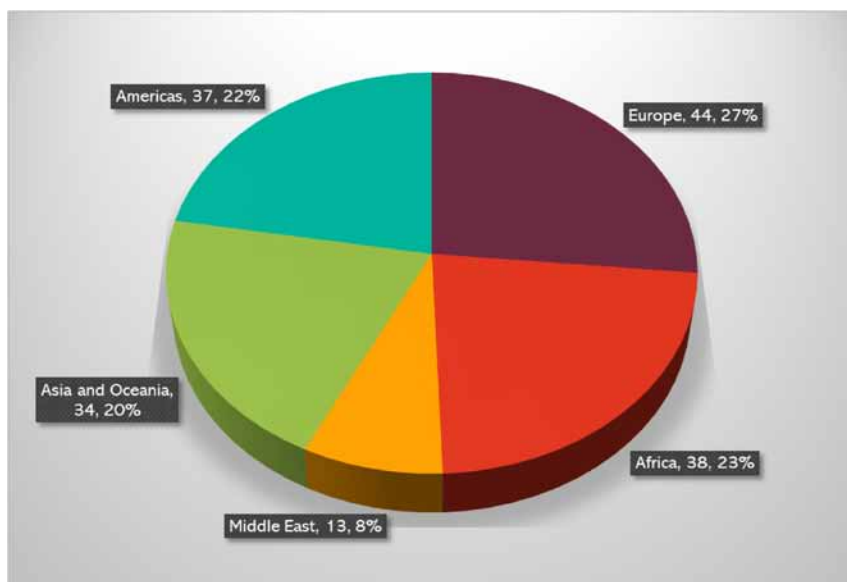


Fig. 1. The Use of IFRS by Regions.



Fig. 2. IFRS Are Required for Domestic Public Companies.
Source: [The International Financial Reporting Standards Foundation \(2020\)](#).



Fig. 3. IFRS Are Required or Permitted for Listings by Foreign Companies.
Source: [The International Financial Reporting Standards Foundation \(2020\)](#).

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With regard to G20,⁵ all of the G20 jurisdictions have made a public commitment supporting a single set of high-quality global accounting standards. Fifteen of the G20 jurisdictions have adopted IFRS for all or most companies in their public capital markets. Of the remaining five G20 jurisdictions:

- One (Japan) permits IFRS on a voluntary basis for domestic companies (as of June 2018 companies accounting for 33% of the Tokyo Stock Exchange market capitalisation have adopted or plan to adopt IFRS).
- Three (China, India, and Indonesia) have adopted national standards that are substantially in line with IFRS but have not announced a plan or timetable for full adoption.
- One (the United States) does not permit domestic securities issuers to use IFRS, but it does permit foreign securities issuers to use IFRS as issued by the IASB, and approximately 500 companies do so.

Of the 15 G20 jurisdictions that have adopted IFRS for all or most publicly traded companies, 12 require IFRS for all, 2 (Mexico and Argentina) require IFRS for all other than financial institutions and 1 (Canada) allows US Generally Accepted Accounting Principles (GAAP) for some and has deferred IFRS for some others. All of the 15 G20 jurisdictions that have adopted IFRS for all

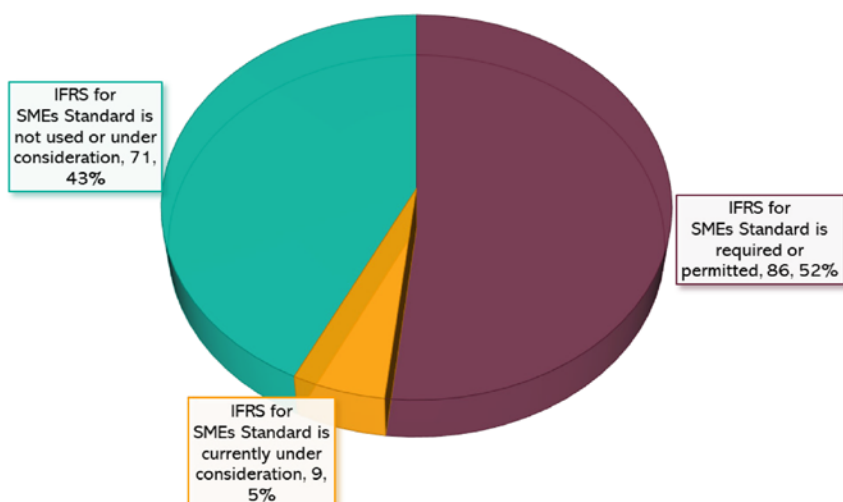


Fig. 4. IFRS for SMEs Standard Is Required or Permitted.

⁵The G20 is the international forum that brings together the world's major economies. Its members account for more than 80% of world GDP, 75% of global trade, and 60% of the population of the planet (<https://www.g20.org/en/il-g20.html>). The G20 brings together finance ministers and central bank governors from the following 19 countries plus the European Union: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States.

or most publicly traded companies also permit IFRS for all or most non-publicly traded companies.

With regard to the IFRS for small- and medium-sized enterprises (SMEs) Standard, 86 of the 166 jurisdictions require or permit the *IFRS for SMEs Standard*, and it is currently under consideration in an additional 9 jurisdictions (see Figs. 4 and 5). Five G20 jurisdictions have adopted the *IFRS for SMEs Standard*.

