Appendix
The Case for Global Accounting Standards: Arguments and Evidence

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Abstract

This paper outlines the arguments for a common set of accounting standards and the forces that have promoted adoption of International Financial Reporting Standards (IFRS). Widespread use of IFRS since 2005 provides an opportunity for empirical investigation of the benefits of IFRS. I summarise results of studies that are relevant for assessing the role of IFRS in both developing and developed capital markets.

Introduction

The expected benefits of global accounting standards are compelling. The use of one set of high quality standards by companies throughout the world has the potential to improve the comparability and transparency of financial information and reduce financial statement preparation costs. When the standards are applied rigorously and consistently, capital market participants will have higher quality information and can make better decisions. Thus markets allocate funds more efficiently and firms can achieve a lower cost of capital. These arguments have been used to support the adoption of International Financial Reporting Standards (IFRS) for financial reporting for consolidated listed entities in European Union (EU) member states (EC1606/2002). Other jurisdictions have cited similar reasons for adoption of IFRS (see Brown, 2011), reflecting the demand for high quality standards that can improve the quality and comparability of financial reporting and promote the development of national capital markets and the integration of markets internationally.

For the first time in history, we have substantial numbers of firms domiciled in different countries using common standards. Consequently we can collect evidence about the extent to which we observe benefits in capital markets. This paper presents research findings about the impact of adoption of IFRS since 2005 when they became the legally required accounting standards for over 6,000 EU firms and for firms in several other countries including Australia and South Africa. The next section outlines the evidence about the impact of IFRS on the efficient operations of capital markets, considering data relating to share prices and returns and also the activities of international investors and securities

[1] The views expressed in this article are those of the author. They are not the views of the IASB or its members, which are arrived at after extensive due process and deliberation.

analysts. The following sections consider the impact of IFRS in both developing countries and those where capital markets are more mature and present evidence that is relevant to evaluating the role of IFRS, both prior to and subsequent to the financial crisis of 2007-2008. The final section concludes the paper.

IFRS adoption and market efficiency

A fundamental question is whether IFRS have changed the information available to market participants in a way that is beneficial, that is, are markets more efficient when IFRS are used? We expect that IFRS information provided by firms to market participants may differ significantly from information based on prior national GAAP, due to differences between requirements of national standards and IFRS. The extent to which the change to IFRS provides more useful information that translates into benefits observable in capital markets is a question currently being addressed in research.

Some studies gather evidence about changes in market liquidity and firms' cost of capital, as a way of measuring the impact of IFRS. In one of the first large scale studies of firms adopting IFRS in a mandatory setting, Daske et al. (2008) conclude that market liquidity increases following introduction of IFRS. They also find evidence of a decrease in firms' cost of capital and an increase in equity value occurring prior to the official adoption date. In a related study, the authors find benefits such as improved liquidity and lower cost of capital are more likely for firms that are 'serious' adopters of IFRS (defined as firms with a commitment to transparency) (Daske et al., 2011).

Li (2010) finds IFRS mandatory adopters benefit through reduced cost of capital in the immediate mandatory adoption period, reflecting increased disclosure and enhanced information comparability. However, the reduction occurs only in countries with strong legal enforcement.[2] Palea (2007) considers costs of capital effects for financial institutions. She reports lower cost of capital for EU financial firms using IFRS compared to others following national standards and the Fourth and Seventh Directives, a result that is consistent with IFRS adoption objectives of the European Commission (EC1606/1202).

Researchers have long used share prices to reveal information about the usefulness of financial data (Ball and Brown; 1968 and Beaver, 1968). In this tradition, Beuselinck et al. (2009) investigate stock return synchronicity[3] for mandatory IFRS adopters in the EU. They conclude that IFRS adoption reveals new firm-specific information and subsequently reduces the surprise in future disclosures. Landsman et al. (2011) consider the impact of the use of IFRS on share prices and trading (abnormal return volatility and trading volume). They conclude that the information content of earnings announcements has improved for IFRS

[2] Researchers use the term enforcement to refer to the national legal setting in which the financial reporting takes place, that is, the legal and governance systems that protect investors and creditors and discipline others for illegal activities.

