Università
Ca'Foscari
Venezia

Dipartimento
di Management

Master's Degree programme in Economia e Direzione delle Aziende
Curriculum: International Management

Final Thesis

THE CONSEQUENCES OF THE APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN DIFFERENT INSTITUTIONAL ENVIRONMENTS

Supervisor
Prof. Saccon Chiara

Graduand
Margiyeh Marta
Matriculation Number 824121

Academic Year
2014/2015

Dedicated to my parents, who supported and encouraged me from my first day of primary school and allowed me to crown this path with their patience and their love.

Ai miei genitori, che mi hanno supportata ed incoraggiata fin dal primo giorno di scuola elementare e che mi hanno permesso di coronare questo percorso con la loro pazienza ed il loro amore.

INDEX

INTRODUCTION

This paper is devoted to the analysis of the worldwide compliance with the International Financial Reporting Standards. Although the phenomenon of the global convergence of the accounting and reporting framework is a relatively recent phenomenon, its success is remarkable, and nowadays we are witnessing the tendency to pursue the worldwide harmonization of the accounting standards.

Despite this tendency towards converge, it is not possible to neglect the paramount role played by the national features and characteristics of each specific country, which dramatically influenced its business and management practices. This is of course an obstacle to the overall harmonization objective, although some countries are showing up the willingness to give up their domestic and national legislation to embrace the global standards. The main reason of this tendency is that countries are favorable to participate the benefits resulting from the adoption of a single set of accounting standards, in terms of a more efficient comparison of the financial statements, thanks to a more uniform format and measurement methods of the balance sheets and the income statements. The main advantages range from a higher quality of the accounting frameworks, also in terms of reliability and transparency, to the possibility of attracting more foreign investors.

One of the major forces that are claimed to drive towards such global standards convergence is that of globalization, as long as companies are much more oriented to operate internationally, so the global trade has remarkably increased.

This paper is divided into two parts. The aim of the first part of the paper is to analyze the main factors that cause accounting diversity in the field of international accounting framework. The second part, on the other hand, develops the key role of accounting in business and stresses the worldwide adoption of the international standards in the light of the different institutional characteristics and the financial systems of the geographical areas that are considered.

Nevertheless, the objective of the worldwide harmonization of the accounting standards is remarked, and the economic consequences of the IFRS adoption are investigated.

Indeed, as many authors demonstrated, financial reporting frameworks are determined

by country specific factors. As already stated, they reflect the characteristics of the country in which they are applied and can be considered as the result of the interactions existing within that specific environment.

The principal factors that are mainly considered as affecting financial reporting frameworks in any country are analyzed and explained, with a particular focus on the European countries. The awareness of the implications of such accounting diversity is necessary in pursuing the international accounting harmonization objective, as the environmental factors may be considered as the current limitations of the drive towards harmonization.

So accounting policy-setters need to take in great consideration the existence of the environmental differences between countries in order to better achieve the international accounting harmonization objective. The aim of an overall accounting harmonization is chased through the adoption of the International Financial Reporting Standards (IFRSs). IFRSs are considered as a common global language in the field of business in order to make company accounts better comparable, understandable, reliable and relevant both for internal and external users in an international perspective, so of course they are the main consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries.

There is an explanation of the most important stages that led to the formation and subsequently the international adoption of the IFRSs and also the benefits associated with the replacement of the national financial reporting framework with the international standards. As will be demonstrated, benefits are definitely remarkable and, as expected, the IFRSs are progressively replacing the many different national accounting standards. The focus is however on the relevance of the environmental factors, and in particular on the institutional factors, in determining accounting differences among countries, which are likely to remain even though IFRSs are internationally adopted. Furthermore, a challenging question is whether such differences among countries are actually desirable to be replaced by the global standards or whether their persistence is favorable in order to allow standard setters to take into consideration many different perspectives in the standard-setting creation process and provide for standards that better fit any country.

PART 1:

THE ENVIRONMENTAL FACTORS AFFECTING THE ACCOUNTING SYSTEM OF A COUNTRY

1. THE ACCOUNTING STANDARD FRAMEWORKS HARMONIZATION

Many studies, such as the one conducted in 2001 by Ball[1], confirm that the accounting system is a complementary component of the country's overall institutional system. Historically, the deep diversity of accounting systems was primarily due to legal systems[2], which, together with other political and economical differences, made very difficult to achieve a useful comparison of financial reports across borders.

These differences associated with financial reporting quality include the tax system[3], ownership structure[4], the political system[5], capital structure[6], and capital market development[7].

The institutional factors, together with those affecting firms at their basic level, have a paramount importance in shaping the empirical research design.

Before the widespread adoption of IFRS, in fact, companies followed a variety of country-specific Generally Accepted Accounting Principles (GAAP). Several legal systems, such as English, German, French and Scandinavian, originated in Europe and so, before an overall harmonization, accounting systems in these countries were extremely diverse and country-specific.

In order to overcome the drawbacks that derived from this diversity, members of the EU were the first countries to move toward harmonization of accounting standards. This

---

1 Ball R. (2001). *Infrastructure requirements for an economically efficient system of public financial reporting and disclosure.* Brookings-Wharton Papers on Financial Services, 127-169.

2 La Porta R., Lopez-De-Silanes F., Shleifer A. and Vishny R. (1998). *Law and finance.* Journal of Political Economy, 106, 1113-1155. The authors were the first to analyze the influence of the legal system of a country over the financial system. As a result of their investigation, they demonstrated that common law countries provide a higher quality level of accounting and a better protection of investors with respect to code law countries.

3 Guenther D. and Young D. *The association between financial accounting measures and real economic activity: a multinational study* - Journal of Accounting and Economics, 2000, pp. 53-72.

4 Ball R. and Shivakumar. (2005). *L. Earnings quality in U.K. private firms.* Journal of Accounting and Economics, 39 (1), 83-128.

5 Leuz C. and Oberholzer-Gee F. (2006). *Political relationships, global financing, and corporate transparency: evidence from Indonesia.* Journal of Financial Economics, 81, 411-439.

6 Sun K. (2006). *Financial reporting quality, capital allocation efficiency, and financing structure: an international study.* Working Paper, University of Hawaii at Manoa.

7 Ali A. and Hwang L. (2000) *Country-specific factors related to financial reporting and the value relevance of accounting data.* Journal of Accounting Research, 38, 1-23.

change in accounting systems will have a large impact on the information environment for EU companies. In the late 70s and 80s, many directives were issued by Europe with the main objective of financial reporting practices harmonization, in particular to limit the accounting diversity effects and thus facilitating cross-listings and cross-border investment[8].

These first steps toward international accounting standards began indeed in order to mainly harmonize financial reporting practices across the European Union but the great importance of harmonization became attractive in a short period all over the world. The second stage toward accounting harmonization happened in the 1990s with the improvement of IAS (the precursor of IFRS). Indeed, IFRSs are sometimes still called by the original name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). Other important events in the harmonization process occurred in the EU economy (with the adoption of a single currency), and through political changes (with the disappearance of border control within the Schengen area). In the late 1990's, several firms in some European countries adopted IAS as a substitute for their domestic accounting standards, although the use of IFRS was not mandatory until 2005. Adopting IAS, in fact, these firms were able to reduce information asymmetry between managers and shareholders.

The latest 1990s shows a higher voluntary adoption of the IAS. In particular, those firms whose priority was a foreign direct investment were required to make listing decisions based on the exchange features of liquidity and trading values. Furthermore, the accounting standards related to the exchange were also taken into great consideration.

---

[8] From: Soderstrom N. and Sun. K. (2007). *European Accounting Review.* A Review of the Accounting Quality after IFRS adoption in the European Union, 16 (4), 675-702. The general objective of the directives provided by the European Commission's (EC) was to increase the level of comparability among the financial statements, in terms of both the formats and the measurements agreements. In this respect, the primarily and most important directives in the process of accounting convergence within the EU countries were the Fourth Directive and the Seventh Directive, enacted respectively in 1978 and 1983. Indeed, the Fourth Directive took into consideration the "True and Fair View" (TFV), making it a paramount concept in the financial reporting framework field, and also specified the formats and measurement rules of both the balance sheet and the income statement.

In general terms, several European firms which decided to choose IAS as stock exchanges became definitely more inclined towards IAS.

All companies listed on the New Market were required to use either U.S. GAAP or IAS[9].

As some studies showed, the European firms that are primarily used to make comparisons concerning IAS, are the German ones. The reason is that Germany has a definitely strong legal system, in particular concerning the legislation role and the judicial system efficiency, which is able to guarantee the highest compliance with the chosen accounting standards[10].

An important day is April 1st, 2001, when the IASC required to the new IASB (International Accounting Standards Board) to set the International Accounting Standards.

The existing IAS, together with the Standing Interpretations Committee standards (SICs), were adopted by the IASB. Then, in later years, the new board kept on developing and promoting the well-known IFRS[11] (International Financial Reporting Standards).

The European Union Parliament in 2002 made an important step toward the adoption of IFRS: in fact the EU required, for the fiscal years after January 1, 2005, that all listed companies comply with the International Financial Reporting Standards.

Although the international accounting standards are adopted primarily in the advanced and developed countries, it is important to remark that also the emergent economies are moving towards the IFRS adoption.

It is intuitive that the more trading partners are IFRS adopters, the higher the probability that a country is complying with IFRSs, especially if these partners are located in the same geographic region.

---

[9] From www.iasplus.com site

[10] Hung M. and Subramanyam K.R. (2007). *Financial statement effects of adopting international accounting standards: the case of Germany.* Review of Accounting Studies, 12 (4), 623-657.

[11] From www.iasb.org site

2. CONSEQUENCES OF THE HARMONIZATION OF THE ACCOUNTING FRAMEWORK

The fact that there is a wide variety among different countries in terms of accounting quality and economic issues makes the international accounting systems a interesting topic concerning the economic consequences of the financial reporting.

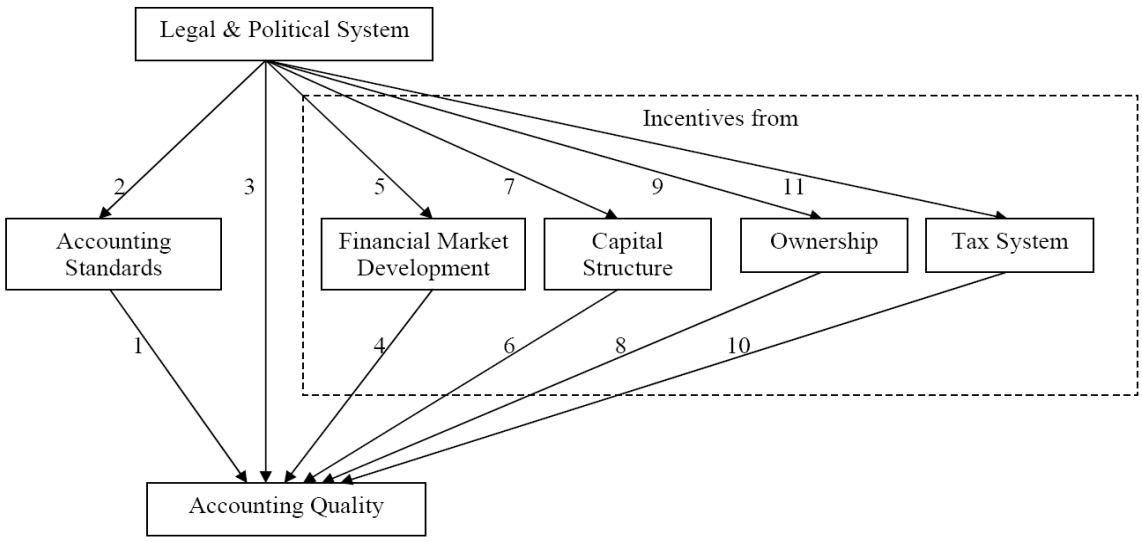
In particular, the evidence is that countries having a different legal and accounting system move towards the adoption of a single accounting standards set at the same time.

The topic concerning the economic consequences of IFRS adoption is related to the perceived benefits resulting from it.

In particular, the main beneficiaries of the worldwide IFRS adoption are the internal and external users of financial statements, especially investors. The reason is linked to the fact that the international accounting standards make such financial statements much easily comparable, thus reducing the costs associated to the comparisons between alternative investments. Moreover, the quality of such financial information is increased after the IFRS adoption.

In sum, the costs to evaluate the quality of the financial frameworks among companies result to be much lower thanks to the IFRS compliance.

The following picture depicts the factors determining the accounting quality.



As investors will be more willing to provide financing, companies are also expected to benefit from a switch to IFRS, especially those firms that have high levels of international activities, as they are more likely to experience an increased comparability of accounting standard sets.

As a study conducted by Frankel and Li indicates, a benefit of the financial reporting framework is that it reduces the information asymmetry thanks to the fact that it disclosed relevant and timely information[12].

Anyways, this is only one of the determinants of the overall accounting quality.

As a consequence, the accounting quality across countries is likely to persist as long as there are other determinants that still differ a lot, even after the IFRS adoption.

As the figure shows, the accounting standards, the legal systems, the political systems and the incentives of the financial reporting are all important factors in determining the accounting quality.

Some authors, including Schipper[13], show that, as long as the accounting standards across countries are the same, then the IFRS adoption across Europe is a key in testing the determinants and economic consequences of accounting quality.

---

[12] Frankel R. and Li X. (2004). *Characteristics of a firm's information environment and the information asymmetry between insiders and outsiders.* Journal of Accounting and Economics, 37, 229-259.

[13] Schipper K. (2005). *The Introduction of International Accounting Standards in Europe: implications for international convergence.* European Accounting Review, 14 (1), 101-126.

