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Chapter

National Adoptions of IFRS: Accounting Perspectives

Maria Bengtsson

Abstract

In the past few decades, there has been a global trend of international harmonization of accounting standards. The intended goal is to remove the barriers that hinder investors when comparing the accounting information of companies from different nations, while simultaneously reducing the transaction costs for firms. However, research has shown that countries adopt IFRS unequally, ranging from resistance, partial adoption to full adoption. If the IFRS are not adopted to the same extent around the world, the central purpose of international standards can be compromised. This chapter aims to explain some key terms essential in understanding current development in international accounting and lay out the development and progress of IFRS diffusion.

Keywords: IFRS, national adoption, convergence, divergence

1. Introduction

National accounting standards have historically been developed by each nation or by a cluster of nations for the entities that reside within their accounting judiciaries [1, 2]. These standards are typically designed to meet specific national needs [3]. However, in the past few decades, there has been a global trend of international harmonization of accounting standards, with many countries having either partially or completely replaced their national accounting standards with the International Financial Reporting Standards (IFRS) [4, 5]. As profiled by the International Accounting Standards Board (IASB) in 2019, over 140 jurisdictions in all major regions in the world (**Figure 1**) have either required or permitted IFRS usage for their domestic publicly accountable entities [6]. Such a massive adoption of a single set of accounting standards worldwide may represent the most significant accounting regulatory change in recent years [7].

The IFRS can be defined as a single set of accounting standards that are intended to be consistently and globally applied—that is, to be used by developed, transitional, and emerging economies alike [8]. The IFRS are intended to provide investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with the companies' international peers. Conceptually speaking, adopting a single set of global accounting standards is undeniably appealing. In theory, global standards would remove the barriers that hinder investors when comparing the accounting information of companies from different nations, while simultaneously reducing the transaction costs for firms [9–11]. Empirical

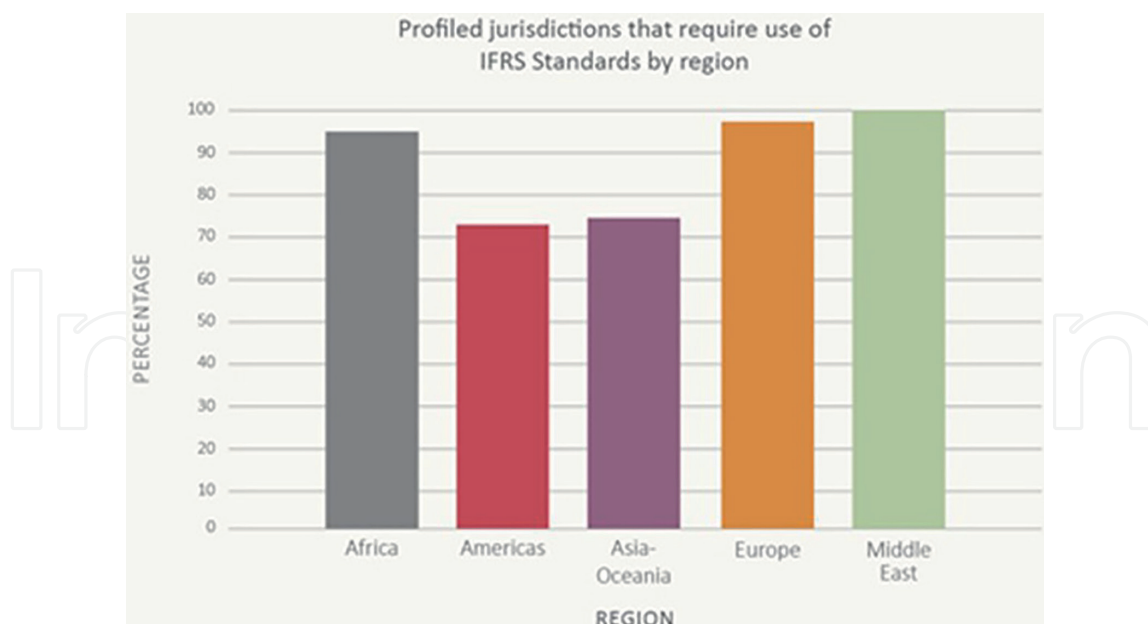


Figure 1.
IFRS adoption by region. Source: IFRS Foundation 2019.

studies have confirmed that IFRS adoption has (to a certain degree) increased the compatibility of financial statements across national borders, and that the IFRS have achieved many of the goals they were intended to reach [1, 7, 12, 13].

