

Discussion for the IFRS Implementation

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Abstract: This study analyses the impact and challenges of International Financial Reporting Standards (IFRS) in global financial reporting against the backdrop of rapid economic development in the context of globalisation. The research focuses on the role of IFRS in standardising global financial reporting and enhancing transparency, as well as its contribution to promoting comparability and consistency among multinational enterprises and capital markets. Through literature analysis and case studies, this paper explores the application of IFRS in multinational enterprises and its profound impact on global capital markets. The main research objects include enterprises and capital markets that have implemented IFRS. The findings show that IFRS positively influences corporate international competitiveness and promotes global capital market integration, though it faces challenges such as cultural and legal differences in global adoption. The conclusion highlights the promising prospects for IFRS adoption with the ongoing trends of globalization and technological advancement.

Keywords: International Financial Reporting Standards, Global financial reporting, Standardization and transparency, Multinational corporations, Capital market integration.

1. Introduction

With the rapid development of the economy and the deepening of the globalization, the financial reports' comparability and consistency have played a more and more important role in international communication and trade. Under this situation, the International Accounting Standards Board (IASB) has developed the International Financial Reporting Standards (IFRS), aiming to address the inconsistent issues of financial statements in international trade and investment activities [1]. The IFRS has brought great impacts to the financial reporting practices in many countries and regions, and it has already become an important financial reporting framework in the world. Till now, there are more than 140 countries that have adopted the IFRS, and some are in the process of convergence. The aim of this paper is to make a critical evaluation of the impact and challenges of the IFRS.

In this paper, the first part makes the introduction for the background and framework of the paper. The second part presents the background of the IFRS implementation. The third part makes the evaluation for the impact of IFRS on Global Financial Reporting. The fourth part discusses the challenges and future outlook of the IFRS. The final part is the conclusion.

2. Background of IFRS implementation

With the development of international investment and multinational corporations, there is an increasing need for the understanding of different countries' accounting, taxation, corporate law and other systems. Many accounting firms have produced the booklets to provide such information about different countries. Different countries in the world might have different accounting standards historically, like the US GAAP and UK GAAP, which would affect the comparability of the financial reports and the international investment. Under this situation, in 1973, professional bodies from different countries including US and UK established the International Accounting Standards Committee (IASC) in London. International Accounting Standards (IAS) were developed by IASC to coordinate the standards in these countries, but they lack standardization [2]. Then in 2020, the IASC was fully restructured and renamed to be IASB, and the IAS was also renamed and renumbered to be IFRS. Currently, as more and more companies and investors participate in cross-border trade and investment, the IFRS has played a crucial role in promoting the comparability and consistency of financial reporting. What is more, the well-known financial scandals, like WorldCom and Enron, also raised public attention for the authenticity and accuracy of financial reporting, and promoted the implementation of IFRS.

Currently, IFRS has already been adopted by more than 140 countries and regions around the world. In 2002, the EU passed regulations for the adoption of the IFRS. In 2003, several countries and regions like Australia, Hong Kong, New Zealand, as well as South Africa, made the decision to adopt the IFRS. In 2005, EU began to make it mandatory for all listed companies in its member states to adopt the IFRS, which also contributed to the widespread implementation of the IFRS around the world [3]. In 2006, China also issued new accounting standards and started its convergence path with the IFRS. Although there are still some major economic entities not fully adopting the IFRS, like the United States, Russia and Japan, the worldwide promotion and implementation of the IFRS has already made a significant achievement.

3. The global impacts of IFRS

As a globally recognized accounting standard, IFRS has shown its great importance under the background of global economic integration. It could not only provide the unified framework for global financial reporting, but also greatly promote the comparability and transparency of the financial information disclosed by the enterprises in different countries. This part would discuss the impacts of the IFRS on global financial reporting and the international market.