3. EFFECTS OF IFRS ADOPTION

The compulsory use of IFRS for the consolidated statements of listed companies in the EU and elsewhere, and the convergence of IFRS with US GAAP, might imply the end of "international accounting" as an important field of study. However, cross-country differences in accounting quality are likely to remain following IFRS adoption because accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides.

IFRS adoption is now spread in several parts of the world, including the EU, India, Hong Kong, Australia, Malaysia and Pakistan. Moreover, also in the GCC countries, Russia, South Africa, Singapore and Turkey there is evidence of compliance with IFRS.

Since August 2008, more than 113 countries worldwide, especially in Europe, allowed companies to perform their financial reporting in accordance to IFRS standards; moreover, 85 countries require their listed, domestic companies to adopt IFRS, according to the U.S. Securities and Exchange Commission.

The future issues concerning the financial reporting standards will largely depend on the changes that will eventually take place in a country's legal and political system and financial reporting incentives. This is explained by the fact that most countries have a consistent financial reporting legislation.

The final and least costly way to pursue such improvements in the financial reporting framework is probably the one linked to the financial reporting incentives, as long as any changes in the institutional infrastructure of a country is difficult and very tough to be achieved.

4. INTERNATIONAL DIVERSITY IN ACCOUNTING AND REPORTING FRAMEWORKS

The study of accounting diversity has widely characterized several studies that took place after the development of the financial reporting literature. Many authors, indeed, attempted to demonstrate that the international diversity in accounting standards is a phenomenon that has specific reasons behind it.

These researches were mainly focused on the determination and, consequently, the analysis of those elements that were considered relevant in causing differences in the accounting system among countries in an international perspective. Through a very intuitive approach, a first analysis in this field might suggest that a determinant factor in causing this sort of diversity could be the geographical distance between one country with respect to another and, nevertheless, also the consequences that this distance determines, such as the culture and the traditions of people. Moreover, as the characteristics of one country are so remarkably different from those of another country, the accounting system can widely differ as well. So there is a strong positive relationship between the environment in which an accounting system is developed and the characteristics that it presents, that can be largely different from those in which another accounting framework is developed. The reasons explaining the financial reporting diversity are several and are articulated in a complex framework that involves all the aspects that are worth noting in order to better understand and explain the uniqueness and specificity of the accounting system in any country.

It is important to remember that accounting framework of a country is the result of the interaction of all those factors, and can also be correctly considered as a mirror of the society that developed it, as long as it reflects the deepest and more internalized aspects of the collectivity.

Generally speaking, diversities between the features and characteristics of the financial reporting framework used in different countries are strictly related to the differences in the factors that influence the development of the accounting framework.

As previously stated, the final shape of such accounting framework can thus be considered as the result of the existing accounting diversity among countries.

5. THE ENVIRONMENTAL FACTORS INFLUENCING THE INTERNATIONAL ACCOUNTING AND REPORTING FRAMEWORKS

The environment is the element that is comprehensive of all the reasons and more specifically the factors that determine differences in the accounting framework, so such factors that are presented from the accounting literature as those causing diversity, are called environmental factors.

Many authors carried on studies whose aim was to isolate and determine the main factors affecting the accounting system of a country.

The first study is generally considered the one conducted by Muller[14] who, in 1968, trough a deductive approach, isolated four possible environmental causes of accounting systems: stage of economic development, complexity of productive system, social climate, and prevailing legal system.

This short initial list of environmental factors increased more and more, thanks to the higher availability of country specific accounting database and the development of adequate software. At the end of the 90s, Mathews and Perera[15] isolated fifty-eight factors considered as those responsible of the influencing accounting system characteristics.

Later, a new framework was proposed by Nobes[16], who developed it considering only the most cited elements: this framework consisted of a two-way classification model based on the strength of equity markets and degree of cultural dominance. In more recent years, among the other authors, Roberts[17] considered as particularly important the political and environmental system, legal system, taxation system, corporate financing system and accounting profession system.

---

[14] Muiller G. (1993). Accounting: *An International Perspective.* Irwin Professional Publishing, third revised edition.

[15] M.R. and Perera M.H.B. (1996). *Accounting Theory and Development.* 3rd edition. Melbourne. Nelson.

[16] Nobes C. W. (1998). *Toward a general model of reasons for international differences in financial reporting,* Abacus, 34 (2), 495-519.

[17] Roberts C. (2005). *International Financial Reporting. A comparative approach.* Third Edition. London: Prentice-Hall.

Baker and Barbu[18] found that the accounting diversity was primarily due to the differences between the economic and legal system existing in any country.

What follows is an analysis of the eight groups of environmental factors and of the subgroups that characterize them and are worth of noting[19]. These environmental factors can be classified into the following seven groups:

- economic environment
- political environment
- legal and tax environment
- professional environment
- business environment
- cultural environment
- education environment
- international environment

[18] Baker C. R. and Barbu E.M. (2007). *Evolution of research on international accounting harmonization: A historical and institutional perspective.* Socio-Economic Review, 5 (4), 603-632.

[19] The analysis is conducted taking into consideration the paper *The effect of environmental factors on accounting diversity* - A literature review written in 2011 by Professor of Accounting Muiz Alia.

6. THE ECONOMIC ENVIRONMENT

In the context of the environmental factors affecting the accounting framework of a country, the first one to consider is the economic environment.
This is one of the main forces that influence the financial reporting framework of a country. The economic factors are the following: privatization, economic openness, stage of development and international trade.

6.1 Privatization

Privatization increases the need for firms to disclose publicly available information. A financial system that operates in a good and fair way together with a remarkable private sector are important elements in the race of growth and poverty reduction. A prosperous private sector allows a well-functioning business environment, fostering opportunities for entrepreneurship and job creation. Decisive to shape such a business environment for the private sector are government policies. Many studies confirm the relevance of private sector in shaping the financial accounting framework.

6.2 Degree of openness in economics

A remarkable matter is that foreign investors pay much attention to the investment environment. Of course, the economic openness of the countries is the necessary condition that permits the international trade.
Some researches attempts to demonstrate that the higher the level of International Financial Reporting Standards (IFRS) adoption the higher the foreign direct investment (FDI) inflows.
International Financial Reporting Standards (IFRSs) adoption results in a decrease in the level of information cost among countries and is therefore considered a much relevant means to encourage and enhance international trade in goods and investments.
In sum, there is evidence that the benefits in terms of trade and goods and FDI when IFRSs are adopted are remarkable.

6.3 Stage of economic development

Countries at different stages have different accounting practices. Firms need to raise more capital when the economy becomes more developed.

There are growing number of studies that question the relevance of IFRS in developing and emerging economies. These studies are generally based on the data obtained from literature survey and archival sources in the context of the globalization of International Financial Reporting and the adoption of International Financial Reporting Standards (IFRS).

In general, there is evidence that developing countries adopted IFRS thanks to the benefits that it offers, such as attracting foreign direct investments, reducing the cost of doing business and cross border listing.

In order to comply with IFRS, developing countries need to put into practice some challenges, such as the elaboration of a legal and regulatory report. Moreover, also awareness campaigns and training of people involved are taken into consideration.

It is very important and such recommended to implement and develop such challenges, especially concerning the education and training programs, and the creation of an independent body that is able to monitor the accounting and auditing standards

Important studies are those carried on by the following authors.

Irvine and Lucas[20] show that the adoption of the global standards in much more advantageous for developed and emergent countries. Indeed, the compliance with IFRS is beneficial as it prevents multinational corporations to prepare different financial accounting frameworks that are adopted by different jurisdictions, and the costs associated to this are remarkable. The important role of the accounting bodies is enhanced and so it is easier to big multinational and global firms to expand in the

---

[20] Irvine H.J and Lucas N. (2003). *The rationale and impact of the adoption of International Financial Reporting Standards: the case of the United Arab Emirates.* 18th Asian-Pacific Conference on International Accounting Issues, 1-22. The paper analyses the effects of the adoption of the global accounting standards in the emergent economies, particularly in the United Arab Emirates (UAE). The authors develop the globalization of the international financial accounting framework and the compliance with International Financial Reporting Standards (IFRS). The reason why the UAE, as the authors claim, choose to switch to IFRS adoption is in order to gain the resulting benefits and advantages, including attracting foreign direct investment.

worldwide market.

There are many researchers who claim that the adoption of a single set of accounting standards is much more useful for the development of the financial accounting frameworks within countries.

Generally speaking, a good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe.

Few of the studies have given contradictory views questioning the relevance of IFRS adoption in developing and emerging economies.

6.4 International and global trade

The adoption of IFRS is considered from many researchers as a positive event that will facilitate greater transparency while reducing information costs among countries. As such, IFRS is expected to encourage international trade flows and investments. Moreover, the scope and scale of the required adjustments are so significant that IFRS should not be viewed as just a matter for accountants.

Indeed, most tax, IT and supply chain professionals with any international exposure are coming to appreciate that IFRS will forever change their companies, the way they do their jobs, and even the way they are measured and possibly compensated. Researches find that IFRS brings new challenges to the customs and trade function.

7. THE POLITICAL ENVIRONMENT

Recent studies often relate the political system and in particular the type of government intervention to the financial reporting framework used by a country. This is true especially in developing countries. As Nobes[21] argue, in fact, political systems do not affect accounting in developed countries since they are sufficiently homogeneous in these countries.

Factors that are generally considered are: political stability, culture of accountability and democracy. Roberts[22] links the political and economic systems, stating that financial reporting is affected by the way a country organizes its economic relations.

Archimbault[23] measures political freedom by political rights (though voting), civil liberties (that represent individual freedom state control) and also political structure (democracy or monarchy). The study finds that disclosure increases as political freedom increases.

---

[21] Nobes C. W. (1998). *Toward a general model of reasons for international differences in financial reporting,* Abacus, 34 (2), 495-519.

[22] Roberts C. (2005). *International Financial Reporting. A comparative approach.* Third Edition. London: Prentice-Hall. The authors encompasses an analysis of the standard setting activity of the International Accounting Standards Board, in setting IFRS dealing with measurement and disclosure. Furthermore, they claim that the presence of national differences in the accounting frameworks is an obstacle to the process of convergence of the accounting standards and to the worldwide harmonization.

[23] Archambault (2003). *A multinational test of determinants of corporate disclosure.* The International Journal of Accounting, 38, 173-194.

8. THE LEGAL AND TAX ENVIRONMENT

Several authors have classified countries according to similarities and differences in financial reporting. Two dominant models of accounting used in the developed world are the British- American model and the Continental European model.

In a recent model of the reasons for international differences in financial reporting, Nobes[24] suggests that the dominant factor is the extent to which corporate financing is obtained through the sale of equity securities to outsider shareholders: some cultures lead to a strong equity-outsider financing system and other cultures lead to a weaker equity-outsider financing system.

The Anglo-Saxon countries have a particularity, which is that have a strong tendency towards equity-outsider financing. Thus the measurement practices turn out to be less conservative in this context. Moreover, there is also an extensive and remarkable disclosure. Last but not least, there is a gap between the tax rules and the accounting practice.

The opposite holds true for the Continental European accounting model countries, in which there is a weak tendency towards the equity-outside shareholder financing system. As a consequence, the measurement practices are, unlike the previous context, more conservative and the disclosure is not that extensive as before. Moreover, the accounting practice doe not differ from tax rules.

8.1 Anglo-Saxon group of countries

Financial reporting frameworks in common-law countries are oriented towards fair presentation, transparency and full disclosure (Anglo-Saxon model). Common law countries, indeed, generally have more effective corporate governance mechanisms, including stronger investor protection laws and inputs provided through higher-quality financial reporting systems.

In this type of environment, investors are more willing to compete for superior

---

[24] Nobes C. W. (1998). *Toward a general model of reasons for international differences in financial reporting,* Abacus, 34 (2), 495-519.

investment decisions because they expect to be equitably rewarded, and investors are more likely to demand information about accounting earnings because earnings have more value relevance.

It is known that investors require more and more information about earnings; this increase in demand has the important consequence that the analysts have much more incentive to predict precise and accurate earning frameworks.

This is very intuitive and can be easily expected. Moreover, it confirms that there is a relationship between the legal and the financial reporting environments on one hand and the behavior of the analysts' forecasts on the other hand.

Code-law countries are characterized by the fact that they establish and enhance the adoption of national accounting standards, also with representation from banks first of all but also from labor unions and associations.

8.2 Continental-European group of countries

As will be remarked more times in this paper, the Continental European group of countries have a bank-oriented financial system.

The most important feature is that the primarily sources of financing are the banks, and the creditor protection is the final objective of the financial reporting.

These two types of legal systems have a remarkable effect on several accounting issues, including the adoption and application of IFRSs.

9. THE PROFESSIONAL ENVIRONMENT

A common position in the accounting literature is to examine both the process of professionalization and accounting and audit regulation within and around professional associations and related organizations, such as standard setting bodies and regulatory agencies.

Professional firms are widely considered increasingly important in professionalization and regulatory processes of a country.

Many studies underlie the most relevant indicators to measure the development of the accounting professions.

There are some specific elements and characteristics that are typical of a country which are able to have an effect over convergence: very important in this perspective is the particular set of accounting standards that were used in that specific country.

Also worth of noting is the professional background and the experience of the accountants.

Moreover, the education and professional training is also remarkable, together with the presence of the Big 4 accounting firms.

Last but not least, a paramount role is that of the financial accounting regulatory framework.

9.1 The effectiveness of accounting standards

Chand and Patel[25] argue that existing accounting standards are founded in traditions, and that heavily influence the convergence process with IFRSs.

The results of their study also suggest that complete comparability in financial reporting may be difficult to achieve across all countries even after adopting the IFRSs.