[3] Synchronicity refers to the extent to which individual stock prices move with overall market prices.

reporters by reducing reporting lag, increasing analyst following and increasing foreign investment. They also find the IFRS effect depends on the level of enforcement in a country.

Other studies explore the impact of IFRS for market participants. In relation to investors, studies provide evidence of various benefits that can be linked to firms' use of high quality, comparable standards. Brüggemann et al. (2009) consider the investments in foreign firms made by individual investors on the Open Market at the Frankfurt Stock Exchange (4,869 firms from 31 countries). They report an increase in trading activity following the adoption of IFRS. Thus the authors conclude IFRS have the potential to promote more foreign equity investments by individual investors.

DeFond et al. (2011) also investigate the relationship of IFRS and cross border investment. They find US mutual fund ownership increases for mandatory adopters, but only when adoption is seen as 'credible'. Thus, like Daske et al. (2009), they point to benefits from IFRS arising from improvements in comparability but caution that the way the standards are implemented (that is, the manner in which they are used by firms) is of crucial importance for realising benefits from IFRS. Shima and Gordon (2011) show that both legal standards and enforcement are necessary to increase foreign investment.

Yu (2010) also examines mutual fund holdings. She concludes adoption of IFRS increases cross border holdings by reducing the information processing costs of foreign investors, through improving comparability of financial information and indirectly by lowering other barriers such as geographic distance. Her evidence also suggests that harmonisation across accounting reporting regimes is a more effective way to attract foreign capital than improvements in individual country's reporting regimes. Francis et al. (2012) report a higher volume of merger and acquisition (M&A) activity and higher takeover premiums when countries have more similar GAAP. They also find more M&A activity in countries adopting IFRS in 2005, a trend more pronounced in countries with low similarity of GAAP and IFRS pre-adoption. The authors conclude that similar GAAP reduces information costs, thus increasing competition among bidders and permitting greater gains for target shareholders.

Flourou and Pope (2011) explore the question of whether mandatory IFRS lead to an increase in institutional ownership of equity. Considering the year of adoption and one subsequent year, they report increases in ownership and consequently show that IFRS affect allocation decisions of institutional investors. The IFRS-related ownership changes are higher for value and growth investors, who are more likely to make use of financial statements in their investment decision processes. An important caveat in their study is that the positive IFRS ownership effects are found only in countries with strict legal enforcement and low levels of corruption. I return to this point later in this paper.

Many studies investigate the effects of mandatory IFRS for security market analysts because they are important users of financial statement information. The IFRS studies build on a pre-existing literature that suggests high quality financial statement information assists analysts (Lang and Lundholm, 1996; Hope, 2003). Consequently, analysts are expected to benefit if IFRS improve the relevance, transparency and comparability of information. A study by Bae et al. (2008) of analysts following foreign firms suggests that they benefit when accounting standards are more similar. Specifically, when a country's GAAP is closer to international standards (IAS in their study), foreign analysts and more likely to follow and to provide more accurate forecasts for firms from that country.

Several studies set in the mandatory IFRS period conclude that IFRS adoption has benefited security analysts. Horton et al. (2012) find that analysts following IFRS firms have greater accuracy in their forecasts compared to analysts following non-IFRS firms. They conclude IFRS have improved the information environment by increasing both information quality and comparability. Other researchers also find improvements in forecast accuracy based on studies of EU companies (Jiao et al., 2012) and those from individual countries, including developed and developing market economies (Panaretou et al., 2009; Choi et al., 2010; Ernstberger et al., 2008; Hodgdson et al., 2008; Cotter et al., 2012). Beuselinck et al. (2010) find that IFRS improve the ability of analysts to incorporate firm-industry information in share prices and reduce the private information advantage held by institutional owners. In another study of IFRS firms, Beuselinck et al. (2009) report that the precision of information increases post 2006 but consensus among analysts does not change, suggesting an increase in precision of both common information and private information. Analysts who follow firms in more than one country experience the largest post IFRS improvement in private information precision.