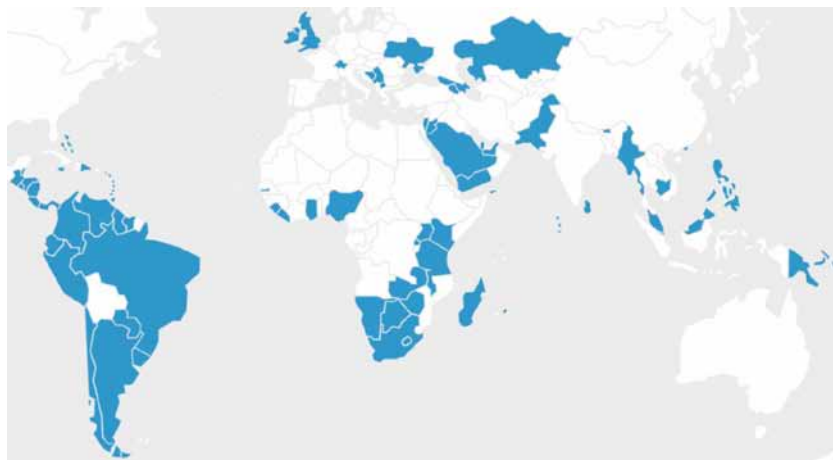


Fig. 5. The IFRS for SMEs Standard Is Required or Permitted.

Source: [The International Financial Reporting Standards Foundation \(2020\)](#).

IFRS Profiles for the IFRS for SMEs Standard

The 86 jurisdictions that require or permit the IFRS for SMEs Standard are:

Anguilla, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Bermuda, Bhutan, Bosnia and Herzegovina, Botswana, Brazil, Cambodia, Cayman Islands, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Eswatini, Fiji, Gambia, Georgia, Ghana, Grenada, Guatemala, Guyana, Honduras, Hong Kong, Kazakhstan, Iraq, Ireland, Israel, Jamaica, Jordan, Kenya, Kosovo, Lesotho, Liberia, Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mauritius, Montserrat, Myanmar, Namibia, Nicaragua, Nigeria, Pakistan, Palestine, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Rwanda, Saint Lucia, Saudi Arabia, Serbia, Sierra Leone, Singapore, South Africa, Sri Lanka, St Kitts and Nevis, St Vincent and the Grenadines, Suriname, Switzerland, Tanzania, Trinidad & Tobago, Uganda, Ukraine, United Arab Emirates, the United Kingdom, Uruguay, Venezuela, Yemen, Zambia, and Zimbabwe.

Structure of This Book

This book is organised into seven chapters, informed by the research questions. The details of the following chapters of this book are given below.

Chapter 2 presents the summary of prior research on IFRS implementation in developing countries in an attempt to provide directions for future research. This chapter is based on initially reviewed 145 papers and in particular 35 papers. In total, 43% of the articles were published in seven journals including *International Journal of Accounting*, *Critical Perspectives on Accounting*, *Advances in Accounting*, *International Journal of Accounting and Information Management*, *Asian Review of Accounting*, *Journal of Applied Accounting Research*, and *Asian Journal of Business and Accounting*. This chapter also provides some future directions for research.

Chapter 3 provides a critical analysis of the impact of culture on the implementation of IFRS. From the extensive structured review of literature from 106 articles, and in particular, 23 related articles were analysed. In total, 39% articles were published in the four journals – *Advances in Accounting* (2), *Critical Perspectives on Accounting* (2), *European Research Studies Journal* (2), and *International Journal of Accounting* (3). However, 22% of the articles had no citations. The mostly used theory was Hofstede's theory of culture. The study also calls for future research on comparative and regional and other theories to inform the policymakers on cultural implication on global IFRS implementation.

Chapter 4 discusses the economic impact of the implementation of IFRS in an attempt to provide directions for future research. This chapter is based on an extensive structured review of literature of 108 articles, and in particular the topic-related 41 articles. The most productive journals on the topic were *The Accounting Review*, *European Accounting Review*, *International Journal of Accounting*, *Journal of Accounting Research*, *Revista Espanola de Financiacion y Contabilidad*, *Asian Review of Accounting*, and *International Journal of Economics and Management*. The most cited authors were Daske, Hail, Leuz, and Verdi (2008, 2013); Armstrong, Barth, Jagolinzer, and Riedl (2010); Brüggemann, Hitz, and Sellhorn (2013); and Christensen, Lee, and Walker (2007). This chapter also highlighted that most of the studies did not use any theory. Future studies should also focus on the policymaking agenda for the local and international standard setters.

Chapter 5 presents extensive review of literature on disclosure, transparency, and IFRS implementation. This chapter argues that IFRS adoption or effective implementation of IFRS will enhance high-quality financial reporting, transparency, the country's investment environment, and FDI (Dayanandan, Donker, Ivanof, and Karahan, 2016; Muniandy and Ali, 2012; Gläserová, 2013). However, some researchers provide conflicting evidence that developing countries implementing IFRS are probably not going to encounter higher FDI inflows (Lasmin, 2012; Gheorghe, 2009). This chapter reviewed 105 articles, and in particular the topic-related 94 articles. All 94 articles were retrieved from a range of 59 journals, and the most productive five journals based on the citations were *Journal of Accounting Research*, *Abacus*, *European Accounting Review*, *Journal of Accounting and Economics*, and *Accounting and Business Research*. The most cited