These findings are important because they indicate that attention should be concentrated

---

[25] Chand P. and Patel C. (2008). *Convergence and harmonization of accounting standards in the South Pacific region. Advances in Accounting, incorporating Advances in International Accounting, 24, 83-92.* The thesis supported by the authors in this paper is that, although there has been a remarkable acceptance of the international standards worldwide, there are still significant differences among countries due to their specific national characteristics.

on theorizing and empirically testing the effects of the country-specific attributes on convergence efforts across various jurisdictions.

9.2 The adequacy of professional bodies

Size and power of the accounting professions cause differences in financial reporting frameworks.

Professional accounting bodies have influence over the setting of accounting rules by the government and governmental bodies, and so can promote the enforcement of the accounting and auditing standard frameworks.

Roudaki[26] indicates a paramount role of the accounting profession, which should be enough powerful to enforce the application of the accounting standard framework in a specific country.

9.3 The effectiveness of accountants' qualifications

Several studies argue that the presence of adequate accountant qualifications in a country is an important step towards the process of development of accounting standards.

Among these studies it is worth noting the one carried on by Chand and Patel[27].

These authors indicate the presence of the professional accountant bodies as an important factor towards the IFRSs global convergence.

9.4 The role of the Big 4 accounting firms

As is true in many countries, especially those that are part of the South Pacific region, the Big 4 firms dominate the auditing industry, and thus most accounting system can be characterized by a strong influence of these Big 4 accounting firms.

---

[26] Roudaki J. (2008). *Accounting profession and evolution of standard setting in Iran.* Journal of Accounting, Business & Management, 15, 33-52.

[27] Chand P. and Patel C. (2008). *Convergence and harmonization of accounting standards in the South Pacific region. Advances in Accounting, incorporating Advances in International Accounting, 24, 83-92.*

So it is possible to state that the presence of these international Big 4 firms exert an influence towards the process of IFRSs adoption.

9.5 The regulatory and enforcement mechanisms

In the absence of legal and regulatory banking, or in cases where their presence is not that powerful and effective, researchers show that there is a decrease in the accounting quality.

Most authors generally argue that the development of accounting systems is much influenced by the enforcement mechanisms, whether they are relevant or not.

10. THE BUSINESS ENVIRONMENT

In the business context, there are some important considerations to make.
The factors the influence the financial accounting and reporting framework are basically three.
The first one is related to the main characteristics of a firm, ranging from its size, to the industrial sector in which it operates and some other important features.
The second one concerns the degree of the capital market development, which is also very important in shaping the financial reporting framework.
Last but not least, the third factor concerns the prevailing type of the financial system.
These three factors are described in detailed in the following section.

10.1 Company's main features

About the firms' characteristics, important elements that influence the financial reporting rules and practices are the following: the size, the industry sector, the legal form, the ownership concentration and the listing-cross-listing status.

- Firm size is an important element in the field of information disclosure. Large sized firms have a greater need of a variety of accounting policies than small firms, as they have more information to disclose, given that their ownership base is larger than smaller companies. Regulators and securities firms, generally those in countries with large markets, such as Japan, the U.K., and the United States, supported harmonized capital standards. They supported harmonized capital standards for many reasons, including increased confidence by market participants in the operation of financial markets and diminished risk in world financial systems. Generally speaking, it is widely demonstrated that international accounting harmonization is affected by the firm size: larger companies are the first adopter of IFRSs.

- Financial reporting framework and accounting harmonization are influenced by the

dominant industries such as oil and banking.

The adoption of strict regulations is needed to overcome the high risks associated with the operations of banks and other financial institutions, so a high level of disclosure is required.

- The fact that the legal status of the specific company is public or private is also relevant in the shaping mechanisms of the accounting practices.

- Another important factor concerns the ownership concentration. Some authors, including Rahman[28], claim that the shareholder concentration and diffused ownership are much more likely to disclose more financial information. This result is consistent as long as the higher the level of disclosure the better off are owners in the monitoring mechanisms towards the management, as suggested by the agency theory.

- The last factor to take into consideration relates to listing/cross-listing status. Indeed, the listed companies disclose more than unlisted companies because they seek to meet the information needs of different stakeholders, and, moreover, listed companies are also more likely to comply with IFRSs earlier and more easily than unlisted companies. Firms that are looking for more capital sometimes go for cross-listing on foreign stock-exchanges, which require more information to be disclosed than local stock exchanges.
  Cross-listing is another factor that influences the adoption of IFRSs, as they facilitate cross-border listing of securities[29]. Firms with cross-listed shares are more inclined to adopt IFRSs than other firms[30].

---

[28] Rahman *(2002). Accounting practice harmony, accounting regulation and firm characteristics.* Abacus 38 (1).
[29] Taylor M.E. and Jones R.E. (1999). *The use of International Accounting Standards terminology, a survey of IAS compliance disclosure.* The International Journal of Accounting, 34 (4), 557-570.
[30] Hung M. and Subramanyam K.R. (2007). *Financial statement effects of adopting international accounting standards: the case of Germany.* Review of Accounting Studies, 12 (4), 623-657.

10.2 The level of capital market development

As many researches confirmed, the capital market regulation is likely to have a strong effect over the financial accounting regulation[31].
Archimbault[32] found that companies from countries with large capital markets disclose more information than companies from countries with small capital markets, as the information required by investors changes as the nature of capital market changes.
Moreover, Roudaki[33] claims that capital market have a relevance in the process towards the convergence of global accounting standards, as long as they influence companies to disclose more information, with the objective to achieve a higher level of uniformity and comparability. So the capital markets influence the way companies perform the financial accounting framework.
Besides that, there is not yet a confirmation regarding whether the development of the equity market is related to the development of the accounting rules and practices, among which also the IFRSs compliance is mentioned.

10.3 The main type of financing system

The prevailing type of financial system is important because it influences the attitude of companies towards financial disclosure, so it has en effect over the financial accounting and reporting framework. The financing system plays an important role, as suggested by many authors, in influencing the financial disclosure and, more generally, the IFRS adoption. As will be remarked in the second part of the paper, there are two types of financing systems: the equity based system (or market based system) and the debt-based system (or bank based system). The main difference between the two is that in the bank based system the role played by the banks is very important, and the relationship

---

[31] Perumpral S.E. (2009). *The evolution of Indian accounting standards: Its history and current status with regard to International Financial Reporting Standards.* Advances in Accounting, 25, 106-111.
[32] Archambault (2003). *A multinational test of determinants of corporate disclosure.* The International Journal of Accounting, 38, 173-194.
[33] Roudaki J. (2008). *Accounting profession and evolution of standard setting in Iran.* Journal of Accounting, Business & Management, 15, 33-52.

between businesses and banks is strong. On the contrary, in the market-based system, there are not only banks but also other important and different investors, and they do not have a direct access to the financial information concerning the companies. As Nobes pointed out, there are four types of financial systems:

- A credit-base system;
- A credit-based system with a large amount of listed debt with outsider owners;
- An equity-based system where most shares are owned by insiders;
- An equity-based system where outsiders own most of the shares.

An intuitive suggestion concerning financial reporting serving the equity markets is that they are required to provide important information about future cash flows, so the disclosure level should be very high. This is a necessary condition to allow investors during their decision-making processes. The opposite holds true when the main users of the financial reporting creditors: indeed, they are likely to obtain the information they desire through other means besides the financial reporting framework. So the need to disclose the financial information is not that high. There are some authors, including Rahman, who definitely highlight the role played by the different financing systems on financial accounting harmonization. Indeed, Rahman [34] argues that, as long as companies characterized by high equity are likely to disclose more information with respect to other firms, their measurement methods and mechanisms are more powerful. El-Gazzar[35] added that firms complying with IFRSs employ more equity financing than those who do not. Perera and Baydoun[36] conducted studies that demonstrated that IFRSs are designed to facilitate a particular financing system, the "equity-outsider system", which give strong power over financial reporting to professionals.

---

[34] Rahman A., Perera H., and Ganesh S. *(2002). Accounting practice harmony, accounting regulation and firm characteristics.* Abacus 38 (1). The authors made a comparison between the accounting regulations and practices of the countries of Australia and New Zealand. Indeed, both of them are seeking to switch to the adoption of IFRS. The discoveries reveal that the harmony in the field of accounting is influenced by some specific features, including some particular characteristics regarding the firm.

[35] El-Gazzar S. M., Finn P.M. and Jacob R. (1999). *An empirical investigation of multinational firms' compliance with International Accounting Standards.* The International Journal of Accounting, 34 (2), 239-248. The author shows that some features of the firm, ranging from its foreign operations and its financing policies to the trade blocks in the UE and the listing of the stock exchanges, significantly depend on the degree of IFRS acceptance by the multinationals.

[36] Perera H. and Baydoun N. (2007). *Convergence with International Financial Reporting Standards: the case of Indonesia.* Advances in International Accounting, 20, 201-224.

11. THE CULTURAL ENVIRONMENT

Many studies attempted to analyze the influence of the cultural environment on the financial reporting framework development and several authors examined the influence of national culture on the accountants application of accounting rules. The purpose of these studies is to determine if financial reporting quality relates to national culture and the results demonstrated that culture and religious traditions have a remarkable influence on corporate governance systems employed in any country.

For this context culture can be considered as the collective values of a society influencing its behavior. It is well known that significant differences in these values exist internationally, and that these differences have an important effect on all elements of any society. Therefore, accounting, as a societal creation, is influenced by these values as well. Most known studies are those carried on by Hofstede (1980s) and Grey (1990s). Thanks to his the cross-cultural study (1980-1983), Geert Hofstede[37] begins the framework formation.

Hofstede's study aimed at determining the important aspects of culture that had an effect on people's behavior in a professional capacity. Hofstede identifies culture as the collective programming of the mind, which distinguishes the members of one group or society from those of another one.

He identifies four international cultural differences related to a country's reporting framework: strong versus weak uncertainty avoidance, large versus small power distance, masculinity versus femmininity and individuality versus collectivism. Uncertainty avoidance involves the aversion one feels towards the unknown and what actions are taken as a result of that aversion.

Those with strong uncertainty avoidance look to plan every detail without any room for flexibility or innovation. If a person has weak uncertainty avoidance then they will be

[37] Hofstede G. (1984). *Cultural Dimensions in Management and Planning.* Asian and Pacific Journal of Management, 83-84. The main focus of this paper is on the management practices and skills, which are claimed to be very country-specific; indeed, they largely depend on the national cultures and traditions, and are appropriate only in the specific country in which they have been developed, not outside. The author carried on a study involving more than 50 countries worldwide, identifying and analyzing the national differences in cultures and traditions, and investigating how such diversities influence the management practices.

content with letting things happen as they may. Uncertainty avoidance looks at whether a society, "tries to control the future or let it happen".

Power distance was thought to capture the extent to which there was equality in power between members in society. For example, in a society where there is great power distance, many individuals accept the authority and have no say in decisions that are made.

Power distances attempts to most closely address, "how a society handles equalities among people when they occur". Masculinity refers to a society's partiality towards, "achievement, heroism, assertiveness, and material success".

The opposite spectrum that Hofstede defines is characterized by a great role played by the relationships and the remarkable importance devoted to the quality of life. This kind of society is referred to as feminine.

Individualism is linked to whether people perceive that they must fend for themselves or, on the contrary, they are part of a whole society taking care about them. In other words, it can be summarized in how people consider themselves: whether "I" or "we".

Some years later, Sidney Gray (1988)[38] pointed out a new framework aimed at helping the identification and analysis of how culture influences the accounting systems. He based his work on the four dimensions developed by Hofstede. Gray believed that these four cultural dimensions should be linked to the values in the subculture of the accounting and reporting systems.

For this reason, Gray suggested a new framework that related culture to the development processes of the accounting framework internationally. The accounting subcultural dimensions that he identified are the following: professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency.

The first one, professionalism versus statutory control, measures the strength of the

---

[38] Gray SJ. (1988). *Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally.* Abacus, 24, 1-15. The thesis of this work is that the environmental factors influence the accounting frameworks of a specific country, which naturally result to be very different according to the geographical area considered. The author does not investigate the cultural factors, though. Nevertheless, he proposes four hypotheses concerning how culture influences the development of accounting. These are professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency.

control provided by accountants over the standard setting processes. When the level of professionalism is high in the accounting systems then the standard setting bodies are private; the opposite holds true for the public regulations.

Gray proposed that professionalism could be most closely linked with both individualism and uncertainty avoidance.

He added that: "The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism"[39].

Uniformity versus flexibility, the second measure of accounting values, aims at addressing the comparability degree among business entities and countries over time. Intuitively the more flexible a system is the easier is to adopt different accounting practices according to each specific situation.

Gray suggests that uniformity could be linked to high uncertainty avoidance and power distance and low individualism.

Conservatism versus optimism is a measure that indicates the level of conservatism used in asset measurement and income reporting. This is an important part of the accounting systems, and there is a strong relation with the dimension of uncertainty avoidance proposed by Hofstede.

The higher the uncertainty avoidance the higher the level of conservatism, as long as the reported income and asset valuation is less demanded.

Gray also adds that the higher the degree of conservatism the higher the levels of individualism and masculinity.

The degree to which companies are willing and likely to disclose their financial information is expressed by the final measure of financial accounting values, which is named secrecy versus transparency.

Secrecy relates to all four of the dimensions in such a way that, "The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms

---

[39] Gray SJ. (1988). *Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally.* Abacus, 24, 1-15.

of secrecy"[40].

Culture influences how people perceive situations and organize institutions. Other two relevant researches were conducted by Askary and Hill. Askari[41] defines the cultural environment as a national (or regional) system comprising language, religion, morals, values, attitude, law, education, politics, social organization, technology and material culture.