Byard et al. (2011) note benefits for analysts in the immediate post IFRS adoption period for EU firms. The benefits are observed in countries where the national GAAP and IFRS had the greatest differences and where there were strong institutions to support IFRS adoption, that is, the legal system of a country is sound and offers protections to investors. Tan et al. (2011) report that mandatory IFRS attract foreign analysts to a firm and also improve their forecast accuracy. The increase in analyst following is positively associated with the extent of difference between local GAAP and IFRS and the extent to which adoption eliminates this difference. IFRS adoption also attracts more local analysts although it does not significantly influence their forecast accuracy.

Most research focuses on IFRS effects related to trading in securities markets. However, Beneish et al. (2012) find that IFRS have a greater impact in debt markets than equity markets. The authors observe that increases in foreign equity investment in the post-adoption period are limited to countries with high (or improving governance quality). However, increases in foreign debt investment flows are not dependent on governance quality, consistent with covenants in bond contracts being used to offset country-level weaknesses in investor protection. The increase in investment derives from both the US and other non-adopting countries, suggesting it is linked to the quality of IFRS.

The results of these studies provide evidence that the widespread adoption of IFRS has brought benefits to capital markets. Researchers generally conclude that the benefits arise from the nature of IFRS (compared to prior GAAP) and the use of common standards by firms from different countries, which improves the comparability of information for international investors and analysts.

A common thread in the academic literature is that the benefits of common standards cannot be achieved by the standards alone. The issue was raised prior to widespread adoption of IFRS. Ball et al. (2000; 2003) highlights the importance of incentives in determining how standards are used in practice. The point has also been taken up by IFRS researchers, notably Christensen et al. (2008) who argue that firm incentives are more important than the accounting standards themselves in understanding IFRS effects. Using data relating to the post 2005 adoption period, many researchers have concluded the setting in which IFRS reporting takes place has a strong influence on whether potential benefits of IFRS can be realised (Daske et al., 2008; Beuselink et al., 2009; Flourou and Pope, 2011; Landsman et al., 2011; Christensen et al., 2010 and 2012). The success of common standards depends not just on the quality of the standards issues by the IASB. Critically, success also requires an infrastructure to support IFRS to be in place at a national and international level.

Consequently, not all studies report improvements when companies adopt IFRS. As noted above, benefits are strongly linked to the extent to which prior national GAAP and IFRS differ and the level of enforcement (or, put another way, the legal setting and business and financial reporting culture) in individual countries. Researchers concerned with managers' reporting incentives argue that IFRS benefits will only emerge if firms have incentives to provide high quality IFRS reports, either due to their individual circumstances or in response to legal, reporting and governance requirements in the countries where they operate and the markets where they are listed. Wang and Yu (2009) find better accounting standards (for example, IFRS) have beneficial effects for the information content of share prices in countries with common-law legal origins, better shareholder protection and stricter legal enforcement. These studies emphasise the point made by many researchers: institutional setting will affect the extent to which IFRS benefits can be realised.

Not all research supports the claim that IFRS are beneficial for capital markets. Some researchers question whether comparability improves following IFRS adoption, pointing to evidence of continuation of pre-IFRS policy choices (Kvaal and Nobes, 2010; 2011). Lang et al. (2010) measure both earnings comovement (based on the covariation in earnings between firms in different countries) and accounting comparability (based on the relationship of earnings and returns of a firm, compared between firms in different countries). They find that while comovement increases for IFRS firms, comparability does not. Further, the increase in comovement is associated with a poorer information environment (measured as a decrease in analyst coverage and forecast accuracy and an increase in bid-ask spreads).