However, despite the economic benefits of the IFRS and their apparent support by the great majority of countries, research has shown that national IFRS adoptions are difficult and problematic [14–16]. One major issue is that countries do not adopt IFRS to the same extent. Nobes and Zeff [17] show that some countries adopt the IFRS as issued by the IASB, while others claim that their own national GAAP are “based on” or “similar to” the IFRS—when, in fact, large differences remain. According to an extensive report compiled by Deloitte [18], it is also common for countries to claim that they have “adopted” the IFRS while choosing to deviate or not to include certain provisions from the IFRS as issued by the IASB. In addition, despite the great number of countries that have adopted IFRS, the three largest economies in the world—the United States, China, and Japan—have not yet fully accepted the IFRS into their national reporting standards, even for listed companies [6].

Thus, it is debatable whether international accounting harmonization is indeed as successful as it seems to be [19]; in fact, it may be just a veneer over continued national differences [15, 20]. Users of financial information should be aware that IFRS do not necessarily carry the same implications throughout the world [16], despite the IASB’s intentions. Some scholars warn that, if the IFRS are not adopted to the same extent around the world, the central purpose of international standards will be compromised, as foreign investors will be unable to be confident when reading financial statements [15, 17]. Uneven IFRS adoption could even be harmful to investors who believe that accounting standards have been converged worldwide—when, in fact, financial reporting differences continue to exist across national borders while being covered under the façade of the IFRS.

1.1 The IFRS adoption process

IFRS adoption is a complex and multi-level governance process (**Figure 2**) [2, 21]. After being promulgated by the IASB, IFRS adoption occurs at both the *de jure* level

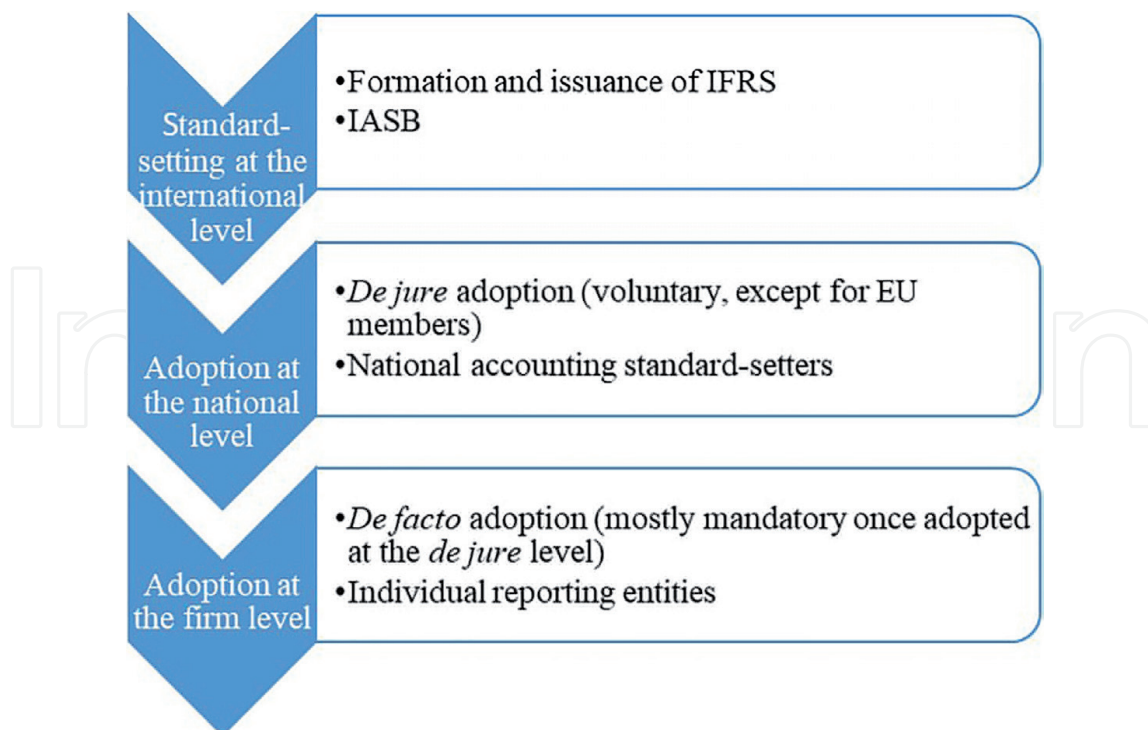


Figure 2.
Multi-tier IFRS adoption.