He also claims that the presence of different cultures and traditions is an opposite force towards the adoption of unified global standards; furthermore, he argues that different forms of culture prevent unified accounting practices globally.

Hill[42] divides cultural factors into two categories: the "constants" are factors inherent to the culture over time (examples include geography, currency, social norms and traditions) whereas the "changeables" are factors that are more readily changed and examples include GNP, technology, employee morale, and education level. The largest hurdle facing the implementation of a single set of high-quality international accounting standards is the vast array of societal values embodied in different cultures. These values are inherently interconnected with many defining aspects of society such as: language, religion, education, and economy.

Different values represent different values in remarkable aspects of any society. As a result, as stated many times in this paper, the differences among countries are so relevant that is extremely improbable that a full convergence towards the global standards will be achieved, at least in the short run.

Such diversity in cultural values is evident and demonstrated through the cultural

---

[40] Gray SJ. (1988). *Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally.* Abacus, 24, 1-15.

[41] AAskary S. (2006). *Accounting professionalism, a cultural perspective of developing countries.* Managerial Auditing Journal, 21 (1), 102-111. The author examines the effects of culture on accounting professionalism in 12 developing countries by applying Gray's and Hofstede's cultural study models (cit.)

[42] Hill C. (1998). *A qualitative assessment of Arab culture and information technology transfer.* Journal of Global Information Management, 6 (3), 29-38. The paper is based on a number of interviews to Arab-American business people, and also on a study conducted in five Arab countries. The objective of this work is to analyze the main forces and obstacles, also cultural, affecting the transfer of information technologies. The findings reveal that, al long as the information technology is a difficult matter, it is designed primarily to developed countries, possessing the necessary requirements to cope with it, and so it is culturally biased towards developed economies. This naturally impedes the spread of information technologies also to developed and emerging economies.

dimension scores measured by Hostede.

The following figure depicts the scores for both countries that adopted IFRS and countries using the local GAAP.

Europe					
France	68	71	43	86	Y
Germany	35	67	66	65	Y
UK	35	89	66	35	Y
Asia					
Japan	54	46	95	92	Y
India	77	48	56	40	N
Indonesia	78	14	46	48	N
Pakistan	55	14	50	70	
Africa					
West Africa*	77	20	46	54	N/A
South Africa	49	65	63	49	Y

*Ghana, Nigeria, Sierra Leone

This figure displays the varying values that occur between different countries, including ones that have adopted IFRS. The four dimension scores for the listed nations illustrate the variety of values both within and between regions.

11.1 Religion

A cultural component that strongly influences individuals within societies is provided by religion, which has a remarkable effect over the behavior of a society.

As evidence suggests, any of the Hofstede's dimension is likely to be influenced by religion, which influences the development of the financial accounting and reporting framework of any country. This is especially true for Islamic countries.

Indeed, the financing structure and business characteristics of Arab and Islamic countries is strongly affected by the Shari'a law.

The role of the Islamic religion is definitely remarkable in the process of accounting standards harmonization.

Muslims follow Islam, which means: "*submission or surrender, understood to be the will of God",* through the holy texts. The first one is the Qur'an, which is the will of God as told to the Prophet Muhammad; the second one is the Sunnah, meaning the acts and sayings of Muhammad.

These two constitute the Shari'ah, or "the path"[43].

Muslims follow such path in all of the aspects of their lives, including the way they do business. They specifically obey during their business dealings to the ethical principles and rules that the Islam provides. As long as everything is considered as a property of God and human beings are just users and holders, then such property should be used in order to achieve the common good and not exploited at all.

Furthermore, the zakat, which is one of the five pillars of Islam, suggest that the wealth should be equally distributed among countries, so from the more privileged to the least ones.

In sum, the main difference occurring between Islam and western countries is that any sort of historical cost accounting is basically ineffective for Islam countries, as long as the valuation of assets is part of a religious context under the zakat.

11.2 Language

Language is another aspect influencing the development of financial reporting frameworks and the achievement of accounting harmonization. It is an accepted concept that language carries with it values and meaning. Each language imparts those values and meaning into laws and rules, such as accounting standards.

Language also presents a problem because its meaning can be destroyed or construed through translation. This pertains to IFRS, because in order for it to be used internationally it must be translated into many languages.

The IASB, therefore, must go to great lengths to ensure that standards retain the

---

[43] Ali K. and Leaman O. (2007) *Islam: The Key Concepts.* London: Routledge.

meaning with which they were originally written.

An important challenge that the IASB faces related to the fact that there are many aspects, such as language, religion, education or economy that are very different from one country to the other. All these features are not very likely to align in a proper way with IFRS though. So the IASB needs to cope with the spread of global standards that are not that much aligned with the western models.

All of the differences among countries that are likely to persist in the long run induce most authors to suggest that a complete worldwide standardization among the accounting standards is not likely to be achieved, at least in the foreseeable future. This is why the standard setting bodies are required to understand more and more the cultures of the countries, especially in Africa and the Middle East, in their standard setting processes.

The objective of all this is that the creation of IFRS would hopefully end up in a fairer representation of social and cultural values, thus helping the convergence process through the adoption of uniform standards worldwide to smooth out.

12. THE EDUCATIONAL ENVIRONMENT

Generally speaking, the higher the level of education the higher the level of the economic development.

Education is fundamental in any society, in order to provide people with skills and tools to better perform in their lives.

Moreover, it allows them and their children to create new and better opportunities for their future.

The importance of education ranges from the economic aspects to the social aspects within any society, such as promoting and increasing the health and the welfare of the collective wellbeing.

Furthermore, a higher level of education corresponds to higher levels of transparency and reliability, and it also encourages fighting corruptions.

However, the education level varies a lot across countries; indeed, there is a remarkable gap between developed and under-developed countries.

As the World Bank suggests, there is a strong recommendation to invest in promoting higher education in order to achieve economic growth and social development.

It is demonstrated that a higher level of education turns out to be beneficial also in the way the other systems are developed, especially financial accounting.

Some researchers even consider a high-quality education system as a prerequisite in order to reach a compliance with the international financial and reporting standards.

13. THE INTERNATIONAL ENVIRONMENT

The international environment is also very important in the process of developing the features of the financial accounting and reporting framework of a specific country, especially of developing countries.

13.1 The function and purpose of the international environment

A country's engagement in the international community may determine the accounting framework of that particular country. Chand and Patel[44] studies found that the presence of international accounting firms is one of the attributes that influence convergence with IFRSs.

Examples in this context are provided by the adoption of IFRSs by the UAE that was widely influenced by the presence of international accounting firms, as demonstrated by studies conducted by Irvine and Lucas[45].

13.2 The function and purpose of the international companies

Following the economic globalization, the role of the big international organizations has become more important. Organizations such as the World Bank, the IMF and the World Trade Organization (WTO) helped shape the main characteristics of the global economy.

13.3 The function and purpose of the multinational organizations

Several researches highlight the important role of multinational companies (MNCs) in

---

[44] Chand P. and Patel C. (2008). *Convergence and harmonization of accounting standards in the South Pacific region. Advances in Accounting, incorporating Advances in International Accounting, 24, 83-92.*

[45] Irvine H.J and Lucas N. (2003). *The rationale and impact of the adoption of International Financial Reporting Standards: the case of the United Arab Emirates.* 18th Asian-Pacific Conference on International Accounting Issues, 1-22.

encouraging the adoption of IFRSs.

Al-Shammari[46] notes that the governments of the GCC members have been strongly influenced by the multinational companies in the process of convergence towards IFRS adoption.

Other authors, including Irvine and Lucas, found consistency with this suggestion in their studies[47].

13.4 The function and purpose of past colonialism

Several studies focus on the effect of colonization. Nobes considers the colonial inheritance as the major explanatory factor of the financial reporting frameworks in many countries. Kamla[48] found that the financial reporting practices in Egypt were based on those of the UK, so they are the result of the British colonial influence from 1882 to 1956. Along the same line, Ashraf and Ghani[49] showed how the financial accounting reporting practices in Pakistan were strongly influenced by the colonial background of the former British colonies.

In this first part of the paper the main factors affecting the accounting standard frameworks of different countries were investigated and analyzed in the perspective of achieving a worldwide harmonization of such standards and principles in the long run.

The second part of the paper is devoted to the development of a specific part of such environmental factors, namely the institutional factors, and especially the main effects of harmonization.

Most countries are nowadays moving towards the IFRS adoption, and the view that the benefits associated to this compliance outweigh the costs is supported.

---

[46] Al-Shammari. (2007). *Development of enforcement mechanisms following adoption of International Accounting Standards in the Gulf Co-Operation Council Member States* - Working paper, University of Western Australia.

[47] Irvine H.J and Lucas N. (2003). *The rationale and impact of the adoption of International Financial Reporting Standards: the case of the United Arab Emirates.* 18th Asian-Pacific Conference on International Accounting Issues, 1-22.

[48] Kamla R. (2007). *Critically appreciating social accounting and reporting in the Arab Middle East: A postcolonial perspective.* Advances in International Accounting, 20, 105-177.

[49] Ashraf J. and Ghani W.I. (2005). *Accounting development in Pakistan.* The International Journal of Accounting, 40, 175-201.

The development of such worldwide adoption of the international accounting standards is explained, highlighting the difficulties but also the necessity to achieve such standardization in the accounting frameworks.

In order to do this, it should be useful to analyze first of all the broad topic of accounting and its importance within a company.

PART 2

THE ROLE OF ACCOUNTING IN DIFFERENT INSTITUTIONAL ENVIRONMENTS

14. THE IMPORTANCE OF ACCOUNTING IN BUSINESS

Accounting is one of the primarily key functions in business, as it summarizes and analyses the transactions that take place within a company. Most authors agree on the basic definition of accounting, which is the language of business.
This definition encompasses the idea that accounting is aimed at providing information to people that are involved in any kind of decision making in economics, both within the firm and also to external users.

14.1 A brief historical summary

According to Christensen and Deminski[50], accounting has been part of corporate routines for a very long time: indeed, in his book, "*Summa de arithmetica, geometria. Proportioni et proportionalita*" (Venice 1494), the Italian mathematician Pacioli[51], also known as the "father of accounting and book-keeping", firstly described the double-entry system of book-keeping as we know it today. His work and his discoveries were based on the observations that he did about the accounting methods adopted by the Venetian merchants.
As Deegan[52] stated, some centuries later two other important bodies in the field of accounting were constituted in the United Kingdom and in the United States of America: in 1880 the Royal Charter established the *Institute of Chartered Accountants in England and Wales* (ICAEW), and in 1887 the *American Association of Public Accountants* (AAPA) was formed, which was the predecessor of *The American Institute of Certified Public Accountants* (AICPA).
The first government intervention in the field of accounting dates back to the time of the capital market crack, which occurred in the1920s: before that, in fact, there was no need of interference by the government. As a consequence of that crash, the agency of the United States federal government SEC was established in the USA; moreover, other

---

[50] Christensen J. and Demski J. (2003). *Accounting Theory: An Information Content Perspective.* New York: McGraw-Hill/Irwin.
[51] http://en.wikipedia.org/wiki/Luca_Pacioli
[52] Deegan G. (2001). *Financial Accounting Theory* - Sydney: Irwin/McGroaw-Hill.

countries adopted accounting laws dealing with the regulation of industries securities in the field of the company legislation.

Up until the late 1979s the regulation of accounting framework remained part of the local laws: in response to the internationalization of markets and the demand for free flow of capital among the EU member states, specific directives were established in order to cope with these necessities.

Supported by the SEC and the EU regulatory bodies, both the IASC (which was the predecessor of the IASB) and the FASB played an important role in the development of the accounting framework. In response to the increase in internationalization and world trade, there is a growing demand for a harmonization of accounting standards. The IASB and the FASB aim to reach uniform accounting standards worldwide.

As Clikeman[53] noted, there are some cases showing a direct relationship between accounting regulation and financial scandals, as financial scandals create the awareness of the need of regulation, claiming that the existing provisions are not sufficient.

14.2 The function of accounting in business

The joint work of the IASB and the FASB is aimed at the development of a reporting framework that is able to provide financial information about any business to the decision makers (IASB[54]), both internal and external users. As Beaver[55] stated, the common denominator of the decision makers is that they are using financial information The central point underlying the accounting information is to what extent it is able to help decision makers, in other words to provide useful financial information. In this view, there are two worth of noting qualitative characteristics of the financial information: relevance and faithful representation. The most relevant and faithful such information is, the most it turns out to be helpful to internal and external users in

---

[53] Clikeman P.M. (2009). *Called to Account: Fourteen Financial Frauds That Shaped the American Accounting Profession.* New York: Routledge.

[54] IASB (May 2010). *Exposure Draft: Presentation of Items of Other Comprehensive Income.* London: International Accounting Standards Board.

[55] Beaver W.H. (1998). *Financial Reporting: An Accounting Revolution,* 3rd edn. Upper Saddle Rive, NJ: Prentice-Hall.

making economic decisions (IASB[56]).

Of course there are many aims of accounting, and specific sets of reporting standards are necessary in order to cope with the different circumstances in managing a business. So it is important to identify which is the optimal financial reporting when facing a specific decision problem.

At the very basic level, the most important functions of accounting are decision and control, although the demand for accounting information is not the same in these two objectives.

It is remarkable that the more information is always the better, as long as the setting for accounting regulation is a multi-person setting.

Furthermore, there is not a direct link between those who prepare the financial reporting and its final users, so a very important challenge in this context is to achieve congruence between the demand for accounting regulation on one hand and the demand for coordination of the market on the other hand.

In order to favor a better interpretation of an entity's financial statements and thus to improve the decision making, there is a growing demand for the regulation in the language and purpose of reporting and also the amount of disclosure.