IFRS and economic development

Studies of capital market development show strong links between a country's legal and financial infrastructure and the maturity of its capital market. In a study of 49 countries using data from 1994, La Porta et al. (1997) show that countries with poorer investor protection (measured by both the character of legal rules and the quality of law enforcement) have smaller and narrower capital markets. In a related study, La Porta et al. (1998) conclude that common law countries have the strongest, and French civil law countries the weakest, legal protection of investors. The German and Scandinavian civil law countries are somewhere in-between. Jackson and Roe (2009) also explore the relationship of legal activity and capital market development. They argue that both public enforcement and private enforcement (typically associated with civil law and common law systems respectively) are important for development of markets, noting the practice in some common law countries to make use of mechanisms typically observed in civil jurisdictions.

Other studies point to the interrelationship of institutional setting and the quality of accounting information. For example, Leuz et al. (2003) conclude that a country's legal and institutional environment influences the properties of reported earnings. They find outsider economies (those with large stock markets, dispersed ownership, strong investor rights and strong legal enforcement) feature larger stock markets, lower ownership concentration, more extensive outsider rights, higher disclosure and strong legal enforcement than insider economies. Financial reporting and disclosure is considered to be an important part of the institutional setting that affects transparency (Bushman et al., 2004). Frost et al. (2006) find the strength of a stock exchange's disclosure system (disclosure, monitoring and enforcement of financial information) is positively associated with market development, after controlling for legal system, legal protection of investors, market size and other relevant factors.

Given the importance of institutional setting for market development, it is not surprising that initiatives to promote capital market growth involve the development of sound financial infrastructure, including the use of high quality accounting standards. The World Bank and the IMF have encouraged the use of IFRS to support development of capital markets and, in turn, global economic growth and stability (Hegarty et al., 2004).

The World Bank's Review of Standards and Codes (ROSC) reports (World Bank, 2011) provide many examples of countries embracing IFRS to improve the quality of financial information about private sector firms and government business enterprises, to promote the development of technical accounting expertise within a country and to attract foreign capital. Hope et al. (2006) review 38 countries that voluntarily adopted IFRS before the end of 2004. They conclude IFRS are a vehicle through which countries can improve investor protection and make their capital markets more accessible to foreign investors. Subsequently Gordon et al. (2012) show that foreign direct investment inflows increased in developing countries adopting IFRS. They study firms from 124 countries during the period 1996-2009 and show a direct benefit for developing (but not developed) economies, providing evidence that the World Bank encouragement of use of IFRS is beneficial.

Countries using IFRS include Korea, where full IFRS became mandatory from 2011 in an attempt to improve transparency and international perceptions of the corporate culture in order to attract more international investment (Fifield, 2007). In Malaysia full IFRS applied from 2012. The Malaysian Accounting Standards Board Chairman stated that adoption in Malaysia was not about 'jumping on the bandwagon' but rather recognising that Malaysian companies operate in a global environment. IFRS allows Malaysian companies and markets to be recognised internationally (MASB, 2008). Malaysia has previously partially harmonised national standards with IFRS. Reviewing financial reporting under national GAAP and the harmonised standards, Wan Ismail et al. (2010) report higher quality of earnings and Kadri and Zulkifli (2008) find higher value relevance of accounting numbers for Malaysian companies under the revised (harmonised) standards. Future research can consider whether further improvements follow adoption of full IFRS.

Various studies have documented the process of adoption of IFRS in developing markets. For example, Jaruga et al. (2007) describe the difficulties of conversion to IFRS and impact of adoption on financial statements in Poland. Similarly, Ionas et al. (2007) and Albu and Albu (2012) describe the complicated nature of the process in Romania while Sucher and

Jindrichovska (2004) discuss the Czech Republic's experience. A few studies provide evidence of economic or accounting outcomes of adoption of IFRS in developing markets. Dobija and Klimczak (2010) report that market efficiency and value relevant reporting were achieved early in the development of accounting to support privatisation (from 1997), but these features did not improve further in the period 2005-2008 when IFRS was adopted. Marquez-Ramos (2008) provides evidence that adoption of IFRS is associated with more trade and foreign direct investment and these positive effects are stronger in the transition economies of eastern Europe.