(e.g., recognizing the IFRS as part of a nation's law) and the *de facto* level (e.g., annual and quarterly reporting by the nation's entities). That is, a country may choose to adopt the IFRS as issued by the IASB, include it as part of its mandatory regulations [22], and require some or all of the entities within its jurisdiction to comply with the IFRS. On the other hand, when allowed by national regulation, firms may also choose to adopt IFRS before the country's official IFRS adoption [10]. These two level of adoption are interrelated, although differences must be acknowledged [23]. National accounting standard-setters are likely to take domestic firms' needs into consideration when deciding whether or not to adopt IFRS. By the same token, firms need to comply with the national requirements to either mandatorily adopt or voluntarily adopt IFRS. **Figure 2** depicts the multi-level diffusion and adoption of IFRS.

It is important to recognize that firm-level IFRS adoption is conditional on countries' decisions to allow or mandate IFRS in an adoption process [23]. Many countries first voluntarily adopt IFRS at the national level, and then write the standards into the local GAAP, which then become mandatory at the firm level. It has been shown that countries have adopted IFRS unevenly [18], so differences in countries' IFRS adoptions already exist at the national level before trickling down to the firm level [5, 24, 25]. As most domestically listed firms must comply with the national GAAP or regulations, instead of directly complying with IFRS, they may have no choice but to deviate from the IFRS, as issued by the IASB [7, 26–28].

1.2 Some key terms

Financial accounting research is often loaded with special concepts, both technical and theoretical, that bear specific meanings that either clarify for or further confuse readers. This issue is manifested in international accounting due to the scope of diversity in accounting traditions. Some of the important concepts in this field have been unclearly used or defined. Many employ these concepts, but few define them. In

addition, certain concepts are often treated as interchangeable, even though they do not represent precisely the same thing. This is perhaps inevitable for a subject as complex as IFRS. Nevertheless, to better understand international accounting harmonization, it is necessary to clarify these embedded meanings, since different usages may tilt discussions in somewhat different directions. It is also important to note that there is no strict “right” or “wrong” definitions of these terms, as important and evolving concepts can hardly be expected to have clear-cut definitions. Rather, the purpose of the effort is to note blurred or unclear definitions and introduce some clarity to the extent that has been identified in IFRS literature.

1.2.1 International accounting system

A dichotomy exists in the accounting literature in regard to what is meant by the term “international accounting system” and how it should be approached. One approach defines “accounting system” at the national level. For example, Gray [29] states that a country’s accounting system constitutes various national characteristics, such as the structure and development of capital markets, legal requirements, professional accounting standards, and tax law. Similarly, Doupnik and Salter [30] believe that the international accounting system resides in national legislature. By contrast, other authors regard an accounting system as a firm-level practice. For instance, Nobes [31] defines an accounting system as “a set of practices used in a published annual report.” Commenting on the difference in the two approaches, Nobes [31] argues that, although there is a formal set of rules or systems at the legislature level, companies sometimes choose to depart from these rules. According to Nobes, the advantage of using the firm-level definition, although it is admittedly narrow, is that this definition can actually have wider empirical implications.

1.2.2 De jure harmonization versus de facto harmonization

An important conceptual distinction must be understood between the *de jure* and *de facto* harmonization. *De jure* harmonization of international accounting standards involves the formal harmonization of regulations at the country level, while *de facto* harmonization refers to the material harmonization of the financial reporting practices performed at the firm level [22]. In the accounting literature, both Tay and Parker [32] and Canibano and Mora [33] refer to *de jure* harmonization as the harmonization of accounting regulations and to *de facto* harmonization as the increase in comparability that arises from greater conformity in practice. Qu and Zhang [22] argue that *de jure* harmonization is the basis for achieving *de facto* harmonization. In fact, *de jure* harmonization can but does not necessarily lead to *de facto* harmonization, if the standards allow for more options for companies [33]. Nevertheless, *de facto* accounting harmonization cannot be achieved without first achieving *de jure* accounting harmonization [33]. The decision to adopt IFRS can be made both at the *de jure* level (if the IFRS are mandated to be followed as nation-wide reporting standards) and at the *de facto* level (if the IFRS are one of the reporting standards firms are allowed to choose from) [34].