In this context, the focus turned on the qualitative characteristics of the financial reporting information, but the regulatory bodies are aware of the limits of this choice, as long as, for example, one of the two primary qualitative characteristics of financial information, which is faithful representation of the economics, conflicts with the use of the accounts for control purposes.

An interesting point to take into consideration is that one remarkable advantage of reporting information is that its credibility and reliability is increased thanks to the fact that it is audited. The drawback of this consideration is that, as long as the auditing process takes a pretty long time, the resulting financial information can be exploited only after a while.

In this view, Lev[57] figured out that the amount of market information that is provided by

---

[56] IASB (October 2010). *Staff Paper: Presentation of Items of Other Comprehensive Income. Comment letter analysis*. London: International Accounting Standards Board.

[57] Lev B. (1989). *On the Usefulness of Earnings and Earnings Research: Lessons and Directions from*

financial accounting reaches just the 7 per cent of the total; Ball and Brown[58] also provides evidence of this concept.

Last but not least, it is important to consider the fact that financial accounting is useful in the sense that it provides credibility to other sources of information: indeed, as suggested by Dye and Sunder[59], it allows to give room for multiple competing sets of accounting standards.

In sum, although researches are helpful in providing interesting perspective in this complex subject, it is also important to remember that these can only provide insights: the task of balancing the different needs of users is left to the politicians.

As stated before, accounting is a key function in all businesses because it provides useful information for decision making in investments and in control. These two purposes of accounting involve a different use of financial information in the sense that the former focuses on the capacity of the information to forecast future cash flow improve decision-makings and the latter centers on the accounting numbers in decisions.

14.3 The debate about the global harmonization of the accounting standards

An important aspect in the field of financial information relates to the regulation of accounting. Accounting is a production factor in economics, at the same level as materials and labor, and it is also a source of financial information, as stated by the regulatory bodies. Although it has not a value on its own, as long as financial information is not categorized as a consumption good, its use is very important, in the sense that it allows for a better production within entities and gives room to a more efficient allocation of capital in the society.

As the IASB states, "if financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial

---

Two Decades of Empirical Research. Journal of Accounting Research, 27 (2): 157-78.

[58] Ball R.J. and Brown P. (1968). *An Empirical Evaluation of Accounting Income Numbers.* Journals of Accounting Research 6 (2), 159-78.

[59] Dye R.A. and Sunder S. (2001). *Why Not Allow FASB and IASB Standards to Compete in the US?.* Accounting Horizons, 15 (3), 257-71.

information is enhanced if it is comparable, verifiable and understandable" (IASB[60]).
It is worth noting that the main assumption underlying the regulatory function of both the standard-setting bodies FASB and IASB is that they are meant to provide guidance. In particular their objective is to serve the public interest, thanks to the use of the qualitative characteristics of understandability, relevance, reliability and comparability of financial statements, which allow for measurements and guidance in the decision making processes carried out by internal and external users in any business.
As the FASB[61] claims, "investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity".
In the complex relationship between the firm and its management, accounting data play a very important role, as long as the contracts dealing with the employment compensation are managed and thus regulated in accounting terms.
This shows that accounting regulation is applied in many circumstances nowadays, although it is a fairly recent phenomenon, which arose in different ways according to the specific environment considered. In particular, accounting regulation in Anglo-Saxon countries was developed alongside the role of accounting information in the public debt and equity (capital) markets. Conversely, the paramount role played in EU by the major sources of financing, labeled financial institutions and government, led to the great demand by non-market actors for financial information. In the recent years capital markets have been very important in the process of accounting regulation.
Most authors agree on the fact that accounting information refers both to the information contained in the financial statements of a company, so it is linked to its economic activities, and to the disclosure of information.
Such information is useful to both private and public users, being public the debt and equity markets and being private the non-market actors.
As already stated, the main function of accounting information is its usefulness in the decision-making processes of shareholders, although it has also been used by other stakeholders for other purposes, such as debt-contracting.

---

[60] IASB (2010). *The Conceptual Framework for Financial Reporting 2010.* London: International Accounting Standards Board.
[61] FASB (1978). *Statement of Financial Accounting Concepts No. 1: Objectives of Financial Reporting by Business Enterprises.* Norwalk, CT: Financial Accounting Standards Board.

In response to the growth of business enterprises and the separation of ownership and management control as well as to financial abuse and shocks which arose in the form of accounting scandals and related business and market failures, the business environment has gradually incorporated regulation. However, the way in which regulation has been incorporated has varied depending on the primary users of and role for accounting information in a given environment.

The increase of business enterprises together with the financial scandals and the consequent market failures, led to a higher demand for regulation in the accounting framework.

The way in which regulation was incorporated in business depended on the specific environment considered.

14.4 Criticisms to the need of global harmonization of the accounting standards

The thesis confuting the need for accounting regulation are linked to the concept of market information, being self-regulating, while the arguments that support the need for accounting regulation center on the inefficiencies of the market and the ability of regulation to correct such inefficiencies.

As Buchanan[62] argues, the main argument on which those who refuse the need for accounting regulation rely upon centers on the fact that financial information should be considered exactly like any other economic good, and that the demand and supply forces are intended to provide for the optimal information.

In the accounting information context, those who demand for this kind of information are the main users of the financial statements, while the management plays the role of the suppliers of information. As a consequence, as Sunder[63] notes, the amount of accounting information that is going to result is the optimal compromise between the demands of these two actors.

---

[62] Buchanan J. (1968). *The Demand and Supply of Public Goods.* Chicago, IL: Rand McNally & Co.

[63] Sunders S. (2002). *Regulatory Competition Among Accounting Standards Within and Across International Boundaries.* Journal of Accounting and Public Policy 21 (3), 219-34.

The primary users of accounting information depend on the specific economy. In particular, in environments in which public markets raise financing, the users of financial information require different types of information with respect of those environments in which the main providers of financing are non-market.

As Leuz[64] pointed out, the main difference between the market-based system and the one in which financing is not market-based centers on the fact that in this last case firm insiders establish close relationships through contracts with banks and other financial intermediaries. Furthermore, Leuz and Wustemann[65] add that such relationships favor the protection of such contractual arrangements.

Consequently, the need for regulation lies on the fact that the contracting parties are both well informed thanks to this close communication between them.

As Ball et al.[66] wrote, the risk that arises with the growth of capital markets is that investors may face a reduced level of transparency, which is the idea behind the problem of information asymmetry. Such problem involves the two concepts of adverse selection and moral hazard and also a consideration about governance.

14.4.1 The case of asymmetric information

A particular case of asymmetric information arises when some firms are not able to make potential investors aware of the fact that they are high-quality firms and as a consequence they are out of the market. This situation, when occurs, is called adverse selection, and it refers to the less information that the external users of such information (the investors) have with respect to the internal users (the managers of the firm).

In such accounting environment, as suggested by Kothari et al.[67], the external investors are reluctant to invest because of the limited level of information they are given.

---

[64] Leuz C. (2010). *Different Approaches to Corporate Reporting Regulation: How Jurisdictions Differ and Why.* Accounting and Business Research 40 (3), 229-56.

[65] Leuz C. and Wustemann J. (2004). *The Role of Accounting in the German Financial System, in J.P. Krahnen and R.H. Schmidt (eds) The German Financial System (pp. 105-44).* Oxford and New York: Oxford University Press.

[66] Ball. R, Robin A. and Wu J.S. (2003). *Incentives versus Standards: Properties of Accounting Income in Four East Asian Countries.* Journal of Accounting and Economics 54, 68-93.

[67] Kothari S.P., Ramanna K and Skinner D.J. *Implications for GAAP from an Analysis of Positive Research in Accounting.* Journal of Accounting and Economics (50): 246-86, 2010

In order to cope with this potential drawback deriving from an insufficient information, a study carried out by Grossman[68] confirm that firms are more willing to put into the market as credible and reliable information as possible, even if it is not always a good one.

In sum, the objective of the managers of any business is to limit the information asymmetry and to do so they have the incentive to provide sufficient information to the market.

14.4.2 The case of moral hazard

A different situation arises in the case of moral hazard, which occurs when the information is imbalanced between the two sides and, as a consequence, one of these two parties has more information than the other one. The tendency to face the risk and to carry out the responsibilities of their actions is left to the party, which is given less information, as long as the other party is more willing to act in a more cautious way.

Furthermore, as long as the party with less information is not able to be completely aware of the behavior of the other party, it is natural for the party that is given more information to feel protected under the contract.

In the 1970s Grossman et al.[69] called this relationship the agency theory. In the principal-agent relationship the agents are the managers, who are provided with more information than the principals (the shareholders). As Kothari et al.[70] pointed out, the principals take for granted that the main objective of the management is that of increasing as much as possible its own benefits, and not the well-being of the firm. The reason of that is the non-equal level of information between these two parties.

A potential solution to this complex problem is then provided by Watts and

---

[68] Grossman S. (1981). *An introduction to the Theory of Rational Expectations under Asymmetric Information.* Review of Economic Studies 48 (4), 541-59.

[69] Grossman S.J. and Stiglitz J.E. (1980). *On the Impossibility of Informationally Efficient Markets.* American Economic Review, 70 (3), 393-408.

[70] Kothari S.P., Ramanna K and Skinner D.J. *Implications for GAAP from an Analysis of Positive Research in Accounting.* Journal of Accounting and Economics (50): 246-86, 2010

Zimmerman[71], who argue that if the incentives are designed in such a way that the managers are willing to perform in such a way to increase the wealth of the firm, the conflict of interests caused by the imbalanced level of information is then solved.
So the focus is to seek to make the two goals of the principals (the shareholders or creditors) and the agents (the managers of the firm) as close as possible; just aligning the two goals the conflict of interest can be reduced.

14.4.3 The role of governance

In general terms it is not the contract in itself that can reassure the principals that the agents do not act in an opportunistic manner; as Fama and Jensen[72] studied, the crucial role is played by the governance monitoring, through auditing or by external controllers. In 1983 the two authors pointed out that the most important governance solution is to make external and independent auditors to control, monitor, analyze and verify the accounting information.

14.5 Theories supporting the need of global harmonization of the accounting standards

The reason why some authors argue that there is no need for accounting regulation is that they see the accounting information as an economic good. If we change this perspective and try to consider the accounting information as a social good, then it turns out that the need to be regulated is essential, because regulation in the only force which is able to protect it from bad consequences that may occur.

14.5.1 The market inefficiencies

---

[71] Watts R. and Zimmerman J. (1986). *Positive Accounting Theory of the Firm: Some Evidence.* Journal of Law & Economics, 26 (3), 613-33.
[72] Fama E.F. and Jenses M.C. (1983). *Ownership and Control.* Journal of Law and Economics 26 (2), 301-325.

All practical observations of the real world, ranging from financial crashes and market crisis, indicate that the market is not efficient, so the efficient market hypothesis has been confuted.

Indeed, the market is inefficient, as it does not operate efficiently.

The main advantage for investors of the market regulation is that they feel to be protected from the risks of information asymmetry and moral hazard, which arise respectively from an imbalance of access to information and power distribution.

In this perspective, the major role played by the accounting regulation is that of trying to promote the same level of information and power to both sides, in such a way that no one party plays in a more advantaged manner than the other one. As a consequence, both parties are aware that there is not unfair distribution of information among them.

As previously noted, an important role is played by the external and independent audit. In this context, as Jensen and Meckling[73] in the seventies confirmed, information asymmetry and moral hazard are reduced through external audit, as long as they promote a fair financial reporting of a firm, thanks to the monitoring activities that are carried out. In an unfair environment, where no regulation takes place, both parties have the incentive to provide the market with the lowest level of information, in order to gain a competitive advantage from such asymmetric information.

In a regulated environment, on the other hands, firms cannot submit to the market wrong information as long as it is audited.

Many authors indicated that the main objective of accounting regulation is that of increasing the level of transparency and reliability of financial information within an organization, and in this view such regulatory mechanism is seen as necessary in the process of improving difficulties that arise in the market. As long as accounting information among firms needs to be compared, one important consideration is to try to make it as uniform as possible, thus reducing creativity of information disclosure as much as possible.

---

[73] Jensen M and Meckling W. (1976). *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure.* Journal of Financial Economics, October: 305-60.

14.5.2 Accounting information as a public good

As Olson[74] indicated, under the regulatory view perspective the accounting information is considered as a social good, or a public good.

Furthermore, Barth, Kothari et al.[75] added that since accounting information is a public good, it can thus be freely used to internal and external users without incurring in additional costs.

An implication of the free-use of accounting information is that its demand may be reduced, as long as it is not associated with an increase in costs to be obtained. So the organizations run the risk to have incentive to disclose less information, so accounting information is this perspective turns out to be under-produced. An important role is then played by the accounting regulation, as it provides a minimum requirement for information to be disclosed, which would not be provided in the absence of such regulatory mechanisms.

As already noted, financial accounting has its origin in between the thirteen and fourteen centuries, with authors such as Pacioli.

On the other hand the regulation of such practice can be traced back not before then two hundred years ago.

In the process that led to the development of regulation, two paths should be considered: the Anglo-American and the Continental European ones.

---

[74] Olson M. (1965). *The Logic of Collective Action: Public Goods and the Theory of Groups.* New York: Schocken Books.

[75] Ball R., Kothari S.P. and Robin A. (2000). *The effect of international institutional factors on properties of accounting earnings.* Journal of Accounting and Economics, 29 (1), 1-51.

15. THE ACCOUNTING REGULATION PATH IN THE ANGLO-AMERICAN GROUP OF COUNTRIES

Considering the Anglo-American path towards the regulation of the accounting framework, it is worth noting that in the nineteenth century in the UK there is the starting point of the commercial and manufacturing development, while up until the eighteen century the economy was mostly agricultural-based.