Financial re-regulation

Financial regulation has emerged as a major policy issue following the economic crisis of 2007-08. In October 2007 the Financial Stability Forum (FSF) formed a working group to make proposals that would enhance market stability, discipline and institutional resilience following a liquidity squeeze in markets from June 2007 (Helleiner and Pagliari, 2009). A subsequent action plan from the G20 finance ministers, based on the work of the FSF, is described by Veron (2012, p. 2) as re-regulation: 'the renewed realisation that financial systems, including banking systems, could not be left to their own devices, both because of the large potential economic costs of financial crises and because public expenditure is often a key component of their resolution'. The G20 November 2008 action plan proposed a commitment to common principles for reform, encompassing strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation, and reforming financial institutions. One set of global accounting standards, consistent application and enforcement and improved requirements in relation to recognition, measurement and disclosure for financial instruments and off-balance sheet entities were included in the action items (Rottier and Veron, 2012). Underlying the G20 proposals was the notion that accounting standards and the way they are applied and enforced must be improved, given their role in the events of the financial crisis (Walker, 2010).

Studies have investigated the impact of IAS 39 *Financial Instruments: Recognition and Measurement* on accounting for financial instruments following its adoption by EU banks from 2005 (prior to changes related to the G20 proposals). Leventis et al. (2011) study 91 EU listed banks over the period 1999-2008 and report earnings management (using loan loss provisions) is lower after adoption in 2005. The authors conclude the implementation of IFRS in the EU has improved the earnings quality of banks by mitigating the tendency of managers of commercial banks to engage in earnings management using loan loss provisions. Gebhardt and Novotny-Farkas (2011) study 90 EU banks in the period 2000-2007. They find the restriction to recognise only incurred losses under IAS 39 reduces income smoothing, although this result may be mitigated by bank regulators' preference for forward-looking loan loss provisioning. The application of the incurred loss approach results in less timely loan loss recognition, implying delayed recognition of future expected losses.

The G20 response also called for consistent application of accounting standards. Prior to the 2007-2008 crisis, the European Commission (EC) was positive about the quality and comparability of IFRS reporting. Based on a range of reports and reviews of financial reporting,[4] an EC report concluded there was a ‘general perception among preparers, auditors, investors and enforcers that application of IFRS has improved the comparability and quality of financial reporting and has led to greater transparency’ (EC 2008: 6). Subsequently, the European Security and Markets Authority (ESMA) reported on the activities of EU enforcers, describing the level of activity of various national bodies and their interaction in the European Enforcement Coordination Sessions (EECS) (ESMA, 2011). Enforcers paid particular attention to accounting for financial instruments and found significant improvements in 2009 and 2010 in the level of compliance with disclosure requirements about valuation techniques, own credit risk, credit risk, day one profit or loss, and special purpose entities. However, they concluded some areas (including the fair value hierarchy and qualitative risk disclosures relating to financial instruments) required more attention by issuers. Berger (2010: 22) concludes the EECS have made a ‘significant contribution’ to uniform application of IFRS. He notes that different enforcement approaches and methods are used and they vary widely. In addition, the extent to which the bodies publicise their activities also varies, suggesting an area for improvement in the future.

In 2011 the SEC published a review of IFRS reporting, based on the 2009 financial statements of 183 IFRS applying companies listed in the US. The SEC staff found general compliance with IFRS requirements, but noted the transparency and clarity of disclosures could be enhanced. Further, they concluded diversity in application presented challenges to the comparability of financial statements across countries and industries (SEC 2011a: 2). The report also mentions the use of options in IFRS, insufficient and inconsistent disclosure and a lack of guidance in some areas as potentially undermining comparability.