1.2.3 Convergence versus adoption

The terms “convergence” and “adoption” have recently come into use as nations attempt to narrow the gap between their national accounting standards and the

IFRS. It is important to note that convergence is not equivalent to adoption [5, 15]. The differences between these two concepts have set off a great deal of debate within the field of international accounting research. Nobes [35] argues that, in order to be called adoption, relevant entities must state that their financial statements are in full compliance with the IFRS as issued by the IASB. Thus, at the country level, “adoption” should mean that the national set of accounting standards is directly replaced by the IFRS as issued by the IASB. This position is taken by the Member States of the EU, which have fully applied the IFRS since 2005. By comparison, “convergence” is the gradual mechanism of changing local accounting standards into IFRS. Although it does not mean full adoption, convergence can indicate only a minimal difference between a nation’s standards and the IFRS [36]. According to the IASB’s position, convergence will not, by definition, lead to a common set of global standards. Nevertheless, convergence has been and will likely remain a useful process to facilitate adoption by narrowing differences. Thus, convergence should be a means of making the transition to the full adoption of IFRS standards, and not an end in itself [37]. By the same token, Zeff and Nobes [38] emphasize that convergence is a dynamic process of consistency with IFRS in accounting principles and substance, which is neither a direct adoption of IFRS nor a word-for-word translation of IFRS. Rather, convergence is the act of moving towards uniformity. Zeff and Nobes use China and Venezuela as examples of countries that use the IFRS as a starting point for drafting national standards, but then diverge significantly from the IFRS as issued by the IASB. Some countries that have “converged” with the IFRS are nonetheless counted by the IFRS Foundation and by others as adopters of the IFRS, which—according to Zeff and Nobes [38]—is misleading.

In the same vein, Ball [15] notes that convergence is “the process of narrowing the differences between IFRS and the accounting standards of countries that retain their own standards.” Convergence is a modified version of adoption in which multiple sets of rules or practices are the same [5]. Therefore, the relation between convergence and adoption is not dichotomous. These two concepts represent the subtleties of the development and diffusion of IFRS at various stages. Following this logic, Nobes [35] states that the word “convergence” is more correct when applied to the joint program of the IASB and the United States’ Financial Accounting Standards Board (FASB), because both have changed particular standards to match each other’s, and the IASB and FASB have run many joint projects. In the case of other countries, however, convergence with the IFRS is a euphemism for the piecemeal adoption of IFRS [35].

1.2.4 Standardization versus harmonization

Standardization and harmonization are often used interchangeably in IFRS studies. However, the difference between them should not be ignored [39]. Standardization implies a movement towards uniformity, whereas harmonization is a movement away from total diversity [32]. In the context of International Accounting Standards (IAS), McLeay et al. [39] suggest that “whilst international standardization implies a movement towards global uniformity, harmonization implies a movement towards similarity in the choice between alternative accounting treatments.” They define international standardization as a process that constrains choice, ultimately resulting in the adoption of the same accounting method by all firms and all countries. International accounting harmonization, on the other hand, is a process that results in a systematic choice between accounting methods across national borders [39]. Such choices are dependent upon the nature of the nation or firm and its

operating environment, but are otherwise independent of the location in which the nation or firm happens to be registered [39]. Similarly, Canibano and Mora [33] argue that harmonization is a more realistic and conciliatory approach than standardization, and is also more attainable and less rigid. However, other scholars disagree. For instance, Arnold [40] believes that harmonization is equivalent to standardization. That is, according to Arnold, accounting harmonization equates to the standardization of financial reporting standards, auditing standards, and/or other accounting-related rules and regulations such as licensing and qualification requirements or ethics rules.

2. The history and legitimacy of IFRS

It has been argued that the international harmonization of accounting standards is a result of the economic integration and increasing trading between national borders [41]. In addition, corporate economic scandals have shaken investors' trust in financial reporting. To regain both investors' trust and economic order, it has become necessary to strengthen the comparability and transparency of financial reporting across national borders [8].