As a consequence of the Industrial Revolution, the role of accounting regulation had a remarkable change, in the sense that the owners of the companies started to be involved in activities other than the daily routine of the management of their businesses.

Nobes and Parker[76] indicated that with the Joint Stock Companies Act of 1844 the companies started to be registered in the so-called "books of account", so they started to be registered in order to present useful information to the shareholders when they used to meet.

Few years later the Joint Stock Companies Act of 1856 signed the voluntarily and no more mandatory requirement for the disclosure if financial information and its verification through auditing. The Limited Liability Act stated that the individual owner is not liable for the debts of the company but just for its personal investment in that business.

The most decisive step occurred with the Companies Act of 1948, which made extremely explicit the auditing requirements of the previous acts and promoted the true and fair view of the financial accounting framework. The main objectives of these new and consolidated requirements were to maintain as much as possible the stability in financial information and to make new and potential investors more willing to play an active role in the market. Some authors consider the Companies Act a very important step also for the development of the accounting regulation that took place in the US some period later.

---

[76] Nobes C. and Parker R. (2004). *Comparative International Accounting,* 8th edn, Harlow: Prentice Hall.

As Lamoreaux[77] noted, in the nineteenth century a profound change occurred in the US economy, following the process of industrialization, which dramatically changed the nature of the businesses: a group of industrialists, for example Carnegie steel and Rockefeller oil, conquered the majority of US regions through their buildings and created a brand new type of economic organization: the corporation.

Nevertheless Moran[78] indicated the Sherman Act of 1980 as the first legislation aimed at limiting the capacity of these groups of industrialists to manipulate the whole US market, imposing them some restrictions. The abusive power of these corporations then led to this first form of regulation to preserve the fair market competition.

Moran[79] also added that in that period a list of new institutions were established with the aim of preserving a relationship of trust between the enterprises and the state, through a series of legislations with the objective to improve security and other important social and economic reforms.

In 1933 the United States Congress enacted the Securities Act, which is the major federal legislation to regulate the offer and sale of securities[80].

The Act was also part of the "New Deal". The Securities and Exchange Act of 1934 is linked to the secondary trade of the original securities for which the Act of 1933 applied. The 1934 Act required businesses to disclose periodically financial information and the external verification of that information carried out by independent auditors. It also formally established the Securities and Exchange Commission (the SEC), which was responsible for the regulation of the securities. It not only seek to provide potential investors with all the necessary and complete accounting information to compete in the market, but also to ensure penalties for those who did not perform in compliance with the Acts requirements.

---

[77] Lamoreaux N. (1985). *The Great Merger Movement in American Business, 1885-1904.* New York: Cambridge University Press.

[78] Moran M. (1991). *The Politics of the Financial services Revolution: the USA, UK and Japan.* Basingstoke: Palgrave Macmillan.

[79] Moran M. (2010). *The Political Economy of Regulation: Does It Have Any Lessons for Accounting Research?.* Accounting and Business Research 40 (3), International Accounting Policy Forum, 215-25.

[80] A Behavioural Framework for Securities Risk available at: http://en.wikipedia.org/wiki/Securities_Act_of_1933

16. THE ACCOUNTING REGULATION PATH IN THE CONTINENTAL-EUROPEAN GROUP OF COUNTRIES

Considering the Continental European accounting regulation development, the first thing to notice is that, consequently to the French Revolution, the focus on the accounting information was due to the great importance which was given to the private property, which was considered the key on which the economic activity in French was based on.

As Nioche and Pesqueux[81] indicated, the form of accounting that took place in that period is the balance sheet, rather than income or cash flows.

Some period later, with the Industrial Revolution, entrepreneurs realized that it was remarkably important to cooperate and create partnerships in order to exploit the financial resources in order to make the industrialization process grow and develop more and more.

The Napoleon's Commercial Code of 1807 highlighted the right to create corporations and it represents a model for other European states, in particular the German statute.

The consolidating statute of the 1856 Companies Act, companies were required to mandatorily publish their accounting information, although the legislation were largely influenced by the strong control played by the state with respect to businesses. The "Plan Comptable General" (PCG – General Chart of Accounts) of 1947 strongly influenced accounting information in France: its aim was to improve the decision-making of the government and so it was mainly debt-focused, rather than profit-focused.

This situation of domination by the state was maintained up until the beginning of 1900s, when major state-owned corporations became public; as a consequence of that, the level of direct influence of the state on the economy saw a consistent decrease.

In this environment, the new relationship between the financial institutions and the public companies focused on the role of accounting information: in particular, the

---

[81] Nioche J.P. and Pesqueux Y. (1997). *Accounting, Economics and Management in France: The Slow Emergence of an Accounting Science.* European Accounting Review 6(2), 231-50.

private contracts were aimed to make sure that the firm used to perform in such a way to maintain the agreements in terms of solvency and liquidity.

Leuz and Wustemann[82] claim that in Germany the financial institutions play a major role in controlling the business environment.

The creditor protection is very important in Germany, and its origin can be traced back to the 1794, with the ALR (Prussian Civil Code), which played a remarkable function in increasing the key role of creditors in the business activities. The records of the transactions of the business enterprises were usable in courts, as Eierle[83] argues.

The General German Commercial Code of 1861 (ADHGB) is another legislation which adds further importance to the creditor protection concept; furthermore, the 1897 German Commercial Code (HGB) is still today considered the basis of the financial accounting framework in Germany.

---

[82] Leuz C. and Wustemann J. (2004). *The Role of Accounting in the German Financial System, in J.P. Krahnen and R.H. Schmidt (eds) The German Financial System (pp. 105-44)*. Oxford and New York: Oxford University Press.

[83] Eirle B. (2005). *Differential Reporting in Germany: A Historical Analysis.* Accounting, Business & Financial History 15 (3), 279-315.

17. CONSIDERATIONS ABOUT THE SUBJECT OF ACCOUNTING REGULATION

Generally speaking, there are several considerations that can be made about the subject of the accounting regulation, such as why it is worthwhile to adopt and develop it and who may be the potential users that could benefit from it.
These considerations can be thought of as theoretical consideration about the accounting regulation framework, and they involve both public and private interest theories.

17.1 The public interest theory

The authors that support the need for regulation claim that the accounting regulation serves the public interest, in the sense that the market would be inefficient and unable to improve the welfare of the collectivity without it. Indeed, Pigou[84] indicates regulation as the way to achieve the public interest for the society as a whole, as it corrects the market inefficiencies and promotes the equal distribution of information and power between parties. This perspective is also promoted by Posner[85]: the public interest theory is interesting in the sense that it considers the accounting regulatory framework as the only and natural intermediary to achieve the public interest for the collectivity, as it minimizes the personal advantages of individuals or groups within a society.
It is worth to go a little bit deeper in the analysis of such public interest theory, and examine its role in the international financial accounting, reporting and regulation.
Although the most of the accounting standard-setters (including the IASB), both public and private, argue that they act with the purpose of serving the public interest, there are scarce sources in the accounting framework literature that directly consider the this matter.

---

[84] Pigou A. (1932). *The Economics of Welfare.* London: Macmillan.
[85] Posner R. (1974). *Theories of Economic Regulation.* Bell Journal of Economics and Management Science 5, 335-58.

In broad terms, it is possible to say that the concept of the public interest, when it is examined, it is connected to the general purposes of accounting regulation and the pros and cons of the regulation frameworks.

Anyways the public interest in accounting is not sufficiently developed, especially in the international financial accounting framework; some authors suggest a possible explanation for this low levels of attention though, and the reason lies on the fact that, until recently, the financial accounting and regulatory frameworks and the broad concept of ethics used to be separated and have never been considered linked.

Although in the everyday life the two concepts of the public interest and the common good coincide, as they both refer to something that increases the benefits for the collectivity, there are three distinctions between them, as Douglass[86] pointed out.

Indeed, the public interest does not necessarily involves everyone, while the common good does; the benefits are objectively beneficial in the perspective of the common good, while according to the public interest view, the benefits are subjective; and, least but not least, the common goods involves shared benefits, while in the public interest perspective it is not necessarily so.

The public interest has an important implication, the social responsibility, which is a concept referred to the ethical obligation of on any entity to act for the benefits of the society as a whole. In particular the concept of social responsibility is extended to the professional accountant standard setters and regulatory bodies.

These professional accountants should operate with integrity, competence, due care and objectivity; furthermore, they should serve the public interest. As Duska et al.[87] indicate, the AICPA Professional Code of Conduct, Section 53 defines as the "collective wellbeing of the community of people and institutions the profession serves".

An important remark is that the "collective well-being" of this definition can be intended as the common good, while the "community of people and institutions the profession serves" can be intended as the public interest.

---

[86] Douglass B. (1980). *The Common Good and the Public Interest.* Political Theory 8 (1), 103-17.

[87] Duska R. Shay Duska B. and Ragatz J. (2011). *Accounting Ethics, 2nd edn.* John Wilwy & Sons.

As Schroeder et al.[88] argue, the self-regulation of a society can be intended a privilege, and the same holds true for the autonomy of several professions.

In particular, in both the UK and the USA this concept worked for the profession of accounting. For most developed countries and Europe in general, the establishment of the accounting profession followed the accounting regulation in the public sector.

According to Foreman-Peck[89], a possible explanation is that in later industrialized countries the state adopted a more interventionist role in order "to encourage industrial catching up".

As Gerschenkron[90] argue, the financial systems are typical of those countries in which companies rely more on indirect financing through banks and other intermediaries. On the other hand, this does not holds true for direct financing through capital markets; in this case, the accounting framework is not able to self-regulate and there is furthermore no incentive for the accounting principles to legitimize such self-regulation.

The efficient market hypothesis, the economic income ideal and the informational paradigm are three revolutionary subjects that had a tremendous impact over the concept of the public interest theory, especially in the first years of the seventies, when both the FASB and the IASC were created. More specifically they gained much more importance in the recent years, when the two standard setting bodies of the FASB and the IASC were established, respectively in 1978 and in 1989.

The impact of these three academic revolutions focused mainly on the public interest applied to the concepts of financial accounting and financial reporting frameworks. There is a distinction that is worth to define between the two mandates of the FASB and the IASC: the former aims to improve and increase the public interest in the US, while the latter seeks to try to uniform the accounting practices of the major American companies and corporation, thus its aim is to achieve a harmonization on the accounting and regulatory framework of these big firms.

---

[88] Schroeder, Richard G., Clark, Myrtle W. and Cathey, Jack M. (2001). *Financial Accounting Theory and Analysis,* 7th edn. New York: John Wiley & Sons.

[89] Foreman-Peck J. (1995). *Accounting in the Industrialization of Western Europe in Walton P. (ed) European Financial Reporting: A History* - Burlington, MA: Academic Press Limited.

[90] Gerschenkron A. (1962). *Economic Backwardness in Historical Perspective: A Book of Essays.* Cambridge MA: Belknap Press of Harvard University Press.

Interestingly, although this challenge in the mandates, there are no worth of noting changes with respect to the focus on the public interest in both the 2010 IASB Conceptual Framework and the IFRS Foundation's Constitution[91].

The assumption that markets are semi-strong form efficient is the one that makes the standard setting bodies to disclose the financial accounting information, in order to achieve regulation within the market.

The materiality principle is linked to the full disclosure principle, in the sense that in influences the financial statements as well. More specifically, it is possible to state that both the FASB and the IASB considers such materiality principle to have an influence on the financial information as long as it is able to influence the decision making of investors and potential investors.

In broad terms, the literature suggests that there is the tendency to focus on the market value of financial information, in order to pursue a valuation approach, rather than a transaction approach as it used to be in the past, with the aim to achieve a better income valuation.

As already stated in this paper, most of the authors, including Scott[92], indicate that the financial accounting information has two fundamental role, and both of them are considered in the perspective that they are able to reduce the two market inefficiencies of asymmetric information and moral hazard. The first problem arises between managers and stakeholders and is well known as the principal-agent conflict of interests, while the second one is a consequence of a non-equal distribution of power between the parties, and it is mitigated as well thanks to the accounting regulation.

The claimed objective of the international financial reporting framework is to make the capital market functioning work better, improving it as much as possible through the adoption of a unified set of financial accounting standards. This worldwide harmonization of the financial accounting framework has the more general aim to pursue the public interest at a global level.

---

[91] IFRS Foundation, 2013 IFRS Foundation (2010). *IFRS Foundation Constitution* - London: IFRS Foundation. Available at: www.iasb.org/NR/rdonlyres/B611DD9A-F4FB-4A0D-AEC9-0036F6895BEF/0/Constitution2010.pdf

[92] Scott W. (2003). *Financial Accounting Theory, 3rd edn.* Toronto: Pearson Education Canada.

17.2 The debate about globalization

In this international perspective, it is important to consider the very debated topic of globalization, and how it influences the financial accounting, reporting and regulation.
Some authors, including Milanovic[93], demonstrated that the worldwide tendency towards globalization, which started in the eighteens, was aimed at alleviating the poverty and the too big inequalities that the world was facing between countries. In order to achieve such objective, the big revolution of the global deregulation of institutions took place, led by the globalization forces. So globalization, in its general meaning, is not intended as a benign force that occurred unconsciously and automatically, but it took place to serve a specific, although difficult, objective.
In its economic conception, the globalization would result in a better allocation on income across developed and underdeveloped countries as long as low wages in developing and poor countries should definitely attract foreign potential investors and thus gaining a competitive advantage. Besides that, once the competitive advantage is established in such countries, then they are more willing to specialize, so their position in the global market turn out much stronger than before. Moreover, the transfer of the know-how in many matters, including technologies, is much cheaper and efficient than invent brand new technologies.
Although these optimistic premises, the phenomenon known as the "Lucas Paradox", indicates that there is the tendency that capital flows from rich to rich countries and from poor to rich countries, rather than from rich to poor countries. This is a remarkable drawback.
Another question arises by the 2007 financial crisis, which demonstrated that also the most developed countries had negative consequences from the financing crash.
The main objective of the IASB is that of promoting a global set of accounting standards and principle that pursue the worldwide comparability of the financial accounting frameworks; the initial assumption of the promotion of such uniform set of standards is that the social benefits are much higher than the total costs.