IFRS in developed capital markets

The G20’s call for one set of common accounting standards, for use in markets throughout the world, raises question about the benefits of global standards in markets that already have high levels of transparency and investor protection. In the case of Australia and New Zealand policy makers considered that the future growth of their small domestic capital markets required international investment, which would be promoted by use of IFRS. In Australia, the decision was broadly supported in the business communities though not necessarily by all individual companies (Brown and Tarca, 2001). Some smaller companies considered they bore the costs of adopting international standards without the benefits that may be realised by larger firms with international investors and analysts (Jones and Higgins, 2006).

Studies suggest capital market benefits following adoption of IFRS, even in countries with strong investor protection and so-called high quality financial reporting and enforcement. Chalmers et al. (2011) report an increase in the value relevance and the persistence of

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[4] ICAEW (2007), CESR (2007) and reports from the European Commission’s Accounting Regulatory Commission (ARC).

earnings when IFRS were adopted in Australia. Bissessur and Hodgson (2012) observe a decrease in synchonicity in the Australian market in the first two years post IFRS (which became higher in 2007-2008). Bissessur and Hodgson (2012) and Cotter et al. (2012) find lower forecast error post IFRS in Australia and Choi et al. (2010) report a similar result for the UK. Cheong et al. (2010) conclude that capitalisation of intangibles under IFRS provides value relevant information for companies from Australia, Hong Kong and New Zealand. Bayerlien and Farooque (2012) report greater comparability of policy choices for deferred tax and goodwill under IFRS for firms from Australia, the UK and Hong Kong. Brochet et al. (2011) also report improved comparability post IFRS for UK firms, based on the proposition that private information is reduced after IFRS adoption. Zéghal et al. (2011) report use of IFRS is associated with less earnings management for French firms during the period 2003-2006, particularly for firms with higher corporate governance and more involvement in foreign financial markets.

Sun et al. (2011) examine firms from 23 countries with cross-listings in the US. They explore whether accounting quality improves for these firms following adoption of IFRS. They find some evidence of an improvement, which is surprising given the US cross-listing provides incentives for high quality reporting, in place before adoption of IFRS. The study suggests IFRS can impact on accounting for firms from developed markets. It may also benefit investors within a country by widening their pool of potential investments. Lee and Farghar (2010) show IFRS adoption in Australia is associated with an increase in the level of investment in foreign equities by Australian investors. Other evidence about IFRS benefits for developed markets relates to capital market integration. Cai and Wong (2010) report higher correlations of market indices among markets where firms use IFRS (UK, France, Germany and Italy) than in markets where domestic firms generally do not use IFRS (US, Canada, Japan and Russia) during the period 1995-2008.

However, not all studies from developed markets provide evidence of benefits from IFRS adoption. Gjerde et al. (2008), studying firms in Norway, find little evidence of an overall increase in the value relevance of accounting information. However, they do find capitalisation of intangible assets under IFRS is value relevant. Jarva and Lantto (2010) conclude that IFRS do not provide more value relevant information or allow better prediction of future earnings or cash flows for firms in Finland.

In relation to other developed markets, evidence is not yet available for Canada, where IFRS were adopted from 2011. The reasons for adoption in Canada are similar to other jurisdictions: the use of IFRS provides more opportunities for Canadian businesses and investors by reducing the cost of capital, increasing access to international capital markets, and reducing costs by eliminating the need for reconciliations (CICA, 2012). Lefebvre, from the Certified General Accountants Association (CGA) Canada, held the view that national standards had served Canada well when it was a self-contained economic entity but with globalisation the country must capitalise on its ability to integrate within the global landscape (Jeffrey, 2011). In its annual report for 2011-2012, the Canadian Accounting Standards Board (AcSB) reflected on adoption of IFRS in Canada. While acknowledging that some individuals disagree with the strategy, the AcSB concludes there is no new evidence that would call the IFRS adoption strategy into question entities and states 'although IFRSs require improvement, they represent the only practical route to achieving the goal of a single set of high quality, globally accepted financial reporting standards contributing to the improved functioning of global capital markets' (AcSB, 2012).