2.1 Background of IFRS diffusion: economic integration and global financial crisis

Economic globalization and integration form an important context in which national IFRS adoption has become not only necessary, but also urgent [9, 42]. Economic globalization has created a new common ground for businesses to engage in trade and transactions across national borders [41]. In this new "game," certain common rules must be understood and followed by all participants to ensure a functional trading place. As the vice chairman of IASB, Ian Mackintosh comments:

It is increasingly difficult to see different and often incompatible national accounting standards as anything other than a legacy of a bygone era. They add cost, complexity and translation risk to companies and investors operating in today's global marketplace [43].

According to the IASB, about one third of all financial investments in the world are international transactions. It is essential for differences in national accounting standards to be eliminated, or at least understood by all players. Thus, it is necessary for national accounting standard-setters to change their existing national accounting systems in order to facilitate international economic changes, assuming that a growing economy is part of the national plan. Global standards are achievable and an inevitable consequence of continued economic globalization. As stated on the IASB website:

This [globalization] evidence indicates that global standards are both desirable, achievable and inevitable. As economic globalization continues apace, so too will the force of the arguments in favor of IFRS adoption within those remaining jurisdictions [44].

In addition to global economic integration, the accounting scandals in the early 2000s that brought down large multinational corporations (MNCs) such as Enron and Arthur Anderson have increased investors' awareness of the importance of trustworthy accounting standards. Furthermore, in the summer of 2007, accumulating losses on U.S. subprime mortgages triggered widespread disruption to the

global financial system. In less than a year, the situation developed into an international financial crisis and eventually resulted in a global economic downturn that further shook investors' confidence in the stock market. As stated on the IASB website:

Post-crisis, policymakers are all too aware of how every national capital market in the world, even the largest, functions as little more than a satellite of the global financial system [43, 44].

To reestablish confidence in the soundness of markets and financial institutions, as well as to prevent further crises, the G20¹ summit in Washington on November 15, 2008, produced a thorough analysis and summary of the root causes of these crises and put forward action plans that included improving the IASB's governance and supporting the IFRS as the single set of high-quality global accounting standards. Both national and international organizations developed recommendations and resources aimed at promoting the IFRS. The G20 called on the IASB and the Financial Accounting Standards Board (FASB) in the US to improve standards on valuation and provisioning and to achieve a single set of accounting standards. The G20 summit in London in April 2009 further required proactive collaboration from member countries on convergence with the IFRS in order to prevent similar financial crises. In the same year, the G20 formed the special Financial Crisis Advisory Group (FCAG). The FCAG supports the IASB in promoting the IFRS to be the single set of global accounting standards in order to reestablish investors' confidence in accounting information.

However, the G20 has never required countries to fully adopt the IFRS. Instead, it encourages its members to converge with the IFRS. The IASB does not agree with this position and has expressed on multiple occasions that only full adoption of IFRS, not convergence with IFRS, can ensure global financial stability and prevent similar financial crises. According to the IASB, the G20 and its various committees, while pushing the diffusion of IFRS, have frequently focused on national interests, which can create barriers and impediments to economic growth and jeopardize global financial stability. As the chairman of the IASB remarked:

This inability to deliver compatible outcomes with the FASB clearly demonstrates the inherent instability of convergence as a means to achieve a single set of global accounting standards. For this reason, our Trustees wisely concluded that convergence can never be a substitute for adoption of IFRS. Thankfully, throughout the financial crisis, the momentum towards adoption has continued unabated in many countries [44].

Despite this disagreement from the IASB, the G20—which promoted the IFRS in the past due to the financial crisis—has recently been less enthusiastic. Support for the work of the IASB has been decreasing. For example, in the past, the communiqués had always included a paragraph such as this:

We underline the importance of continuing work on accounting standards convergence in order to enhance the resilience of the financial system. We urge the International Accounting Standards Board and the US Financial Accounting Standards Board to complete by the end of 2013 their work on key outstanding projects for achieving a single set of high-quality accounting standards [45].

However, the newest communiqués issued after the meeting of the G20 in 2014 and thereafter no longer contain a call for converged accounting standards.

¹ The G20 consists of the finance ministers and central banks from 19 countries and the EU.