Firstly, IFRS has promoted the standardization of financial information around the world and increased the comparability of financial information. With the increasing number of multinational enterprises and the increasing frequency of international economic exchanges, it has brought great inconvenience and uncertainty to the decision-making of investors, creditors and other stakeholders when the companies in different countries or regions adopt the different standards. The introduction and implementation of the IFRS has enabled these companies to follow a common set of financial reporting standards, which could greatly improve the comparability of the financial information [4]. This comparability is not only reflected in the comparison between different enterprises in the same industry, but also reflected in the horizontal comparison between enterprises in different industries and different countries, which helps to provide a more comprehensive and accurate basis for the capital holders' investment decisions.

Secondly, IFRS puts emphasis on the true and fair reflection of the enterprises' financial status and operating results, requiring enterprises to prepare financial reports in accordance with uniform standards and fully disclose important information. And its main characteristics include the principle orientation, emphasis on fair value and disclosure transparency. The principles-orientated nature

would encourage companies to account for transactions and events based on their economic substance rather than their legal form, in accordance with accounting standards. This means that in a complex and changing business environment, enterprises need to exercise a high degree of professional judgment, flexibly respond to various new transactions and situations, and ensure that financial reports can truthfully and fairly reflect the economic activities of enterprises. The emphasis on fair value is also an important feature of IFRS, and it requires companies to measure assets and liabilities at market value or observable inputs, instead of historical cost. This practice could help to timely capture the impacts of changes in market price on financial status, so that the balance sheet of the enterprise would be more closely related to the reality in the current market, so as to more accurately assess the solvency and operational efficiency of the enterprise. Under the background of globalization, the investors are faced with the complex investment environment and diverse investment choices in their international investment, and they urgently need to obtain the accurate and reliable financial information so as to make more accurate evaluations about the risks and returns of investment projects. The implementation of IFRS could allow these investors to more easily access and analyze the financial information of companies in different countries and regions, and fair value measurement could provide more dynamic and forward-looking financial information to help them make more informed investment decisions.

Thirdly, the implementation of the IFRS has a great impact on the improvement of the corporate international competitiveness. In the global market competition, the enterprises must not only face the competition in the local market, but also deal with the challenges from the global market. With the application of the IFRS, the financial statements and reports prepared by the enterprise could better satisfy the investors' information needs in the global market, and improve the corporate credibility and credibility [5]. This would help the enterprise to attract more international capital, expand its international market, and enhance brand influence and international competitiveness. At the same time, IFRS puts emphasis on the financial information's authenticity and accuracy, which could also prompt the enterprise to strengthen their management and internal control, improve their operational efficiency, and further enhance the comprehensive competitiveness of enterprises in the global competition.

Fourthly, the implementation of IFRS could also help to improve the global financial markets' stability and promote their integration. Due to the deepening of the globalization, the financial information's accuracy and comparability have become more and more important in the decision making of the investors [6]. As a global unified standard, the financial information prepared under IFRS could be consistent, which makes the communication of global enterprises in the capital market more convenient. It helps to reduce information asymmetry and financial costs in cross-border financing, making it easier for the enterprises to obtain the financing from the international capital market. It could enhance the confidence and participation of the capital holders in the international market, and finally improve the stable development of global financial markets and promote their integration.

4. Challenges and Future Outlook

4.1. Challenge for the IFRS Implementation

The implementation of the IFRS worldwide has great impacts on international economic cooperation and communication. However, the implementation of the IFRS would face a lot of challenges. Firstly, for different countries and regions in the world, they would have different conditions, different languages and different cultures. The differences in these aspects would be not only reflected in the difference in the accounting terminology [7], but also reflected in the understanding of the accounting treatments and application. Although the IFRS has provided unified accounting standards, the specific

treatments in different countries might also have some differences. For example, the IFRS focuses on the fair value measurement, while in some countries with the inactive market, it might be difficult to obtain the fair value, which would affect the comparability of the financial information of enterprises in different countries. In addition to that, the difference in the culture might also affect the implementation of IFRS in some countries. Some countries might pursue the more conservative approach in their reporting, and some might take a more aggressive approach.