The arguments about participation in global markets apply equally in the US and Japan even though historically these countries' markets have been among the world's largest and served by their own domestic standards and reporting and enforcement structures. The Japanese market has experienced many reforms in financial market regulation and accounting standards, particularly in the 1990s, as the country has sought a major role in international financial markets (Misawa, 2005). Saito (2008) argues that if Japan wants a leadership role it cannot be isolated from global accounting standards. Although US GAAP has been used by some large Japanese companies in the past, Saito (2008) states US GAAP cannot be the global accounting language so Japanese accounting standards must be harmonised with IFRS.[5] From 2005 the Accounting Standards Board of Japan (ASBJ) has pursued various harmonisation initiatives with the IASB, with the objective of achieving international convergence in standards as well as contributing to more integrated capital markets. Despite the size and importance of its capital market, Japan has experienced the pressure that follows from its standards being seen as 'not equivalent to IFRS'. The need for recognition of Japanese GAAP in EU markets (see Misawa, 2005) has been another incentive for the harmonisation of national GAAP and IFRS and for Japan to embrace IFRS.

Rottier and Veron (2010) note the geography of global finance is changing. Asian financial centres are increasing in importance and among the world's 100 largest banks, approximately one third are from developing markets. The authors argue that these changes in financial markets create a power shift in the global policy debate. Thus, the US and Japan can be expected to continually monitor their role and involvement in the international regulation of financial reporting and market activity in order to maintain their positions of influence.

Prior to the crisis of 2007-2008, increasing competition in capital markets led to calls in the US for changes to their regulatory framework to improve its efficiency while ensuring high standards of investor protection are maintained (Cox and Greene, 2007; Pan, 2008). The US market regulator, the Securities and Exchange Commission (SEC), considered various deregulatory proposals that would ease barriers to entry in US markets. In 2008 it removed the US GAAP-IFRS reconciliation requirement for foreign registrants and proposed a roadmap that would lead to the use of IFRS by domestic users by 2014 (Street, 2012). The actions responded to perceptions that the US capital markets were losing their previous dominance (Black, 2011) and recognised the widespread use and acceptability of IFRS financial statements.

The G20 proposals called for action from both international and national entities and institutions, including some in the US. Thus the Financial Accounting Standards Board (FASB) has worked with the IASB on projects addressing accounting standards about recognition, measurement and disclosure of financial instruments. However, the US position on some

[5] Saito (2008) does not provide reasons as to why US GAAP cannot be the global accounting standards. However, possible reasons are the rule-based nature of US GAAP, which is part of an extensive set of reporting regulations, designed for a complex regulatory environment specific to the US.

matters raised in the G20 proposals (specifically, one set of global standards) is less favourable than in earlier years. For example, Street (2012) notes the SEC's decision to defer release of a recommendation about use of IFRS by US domestic registrants.

Although economic and political conditions may have changed post 2008, the incentives for the US to be a leading participant in operation and regulation of international capital markets remain. For example, Pan (2008) argues US securities regulation provides disincentives for companies, leading to less foreign issuers becoming US public companies and the foreign issuers and US investors (and financial service providers) moving their capital raising and investment activities away from the US markets. Jackson and Pan (2008) suggest the decline in competitiveness of US markets reflects more long standing trends than a response to the Sarbanes Oxley Act or federal securities law.

The events of 2007-2008 crisis do not remove the disincentives identified by Pan (2008). Thus there remain motivations for the US to be involved in convergence, harmonisation and mutual recognition, despite the difficulties involved in the process. The way in which the US and other countries manage the trade-off between competition and cooperation will be revealed in the future. Commentators point out that much is expected of global institutions in terms of regulation of capital markets, yet the involvement of significantly more countries and less domination by one country (or block of countries) will make decision making more difficult (Helliener and Pagliari, 2009). More transparency is called for, but Rottier and Veron (2010) opine that post 2007-2008 the level of internationally comparable information on financial systems and markets, including disclosure on government finances and their support of financial firms, remains insufficient.