2.2 The history and development of the IASB

The formal history of the IASB began with the International Accounting Standards Committee (IASC). In 1973, the IASC was jointly established by professional accounting bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland, and the United States. Between 1973 and 2001, the IASC issued IAS. The IASC was essentially a structure, rather than a committee in the traditional sense of a group of people. The IASC originally had a goal of “harmonization” by reducing differences between accounting standards in major capital markets. By the 1990s, however, the IASC reshaped its goal into “convergence,” which, according to the organization, is a step above harmonization. The convergence concept is to develop a “single set of high-quality, international accounting standards that would be used in at least all major capital markets.” In 1995, The IASC and the International Organization of Securities Commissions (IOSCO) agreed on what constituted a comprehensive set of core standards. The IASC undertook a project to complete those core standards by 1999. The IOSCO agreed that, if it found these core standards acceptable, it would recommend the endorsement of IASC standards for cross-border capital and listing purposes in all capital markets [46]. In May 2000, the IOSCO completed its assessment and accepted the IASC’s core standards. Members of the IOSCO were encouraged to use the IASC standards to prepare their financial reporting for international offerings and listings, supplemented where necessary to address outstanding substantive issues at a national or regional level, or to use waivers of particular aspects of the IASC standards without requiring further reconciliation under exceptional circumstances [47].

In 1997, after nearly 25 years of existence, the IASC concluded that, in order to continue to bring about convergence between national accounting standards and practices and high-quality global accounting standards, it had to find a better way to perform its role effectively. To do so, the IASC saw a need to change its structure. The standard-setting body was thus renamed as the IASB. Formally, the IASB is a private standard-setting organization based in London. It operates under the IASC Foundation, which is more widely known as the IFRS Foundation. The IASB is primarily funded by fundraising activities, which are the responsibility of the IFRS Foundation. The governance, oversight, and standard-setting processes of the IASB are similar to those of the FASB in the United States. The IASB has 14 board members (including a chair and a vice chair) with a variety of functional backgrounds and from different continents. The currently sitting IASB Chair is Andreas Barckow. The primary purpose of the IASB is to promulgate IFRS. It is committed to the mission of developing a single set of high-quality, understandable, and enforceable global accounting standards and working with national standard-setters to achieve accounting standards convergence. The IASB has inherited 25 standards issued by the IASC, covering various issues. Because the IAS standards were essentially distillations of existing accounting practices used around the world, they often allowed alternative treatments for the same transactions. The IASB decided to undertake a comparability and improvement project to reduce the number of allowable alternatives and make the IFRS standards more prescriptive than descriptive [48].

2.3 The development and adoption of IFRS around the world

Although IFRS have now been accepted by the majority of countries around the world, their initial acceptance by national accounting standard-setters and firms was

not as smooth as many might think. The process began in the 1970s, and it took a long time for the IFRS to gain worldwide recognition.

2.3.1 Initial hesitations and uncertainties regarding adoption

Prior to the first major wave of IFRS adoption among the European countries in 2005, there was a great deal of debate about the relevance and feasibility of implementing a single set of accounting standards worldwide. During this time, national and international standard-setters tried to understand how the globalization of the economy had influenced countries' acceptance of IFRS; they also tried to identify key factors or obstacles that could affect a nation's capacity for adoption and willingness to adopt. In this process, there were concerns that, even if countries or firms chose or were required to adopt IFRS, they might not be ready and might apply IFRS differently, creating a bigger problem than before. The KPMG issued a survey of 149 accounting professionals showing that there was general concern that uncertainty over the applicability of IFRS among EU companies had delayed the voluntary IFRS adoption of many [49]. Similarly, the Institute of Chartered Accountants in England and Wales (ICAEW) raised concerns regarding the lack of preparation for the introduction of IFRS. The ICAEW conducted a survey among its members asking whether they would, if given the choice, move to IAS. Only over a third of the businesses said that they would be likely to move to IAS. The ICAEW concluded that tardy preparation for IFRS adoption by some firms could cause them to receive qualified audit opinions upon IFRS adoption [50].

Another concern was the feasibility of implementing an Anglo-Saxon accounting model into other social contexts. Some observers have regarded international accounting harmonization as predominantly implying compliance with an Anglo-Saxon accounting model [51], and contend that the international accounting standards agenda of the IASB is a means of imposing an Anglo-American hegemony. Such a contention was somewhat evident in the 1990s, when the staffing complement of the IASB was dominated by Anglo-Americans. For example, even though the ASEAN Federation of Accountants (AFA) had sought a greater level of representation and participation by Asian nations in the deliberations of the IASB, prior to 1995, only Malaysia and Singapore out of the ASEAN AFA member countries had been represented on working committees. Setting aside the achievability of global standardization, Dye and Sunder [52] also question whether having a single global set of accounting standards is even desirable. They argue that there were several benefits in allowing firms to follow either IFRS or the U.S. GAAP, and contend that competitions among standard-setters can help to meet the needs of globalization and increase the efficiency of accounting standards.