Secondly, the differences in the regulations and law in different countries might also bring challenges to the implementation of the IFRS, and some countries are resistant to fully adopting IFRS. For example, US GAAP is also one of the most important accounting standards all over the world, and the United States is on a quite slow path to fully adopting IFRS, due to its heavily reliance on US GAAP [8]. And for the countries like China, it is in the convergence process with the IFRS, while it has made a series of localization adjustments to better adapt IFRS. For example, there are some differences in the scope of the fair value measurement in the IFRS and Chinese accounting standards. In addition to that, the difference in the tax policy would also be an the important factor that affects the financial reporting. The differences in the tax policies of different countries might lead to the need for companies to consider tax effects when preparing their financial reports, which increases the complexity of preparing the financial reports.

Thirdly, for the specific enterprises, the IFRS has put forward higher requirements for information disclosure, which needs the enterprise to better collect the data and make the processing. Under this situation, the enterprises have to establish a perfect information system to ensure the accuracy and timeliness of report data, which would be a great challenge for some companies with weak technical strength. In addition to that, the implementation of the IFRS also put requirements for the capability of the accountants [9]. With the popularity and application of the IFRS, the demand for professionals with IFRS knowledge and experience would continue to increase. However, for some countries which do not fully adopt the IFRS, there would be a lack of such talents, which would bring difficulties for the specific enterprises which have the need to prepare the reports under IFRS.

4.2. Future Outlook of IFRS

Although the IFRS has faced many challenges in its implementation, like the differences in national cultures and regulations, the future outlook of its implementation remains to be promising. Firstly, the globalization trend has provided the broad space for the widely implemented IFRS. The rapid development of the economy and the deepening of the globalization would inevitably bring about the international circulation of capital and frequent international trade, and the global capital market would have the urgent need for transparent and unified reporting standards. As the internationally recognized and widely implemented accounting standard, it is nearly impossible for other standards to replace its status and role, and the importance of IFRS would continue to increase [10]. With the promotion of convergence, IFRS would help to improve the comparability and consistency of the financial report, reduce the financing cost in the international market and promote the efficiency and development of the global capital market.

Secondly, the rapid technology development and innovation would also bring vitality into the implementation of IFRS. With the development and implementation of advanced technology like artificial intelligence, big data and cloud computing, it would be more convenient and efficient for the enterprise to collect and process the financial data and adapt to the standards. The development of these technologies will also help reduce the complexity of implementing IFRS, improve efficiency and drive its widespread adoption.

Thirdly, it is also important for the IFRS to make the continuous revision and updating. The society and capital markets are in a highly developed stage, international transactions are becoming more and more complex, and the current IFRS might not meet the needs of the future, which requires the IFRS

to make the continuous revision and updating so as to constantly adapt to the new economic environments and market demands [11]. At the same time, the continuous revision and updating would also help to ensure its applicability and accuracy, and also help to improve the development of the global market.

5. Conclusion

As a widely recognized and implemented accounting standards, IFRS has already been adopted in more than 140 countries and regions. The implementation of IFRS could have a significant impact on global financial reporting. It could help to unify the standards when facing the same or similar economic matters, enhance the comparability, transparency, as well as the reliability of financial reports across the different countries. By standardizing the accounting practices, IFRS could also help to facilitate cross-border trades and investments as it could help to provide higher quality financial information for the investors in their decision making and increase their confidence in the global market, which further contributes to the integration of global financial markets. In addition, for the specific companies, the implementation of IFRS could help them to get access to the global capital, and increase their competitiveness in the global market.

However, there are still many challenges for the implementation of the IFRS, like the differences in national regulatory environments, cultural, resistance degree and technical difficulties. Looking ahead, the trend of globalization and the advancements in the technology would drive the further adoption of IFRS in more countries and regions, and IFRS would also make the continuous updates and adjustments to satisfy the needs of the global market.

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