The adoption of one set of global standards (IFRS), proposed as one element of plans to improve transparency in financial markets, appears to have less support in the US and Japan since the 2007-2008 crisis. However, researchers suggest adoption decisions involve more than a consideration of net benefits for domestic companies. Chua and Taylor (2008) caution against ascribing the diffusion of IFRS solely to economic factors, arguing that political and social factors have an important role. As one example, they point to the circumstance where 'strong nations' require others to adopt international best practice but can themselves not adopt certain standards when it suits them. Ramanna and Sletten (2009) conclude that IFRS adoption is more likely when governments are capable of timely decision-making and when the opportunity and switching costs are relatively low. However, they do not find that adoption decisions are related to the level of (or expected changes in) foreign trade and investment flows. Rather, they argue that a country is more likely to adopt IFRS when its trade partners or regional neighbours adopt. Perceptions of a network of benefits, related to lower transaction costs for foreign financial statement users, lead to countries taking the decision to adopt IFRS. Thus a country may adopt IFRS even if its domestic standards are particularly well-suited to its domestic institutions (Ramanna and Sletten, 2011).

Vacillations in the US about if, how and when IFRS may be adopted are consistent with the idea of a government being cognisant of the opportunity costs of change. Over the past decade US constituents have been exposed to a variety of strategies for incorporation or adoption of IFRS in the US (Erikson et al., 2009; Epstein, 2009). Interestingly, a US-based study finds academics and practitioners hold views about the benefits and costs of IFRS that are similar to their counterparts in other countries. Rezaee et al. (2010) report a survey of 124 academics and 120 practitioners (members of FEI)[6] in 2008. The first seven perceived benefits of US convergence to IFRS relate to global issues (including comparability, uniformity, cross border investment, and integration, efficiency and cost-effectiveness of markets). Although governments are often concerned about the issue of sovereignty (over accounting standards as part of corporate regulation) and firms' conversion costs, the survey respondents rank other factors highly as well. Education issues (lack of IFRS and International Auditing Standards based textbooks; lack of IFRS education, understanding and experience of preparers) are important. Other concerns are about the application of IFRS: uniformity of application; and coordination and collaboration among regulators. Practitioners rank the cost of conversion as the third most important obstacle while academics rank it as seventh.[7]

Conclusion

In this paper I reviewed a range of studies that point to benefits from mandatory adoption of IFRS. Using a variety of research techniques, studies provide evidence that IFRS has improved efficiency of capital market operations and promoted cross border investment. In addition, many studies point to the importance of the infrastructure that surrounds the use of IFRS. Hegarty et al. (2004) state that a 'full and balanced combination of capacity and institutional incentives' for the rigorous application of international accounting and auditing standards is the key to their successful implementation. Research evidence consistently shows that IFRS benefits are more likely to be realised when IFRS application is supported by a framework that encompasses legal protections, competent professionals and adequate monitoring and enforcement.

The potential benefits of IFRS in developing markets can be strongly argued. The claims for benefits from use of IFRS in developed markets are more multi-faceted. Among the EU member states, countries have become mandatory IFRS adopters because of desired benefits for the group as a whole. However, the extent of change for an individual country and therefore the benefit for firms at a national level varies among EU members. Not surprisingly, many studies point to variation in IFRS benefits, when they are examined on a country by country basis (see Brown, 2011; Pope and McLeay, 2011; Brüggemann et al., 2012). If IFRS benefits are tied to factors such as national GAAP-IFRS differences and extent of legal enforcement, as explained above, then we should expect to see differences in benefits at an individual country level. However, an emerging body of research is pointing to

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[6] The Financial Executives International (FEI) is a US-based organisation with and international membership. The study does not report the number of respondents educated or domiciled in the US.

[7] The survey does not contain explicit reference to 'sovereignty' but responses relating to 'required changes in the regulatory regime' (preparers, sixth most important obstacle; academics, second) may refer to these concerns. However, we cannot be sure given the way the data is presented and analysed.

global benefits from the use of IFRS, particularly when their application is supported by sound infrastructure.

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