2.3.2 Major waves of IFRS adoption around the world

Despite the skepticism in the early stage of IFRS harmonization, during the push for the internationalization of accounting standards, the accounting differences between IFRS and other major national accounting standards, such as the U.S. GAAP, were narrowing [53]. In the late 1990s, some countries began to allow voluntary adoption of IFRS. For example, in 1998, the law §292a HGB was passed in Germany, permitting German listed companies to prepare consolidated accounts in accordance with the IFRS. In the meantime, many major stock exchanges around the world, including the London, Frankfurt, Zurich, Luxembourg, Bangkok, Hong Kong,

Amsterdam, Rome, and Kuala Lumpur stock exchanges, began to accept financial statements from foreign listed companies prepared under the IFRS without reconciliation. In the United States, the SEC also began to allow disclosures based on IFRS. As stated by the SEC, the reasons for accepting such standards in the U.S stock changes were as follows:

Our decision to adopt the International Disclosure Standards was based on our conclusion that the standards were of high quality and that their adoption would provide information comparable to the amount and quality of information that U.S. investors receive today [54].

The FASB decided that the need for international standards was strong enough to warrant more focused activity on its part. The then FASB Chairman, Dennis Beresford, expressed his support for “superior international standards” that would gradually replace national standards, and identified new initiatives to get the FASB more directly involved in the drive to improve international standards [55]. The FASB and the IASC began to undertake concurrent projects to improve their earnings per share standards with the specific objective of eliminating the differences between them.

The large listed European companies that chose early voluntary adoption of IFRS did so because they believed that the use of international standards would enable better communication with information users, especially international investors. For example, KPMG [49] reported in a survey that the reasons for European companies to switch from national standards to international standards included (1) the possibility of increasing the availability of capital and lowering its cost; (2) the perceived high quality of the IFRS; and (3) the preferences of institutional investors and analysts.

Then, in the early 2000s, efforts to internationally harmonize accounting standards finally evolved into a broad worldwide convergence effort at the national level. In 2002, the EU adopted legislation requiring all listed companies to prepare their consolidated financial statements using IFRS starting in 2005, which represented the first major capital market to require IFRS. The regulation states that IFRS adoption is intended to achieve “a high degree of transparency and comparability of financial statements and hence an efficient functioning of the (EU) Community capital market and of the Internal Market.” In the same year, the FASB and the IASB embarked on a partnership to improve and converge the U.S. GAAP and international accounting standards. That partnership is described in the Norwalk Agreement, which was issued after the joint meeting. The Norwalk Agreement set out the shared goal of developing compatible, high-quality accounting standards that could be used for both domestic and cross-border financial reporting [56]. Beginning in November 15, 2007, the U.S. SEC allowed the listing of foreign companies using the IFRS on the NYSE without having to first reconcile their financial statements with the U.S. GAAP. In the meantime, several other jurisdictions such as Hong Kong and Australia also chose to adopt IFRS. Japan and China also formed convergence plans with the IASB. In 2007, China achieved major convergence between the Chinese GAAP and the IFRS.

In addition, there was a continuation of the worldwide planning efforts at the international level. For example, in response to the international financial crisis, the G20 summit in Washington on November 15, 2008 produced a profound analysis and summary of the root causes of the crisis and put forward action plans that included improving the IASB’s governance and establishing a single set of high-quality global accounting standards [57]. The G20 summit in London in April 2009 required proactive collaboration from member countries in converging accounting standards [58]. The IMF routinely provided foreign aid to developing countries or countries in

financial trouble with the demand that reform be enacted in the public and private sectors. Such demands were often tied to the demand that IFRS accounting standards be adopted. After the few rounds of major waves of IFRS adoption around the world, the success of IFRS convergence is now apparent. According to the recent IASB report, more than 140 jurisdictions have adopted IFRS with very few modifications, and the few jurisdictions that have made modifications are generally regarded as taking temporary steps in their plans to adopt IFRS.