---

[93] Milanovic B. (2003). *The Two Faces of Globalization: Against Globalization as We Know It.* World Development 31 (4), 667-83.

The IASB, indeed, does not explicitly face the public interest question, as long as the only social responsibility that it includes is just the capacity for companies to shift to the adoption of such unified and standardized accounting principles. The most important consequence of such adoption is that, once the accounting frameworks are unified, they turn out to be comparable and thus they increase the decision-making processes of the internal and external users.

Besides this premise, it is worth to remark the mission of the standard-setting bodies, including the IASB, to take into consideration the public interest theory in the harmonization process, especially when different institutional environments are considered. In our day, when the forces of the economic globalization are taking place, it is paramount to claim that the financial accounting framework harmonization claim to serve the public interest. It is thus important to take this concept seriously, and to increase the credibility that both the public and the private perform with this concept in mind.

17.3 The regulatory capture theory

After this digression that considered the public interest theory, it is worth to develop another theory of regulation that, as the public interest one, claims that the primary objective of the standard setting and regulatory bodies is that of promoting the protection of the public interest, especially as a consequence of some failures. This theory is called the regulatory capture theory, and some authors, including Bernstein[94], conducted some researches about it.

The main difference between the public interest theory and the regulatory capture theory is that in the last one it is assumed that the regulatory parties are not that natural and are the regulated parties that are the ones to monitor and verify the regulation processes.

---

[94] Bernstein M. (1955). *Regulating Business by Independent Commission.* Princeton, NJ: Princeton University Press.

A completely different point of view in this respect in provided by the Nobel Prize George Stigler, who basically argues that the regulatory agency is aimed at pursuing the public interest, but in reality it is more willing to do the interest of the firm or organization for which it is asked to regulate, rather than the public in general.
In this perspective, the parties are self-interested and act in this selfish behavior, also using the political support to increase their own and personal benefits.

17.4 The regulatory models

The nature or source of the regulatory body is not unique: it can indeed be provided by the government or another public institution, or it can derive from the private, in the form of external experts who conduct auditing and monitoring activities.
No matter whether the regulatory entity is private or public, its general objective is to provide uniformity and reliability in the financial accounting framework, and also promoting the development of a unified set of interpretation, coordination and revision of the financial accounting information.
Just to provide with a general summary of the public bodies of regulation, it is not possible to omit the role that the state and the government played over the past centuries in the process of developing the financial accounting regulation framework in the European countries.
This holds true especially in the cases of France and Germany, for whom the governmental institution had a particularly important relevance in the path that these two countries conducted to achieve their accounting regulation framework.
There is first of all a remarkable assumption that has to be made: in fact, these two countries faced a dual system in the accounting regulation that considers on the one hand the big sets of companies listed on the public market, which provide one particular regulation, and on the other hand the enterprises that operate within the businesses, which also provide regulation.
This distinction can in part be explained by the influence that the big forces of the EU harmonization programs and also by the impact of the Anglo-Saxon oriented countries.

The legislation concerning the financial accounting information in France has been widely influenced by a variety of sources, ranging from the national laws to the EU directives. All of these rules and norms made possible the creation of the French system that we know today.

Similarly, in Germany the coexistence of the national state laws and the directives and regulations coming from the European Union, contributed to establish the German system, although there is a particular aspect to remember in this case. Indeed, some authorities in Germany have actually a relatively minor importance with respect to the accounting profession. For example, if we compare the accounting practice and the German stock exchange, we can say that no doubly the former has a much more important role than the latter. The Germany institutions are generally aimed at recommending the practices that are taking place and work in the process of setting up the legislation as well.

It is worth noting that in Germany there was not a concept that could be considered analogue or comparable to the accounting standards subject; in order to cope with this lack and the consequent criticisms by the rest of the world, in the late 1990s the Accounting Standards Committee of Germany (ASCG) was established, with the aim to create and the financial accounting standards for important organizations. This institution, whose activity was developed by public bodies, had also the role to represent the accounting interests Germany in the international framework.

As long as up until the 1920s in the Anglo-Saxon oriented countries there was an absence of financial accounting information and regulation that the organizations had to comply with, it was almost impossible to make comparisons among firms in the market environment.

Then, once such limitation was understood by the authorities, a general improvement in the acceptance of the international accounting standards started to be accomplished.

The IASC (International Accounting Standards committee) was the private standard-setter body that preceded the IASB, and promoted the development of international financial reporting standards.

According to Camfferman and Zeff[95] the establishment of the IASC in 1973 was due to the necessity of creating a unified set of accounting standard framework which could easy the comparability of the financial statements of companies across national borders and also to help those developing countries which did not have any standard framework to establish a set of principles guiding the financial reporting.

Although both the IASC and the IAS (the international accounting standards that it developed) promoted an improved quality of the financial information, both in terms of reliability and comparability, they showed a limit on the development of a good regulatory system, as Tamm-Hallstrom[96] argued.

This lack of a recognized authority in the field of regulation was maintained also some years later (in 2001) when the IASC was renamed as IASB. Some time after this rebranding, the adoption of the IASB's IFRS (International Financial Reporting Standards) became mandatory for companies in the European Union. This change was decided by the European regulatory policy, as Botzem and Quack[97] showed.

As long as also the companied that were part of the UK stock exchange list were included in this programme of mandatory adoption of the IFRS, the European and US companies became equivalently submitted to the private standard-setting bodies.

The way such private standard-setting model works in the European and US environment is analogous: the claimed objective is that of providing a unified set of accounting standards framework. Besides that, in some countries these regulatory bodies do not have the right to force organizations to comply with these harmonized standards. As a consequence, according to Djelic and Sahlin-Andersson[98] a distinction has to be made between the maker and the enforcer of the rules. In this perspective, the several enforcement bodies, ranging from the national governments to the other minor

---

[95] Camfferman K. and Zeff S. (2007). *Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000.* Oxford: Oxford University Press.

[96] Tamm-Hallstrom K. (2004). *Organizing International Standardization: ISO and the IASC in Question of Authority*. Cheltenham: Edward Elgar.

[97] Botzem S. and Quack S. (2006). *Contested Rules and Shifting Boundaries: International Standard Setting in Accounting, in M-L Djelik and K. Sahlin-Andersson (eds). Transnational Governance: Institutional Dynamics of Regulation (pp.266-86)*. Cambridge: Cambridge University Press.

[98] Djelic M.-L. and Sahlin-Andresson K. (2006). *Introduction: A World of Governance - The Rise of Transnational Regulation, in Djelic M.-L. and Sahlin-Andresson K. (eds), Transnational Governance: Institutional Dynamics of Regulation (pp. 1-30)*. Cambridge: Cambridge University Press.

authorities, can decide whether to promulgate totally these unified accounting standards or just certain issues of them. Another action they can perform is that of abandon these set of guiding principles, confuting them and thus keeping in their hands the legitimacy of accounting practices. In the first two cases the enforcement bodies of any countries are said to be rule-enforcer, as they just promote international standards set by the regulatory models, while in the last case they are called rule-maker, as they do not comply with the standard principles but create them.

The agenda setting is a paramount step in the formation of the accounting standards, as it refers to the process of incorporation into an agenda of all the accounting issues that are particularly complex and necessitate standardization.

After that, the problems are tried to resolved, thanks to the development of the standards, but, as Sutton[99] notes, it is necessary that the stakeholders that are involved in these issues accept, at least up to a certain level, the solution proposed by the standard-setter bodies.

Richardson and Eberlein[100] add an important ethical aspect, which refers to the fact that such authorities should not abuse their power in the decision-making process, and act in a transparent way that ensures credibility of their work.

---

[99] Sutton T. (1984). *Lobbying and Accounting Standard-Setting Bodies in the US and the UK: A Downsian Analysis.* Accounting, Organizations and Society 9 (1), 81-95.

[100] Richardson A. and Aberlain B. (2011). *Legitimating Transnational Standard-Setting: The Case of the International Accounting Standards Board.* Journal of Business Ethics 98 (2), 217-45.

18. THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Although the use of IFRS conceptual frameworks is a pretty recent matter (excluding the Anglo-Saxon countries), it has an important role, which was strongly influenced by both the FASB and IASB.

As already stated, it is not a mandatory choice the use of IFRS; it rather represents a voluntary choice deriving from a necessity.

The Conceptual Framework of the IASB changed twice its name, due both to the changes that took place inside the US institutions in between the sixties and the seventies and to the establishment of the independent standard-setting body of the FASB. However, such Conceptual Framework was called at the beginning the *Framework for the Preparation and Presentation of Financial Statements*, while it was rebranded as the *Conceptual Framework for Financial Reporting* in most recent years.

The US framework is pretty complex, and is divided in few parts, ranging from the aims to the characteristics of the financial accounting; moreover, although the original claimed objective was linked to the usefulness of financial information in the decision-making process, as was pointed out on the IASC, then a more recent paper was created in 1989, which highlighted other important aspects.

In the recent years (2004-2010) a process of deepen the topics of the paper took place, but was stopped by the projects carried out in order to cope with the necessities deriving from the financial crisis.

In 2010 the IASB finished to draw the framework related to the principal aims and the elements of the financial reporting, and then it aims at updating the 1989 paper.

The IASB focuses on the changes in assets and liabilities, and the criticisms claim that it is too centered on the generation of income, rather than on the valuation on assets. Furthermore, the IASB promulgates the acceptance of IFRS in developed countries but also its adoptions in those countries without accounting principles.

In our day we are witnessing a process of global convergence of accounting standards, in the sense that the financial accounting information of countries becomes more and more uniform and harmonized over time.

Although such set of accounting standards and principles have been adopted, some countries present legal institutions that are still very different among each other, and such differences are going to persist in the future. A possible explanation is that the accounting framework is originated by the intersection of the environmental factors that differ substantially from one country to another, as is deeply demonstrated in the first introductory part of this paper. In particular, the financial institutions play a substantial role in the development of the accounting framework in a specific country.

As shown before in this paper, in the chapter covering the international environmental factors, and specifically the role of past colonialism, the history indicates that the past convergence of accounting standard framework was the result of a mandatory imposition of the legal and accounting system of the dominant countries on the colonies.

When such process of imposition decreased with the gained independence of the dominated countries, there was a parallel reduction of the convergence of the accounting system between countries. Indeed, such divergence was maintained, as there was no necessity to change this status quo, in the sense that countries were pretty much self-sustaining with no interdependencies and there was no need to uniform the accounting standards in order to make them comparable.

The process of accounting framework harmonization among the EU member states began in the 1960s, and was accompanied by the creation of the Accountants' International Study Group (AISG), which was constituted by the UK, Canada and the USA. Its declared objective was to try to unify the accounting reports of such countries, but the evidence suggested that there were too many divergences that expected. As a consequence the International Accounting Standards Committee (IASC) was founded in 1973, and signed by nine countries, in order to promote the harmonization of the financial reporting standards and develop the International Accounting Standards (IAS).

As the IASC gained importance, major financial companies were required to prepare their financial statements in accordance to the IAS and not to the national GAAP. As a consequence, these large organizations gained advantage.

When the IASC was rebranded as IASB in 2001, the declared objectives were "to develop, in the public interest, a single set of high quality, understandable and

enforceable global accounting standards" and to "promote the use and rigorous application of those standards" and to "bring about convergence of national accounting standards and IFRSs to high quality solutions"[101].

At the beginning the IASB used to center on large companies listed on the capital market; however, in the recent years, it also drove its attention towards the SME.

The tendency towards global convergence in the financial reporting framework is demonstrated by the fact that IFRS is used in more than one hundred countries nowadays, which also represents a prove of the success of the IASB and its predecessor IASC.

There are however two big countries that have not adopted yet the IFRS; these countries are the USA and Japan. About the USA, the US SEC aim is to converge with the IFRS; on the other hand, Japan has not taken a decision yet, but allowed some Japanese organizations to perform their financial statement according to IFRS principles.

China, Malaysia and India are among those countries that have the objective to converge with the International Financial Reporting Standards.

The fact that the accounting standards and principles gained that much acceptance among countries provides evidence confirming that the benefits provided are much higher than the costs that companies would incur in complying with IFRS.

An important aspect to remark is that IFRSs are not adopted just because they allow for uniform and thus comparable financial accounting reports, but also because these standards are considered of a much higher quality with respect to the national GAAP. So countries are willing to adopt IFSR, substituting them to the GAAP, because they provide a better quality in the financial reporting framework of companies.

Although the level of acceptance of IFRS promoted by the IASB is definitely successful, also because they are relatively recent, it is important to remember that the total convergence of the accounting standards will probably never be reached. A possible explanation is that such convergence is much more benefiting the companies

---

[101] Preface to IFRSs Foundation (2013). Constitution, available at www.ifrs.org/The-organization/Governance-and-accountability/Constitution/Documents/IFRS-Foundation-Constitution-January-2013.pdf, accessed 11 March 2013

that are internationally oriented, so it is worthwhile to perform complying with IFRS just to a small part of the total companies in the market.
It is worthwhile to state that there is not a single way of performing accounting in a good way, as it depends on the economic effects that countries are willing to achieve. So it may not be that bad to still have some divergences with respect to the global acceptance of IFRS, and the amount of compliance to these standards that would be desirable to achieve is still an open question.
The role that globalization of capital markets had in the worldwide acceptance of IFRS is remarkable. It gave a significant contribution towards the convergence with the standards accounting framework, which actually started when the EU promoted the compliance up to a minimum level with the regulation in order to pursue the final harmonization objective.