2.3.3 Recent slowdown and increased skepticism

In more recent years, despite the momentum of IFRS adoption by nations, there have been renewed concerns over the success and legitimacy of IFRS. Notwithstanding the claims by the IASB that modifications to the IFRS are rare, some academic research has shown continued major differences among national financial reporting [15, 59–61]. Of course, as Nobes and Zeff [17] point out, the most obvious limitation to the scope of the mandatory use of IFRS is that the phrase “all the major countries” does not include the world’s three largest economies: the United States, China, and Japan. They argue that, with the great increase in adoptions of IFRS, warnings about the vague claims are even more relevant, because the population of adopters is now much larger yet still shows considerable variety.

In addition, the speed of IFRS adoption has begun to slow down as the initial enthusiasm fades away. The Chinese GAAP, for example, have remained in a convergence but non-adoption status since 2006. The Chinese Ministry of Finance (MOF) originally set 2011 as the target year for the continuing and full convergence program of the ASBE, making 2010–2011 a critical period for China’s convergence. The MOF planned to initiate the overhaul of its ASBE system in 2010 and finish by 2011. All large and medium-sized enterprises would be required to use the revised standards as of 2012 [62]. This goal, as of 2019, remains in the planning stage without further movement. In the United States, in January 2008, participants in an FASB roundtable predicted that it would take about 5 years to complete the full adoption of IFRS by the United States. More than 12 years have passed since then, yet the United States has not only not adopted the IFRS, but also started to actively resist them.

Even if IFRS could achieve global convergence in the short term, observers have questioned whether these benefits are sustainable. By adopting IFRS, a country essentially allows a foreign entity with no local accountability to dictate its reporting laws and thereby control the economic incentives and activities of its people and businesses [63]. The former chairman of the SEC, Cox, points to this concern as a reason why a full-scale adoption of IFRS is unlikely to occur in the United States. He expressed his frustration and the downgrading of his trust in the IFRS in a keynote speech addressing the SEC:

...when I was SEC Chairman, I worked to ensure that the United States was doing everything necessary to make financial information from companies in different countries both comparable and reliable. But that was several years ago. And a great deal has changed since then. Today, I come to bury IFRS, not to praise them [63].

Cox further argued that the full adoption of IFRS by the United States might once have been possible, but is no longer so [63]. Some of the IFRS-adopting economies have also been requiring a national standard-setter to review and, if needed, modify the IFRS before they become the law of the land. This cherry-picking approach may lead each national regulator to adopt certain standards while rejecting others, thereby causing countries to diverge again in their accounting standards in the long run. On

the other side, the IASB, which is facing increasing resistance, has emphasized that it remains committed to the long-term goal of the global adoption of IFRS as developed by the IASB, in their entirety and without modification. The IASB believes that convergence may be an appropriate short-term solution for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, should not be a substitute for adoption. Adoption mechanisms may differ among nations and may require a period of time to implement, but they should enable and require relevant entities to state that their financial statements are in full compliance with IFRS as issued by the IASB [64]. As stated on the IASB's website:

There is a natural temptation for countries (and stakeholders within those countries) to argue against full adoption of IFRSs, to call for convergence of national standards and IFRSs rather than adoption, or to introduce national exceptions to IFRS rules. The temptation to pursue convergence rather than adoption should be resisted. Full adoption of IFRSs must be the end goal...Having once achieved convergence, standards could well diverge again [64].

To summarize, the most important reasons for the speedy and wide diffusion of IFRS are the growing integration of the world's economy and a series of financial crises. This combination has increased the demand from international investors for better quality and comparability of financial reporting. As a result, the mission of the IASB has evolved over time. After initial hesitation on the part of nations, followed by fast adoption in many parts of the world, IFRS harmonization has begun to slow down in recent years.

3. Chapter summary

This chapter has provided clarifications of some seemingly exchangeable but different terminologies when examining the complex topic of IFRS. The development and diffusion of IFRS have led a winding road characterized by initial doubts, fast adoption and recent slowdown. This chapter brought forward important insights regarding current development on international accounting harmonization by pointing out the trend of massive adoption of IFRS by country and the simultaneous variations that continue to hinder the efforts by the IASB. After 20 years of diffusion around the world, the IFRS have been widely recognized as high-quality accounting standards that can make it possible for financial information to be compared across national borders [8]. However, this success can only be sustained if the IFRS are adopted and applied properly in practice [20, 60].

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Author details

Maria Bengtsson
Kristianstad University, Sweden

Address all correspondence to: maria.bengtsson@hkr.se

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