18.1 The advantages of adopting global financial accounting standards

The main advantage of having a uniform set of accounting standards and principles across different countries is definitely that the financial accounting information of companies can be compared by potential investors without incurring in costs associated to the activities of understanding and analyzing them. This advantage is remarkable because it allows for a better resource allocation worldwide.
Also the SEC recognized that comparability of financial statement was the main driver towards convergence of the accounting standards, specifically the shift from the US GAAP to the final adoption of the IFRS. Indeed, some big firms decided voluntarily to prepare their financial statements in accordance to IFRS, so they were even willing to incur in initial costs in order to facilitate their comparability and thus gain a competitive advantage worldwide.
Among the advantages of adopting international financial reporting standards there is also a better and more effective communication among parties and the several transactions that take place between firms scattered across the globe takes place more quickly and more efficiently.

So the relationships between stakeholders, no matter where they are located, are definitely improved, thanks to a better cooperation and the fact that the information reported in the financial statements can be interpreted immediately.

So the main benefits of IFRS adoption regard most of all multinational firms operating in a global trade environment, where the financial accounting information becomes very accurate, precisely and less costly. There are advantages also from a monitoring point of view, as the internal controls are improved in efficiency and the regulation processes are made better off. Furthermore, as long as the regulatory processes become more and more international, the adoption of a unique standard framework increases the coordination and becomes more efficient.

As already noted in this paper, there are different conceptual frameworks, also influenced by the different culture and environment in general in which they have been developed. Also the time in which they have evolved have an influence on these standard-setting matters.

As Nobes[102] claims, there are two different types of financial reporting systems, namely respectively the Anglo-Saxon and the Continental European ones.

Considering the Anglo-Saxon environment, the private sector has played an important role in the development of the standard-setting model, and especially the accounting practice has dramatically influenced it.

Unlikely, the Continental-European countries has always relied upon a Commercial Code in order to write down specific rules, as these system did not use to create such standard setting framework or in general accounting concepts as such.

The lack of a supranational authority that characterize the Anglo-Saxon group of countries may explain the reason why the standard-setting arrangements are much stronger in these countries rather than in the Continental-European group of countries, where the absence of standard-setters is in part justified by the tough role played by the national laws. These countries do not actually need another authority, as they already have one.

---

[102] Nobes C.W. and Parker R.B. (2010). *Comparative International Accounting,* 11th edn, Harlow: Prentice Hall.

18.2 The differences between the IASB and the FASB

The main difference that occurs between the FASB and the IASB is that the function of the former focuses to provide guidance in the decision-making processes of the standard-setting bodies, but it does not figure in the US Accounting Standards Codification. Unlike the FASB, the IFRS is thought to be used and adopted also by the preparers and the auditors, when they perform their work.

18.3 Criticisms to the IASB

Some authors criticized some aspects of the IASB Conceptual Framework. Among them, Burlaud and Colasse[103] claim that the final aim of IASB is "highly political in character since it amounts to making a choice as to the governance of the company". Furthermore, they add that "it may therefore seem surprising that such a declaration should emanate from a group of technical experts with no political legitimacy".

They also claim that IASB Conceptual Framework makes investors better off, as longs as even if they carry on some risks, once they gain the necessary information, this turns out to be useful also for other investors.

Van Mourik[104] argues that IFRS are not pursuing the public interest, as they are adopted by several different institutional environments to provide financial information to investors, so their value is just in economic and not social terms.

More specifically she admits that the IASB also has a social function, but in the reality it is completely neglected.

Another claimed limit of the conceptual frameworks is its too high ambiguity. This weakness arises because the objective of such standards and principles is to provide consistency, but the abstraction is too remarkable though, so they lack in practice and in operative terms.

---

[103] Burlaud A. and Colasse B. (2011). *International Accounting Standardization: Is Politics Back?*. Accounting in Europe, 8 (1), 23-47.

[104] Van Mourik C. (2010). *The Legitimacy of the Assumptions on which the IASB Conceptual Framework is Based: An Institutional Perspective.* Working Paper, Open University.

Last but not least, other authors including Macve[105] note that, although the financial standards may be generally useful, they are not totally comprehensive, which is also natural, in the sense that there are too much elements that characterize any entity and its changes. Moreover, there is not a clear and unambiguous definition of what the two terms of income and value actually indicate, so they do not provide a consistent measure for profit and asset.

[105] Macve R. (1981). *A Conceptual Framework for Financial Accounting and Reporting: the Possibilities for an Agreed Structure.* London: ICAEW.

19. TRENDS IN THE DEVELOPMENT OF THE CONCEPTUAL FRAMEWORK

As already pointed out, the US is the birthplace of the development of standard-setting conceptual frameworks.

The FASB was created in 1973 by the Wheat Committee. It issued a series of statements of Financial Accounting Concepts, starting with SFAC 1 *Objectives of Financial Reporting by Business Enterprises* in 1978. It issued SFAC 2 *Qualitative Characteristics of Accounting Information* and SFAC 3 *The Elements of Financial Statements of Business Enterprises* (replaced in 1985 by SFAC 6) in 1980. SFAC 5 *Recognition and Measurement in Financial Statements of Business Enterprises* was issued in 1984 (SFAC 4 addressed the objectives of reporting by non-profit organizations).

The initial work of the IASC, which started in the eighties, was centered on different aspects and aims of the financial reporting frameworks; later on it shifted the focus on a single framework, rather than working on and producing different papers for several aspects.

Financial reporting practices in Japan, Continental Europe and several other developing and newly industrialized countries were analyzed by the IASC. Although none of these countries had published a conceptual framework in a similar form to that of the FASB or that proposed by Canada, Australia and the IASC, there were clearly concepts or principles underpinning their accounting requirements.

As stated before, the last and final document was published in 1989.

Although the 1989 IASC Conceptual Framework definitely seems to be focused on the financial information that investors need as providers of risk capital, some authors including Cairns[106] claims that the 1989 IASC framework was not centered on the investors' needs.

---

[106] Cairns D. (2007). *The Use of Fair Value in IFRS in Walton P. (ed) The Routledge Companion to Fair Value and Financial Reporting, Chapter 2, pp. 9-23.* London: Routledge.

He argues that the IASC conceptual framework distinguishes a number of users, without giving precedence to any, but at the same time suggests that information that satisfies the needs of providers of risk capital will meet many of the needs of other users.

He adds that, like the US framework, the IASC framework bases the recognition of assets, liabilities and income round the definitions of asset and liability, but contests that this implies a balance sheet orientation.

In 2004 a parallel process between the IASB and the FASB took place, in order to make their two conceptual framework arrangements to converge.

If these two had to converge, it was definitely necessary to provide with a common set of standards that could facilitate such process.

As stated before, the works of creating the final version of the two, which consisted in the identification and analysis of the main objectives and qualitative characteristics, was stopped in order to focus on the projects that were related to the financial crisis and market crashes.

The IASC framework concerns the financial statements and not the financial reporting, which is a wider concept, but the IASB agreed to move to the US use of "financial reporting".

A problematic issue is the use of the word "reliability" in the old US framework. In this view, the most important characteristics should be relevance and reliability, but then reliability is defined as a faithful representation of what the numbers represent.

Some board members though, argue that reliability actually means verifiability, in the sense that a reliable number is one that can be independently checked and verified.

Many constituents note that, given the essentially subjective nature of estimates used in financial reporting, they did not want to constrain estimates to those that could be verified. They have tried to make this issue clear by using the term "representational faithfulness" as a fundamental characteristic instead of reliability, and identifying verifiability as an important feature.

Between 2004 and 2010 the project staff did extensive work on the elements of financial reporting, measurement and the reporting entity.

The existing IASC/IASB framework says very little about measurement, which was also a problematic issue for the FASB's old framework. The boards decided that they wanted to address the subject thoroughly.

However, all of the steps of the work were stopped in order to center all the resources on the projects concerning the financial crisis.

In 2010 the IASB declared that the two parts of the framework that had been adjusted, the aims and the qualitative characteristics, had to be published and unified in the 1989 framework. So currently the official IASB Conceptual Framework is a mix between the 2010 update and the 1989 original. The principal aspects of the 1989 framework that have not been modified are those characterizing the financial statements, their recognition and measurement, and the concepts of capital and capital maintenance. The other work the IASB plans to do is beyond what is in the 1989 version.

The sentence in the 1989 IASC Conceptual Framework referring to the information needs of the providers of the risk capital has been removed from the 2010 IASB Conceptual Framework. However, in spite of the ambiguity of the terms used in the IASB Conceptual Framework, the IFRS Foundation's Report on the Trustees' Strategy Review[107] leaves no doubt that the IASB is committed first and foremost to protecting the interests and information needs of investors in capital markets.

The conceptual framework places stress on the notion of general purpose financial reporting, which it says is aimed at those who do not have the power to require the entry to provide information directly. Consequently management is considered to be outside the scope. The chapter also notes that financial reports cannot give all the information needed to make decisions, and that different users will have different and possibly conflicting needs.

The fundamental qualitative characteristics and the enhancing qualitative characteristics are distinguished in the IASB conceptual framework.

The former involves relevance, materiality and representational faithfulness; the latter are comparability, verifiability, timeliness and understandability.

---

[107] IFRS Foundation *(2011). Report of the Trustees' Strategy Review, IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade.* (April) London: International Financial Reporting Standards Foundation.

While these last enhancing qualitative characteristics are largely self-explanatory, the same does not holds true for the fundamental qualitative characteristics. Relevance is the information that has the capacity to influence a decision, in the sense that it is able to predict or confirm something concerning the market value and the firm. About materiality, this is a particularly tough subject, in some instances connected to the concept of relevance. In broad terms, it is possible to state that financial reports should provide the material information, and ignore the immaterial one.

Last but not least, three are the features that characterize the faithful representation: completeness, neutrality and the absence of errors. This is of course improbable to be achieved all at once.

The final chapter of the IASB conceptual framework analyses some important elements. The definition of an asset is the cardinal point, and the definition of the liability is the opposite of that of and asset, with equity being a residual of the asset and the liability measurement. An asset is a resource controlled by the entity as a result of past events and from which future benefits are expected to flow to the entity.

The definition of a liability is that it is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. This part of the conceptual framework also discusses income and expense. It raises the question of the difference between revenue and gains and between expenses and losses, suggesting that revenues and expenses arise from transactions in the ordinary course of business whereas gains (increases in income benefits).

An interesting topic to take into consideration is to identify who are the final users of such conceptual framework.

Generally speaking, there are two basic or primary users, the standard-setting bodies and the preparers and auditors.

The former use the conceptual framework in its key guidance function, in order to help them in their performances, while the latter use it with the objective to make a specific decision about the accounting policy to be used within a special entity.

The main declared objective of the FASB conceptual framework is that of providing the US standards with more consistency, while the IASB considers the framework in the perspective that it is a guide for both the standard-setting bodies and for preparers and

auditors, as already mentioned. It is worth noting that the IASB pretends that the standards that are prepared are set in accordance to the conceptual framework.

Unlike the FASB, the IASB conceptual framework is intended to be used as a guide by standard-setting bodies but also to assist preparers and auditors when they work with financial statements applying IFRSs.

As long as the IFRS are applied in many different tax and legal, social and economic environments, they need to provide more general principles rather than detailed rules, as they would be too complicated to be used in such a different environment. Many authors, including Gilbert Gélard[108], support this theory.

[108] Gélard G. (2010). *Du Bon Usage d'un cadre conceptual amélioré.* Revue Française de Comptabilité 437 November.

20. THE ROLE OF DIFFERENT INSTITUTIONAL ENVIRONMENTS IN THE ACCOUNTING PRACTICE

Institutions and incentives are part of the factors that play a role in influencing the accounting practice, together with the accounting standards. Institutions include the legal systems, capital market regulation, product market competition, company law, enforcement and firm-level incentives, such as ownership structures, financing, and corporate governance and compensation practices. Institutions, together with traditions and education, shape incentives.

Of course it is extremely improbable that a unique set of accounting standards works perfectly in all institutional environments.

One worth of noting aspect is related to how a set of accounting standards suits the legal system of a specific country. This definitely is going to influence how the standards will be interpreted and applied in that context. As long as the IFRS have been developed in the Anglo-Saxon environment, they of course reflect that legal context in their form. The Anglo-Saxon group of countries has a legal system that is based on common law, which makes it difficult to compare and apply the standards to other countries that have completely different legal traditions. These differences would naturally cause divergences in the interpretation of the standards.

Besides the complexity in the interpretation of the standards created by the legal system, there is also another topic that is worth of consideration, which is the translation from one language into another one. First of all, the IFRS are written in English, so they have been translated into many languages over years; in some cases it happened that it was the IASB itself that used to prepare these translations with the help of local institutions.

The example of Portugal and Brazil are remarkable, as these two countries adopted two different translations of IFRS from Portuguese.

Also auditing, corporate governance and enforcement in the financial reporting framework differ significantly worldwide.

In some countries, for example Japan and the Netherlands, qualified audit reports are highly uncommon, which does not mean that auditing is of low quality, but rather that there are other means for auditors to influence the quality of the financial statements.

Concerning the results of the enforcement mechanisms related to the financial reporting framework, they widely differ across countries: statistics report that the percentage of errors in Denmark, Germany and Portugal is much higher (around 24%) than in the UK and Spain (less than 2%).

Such results are very different and such large gap can be explained just in part by the fact that the financial reports show a different quality: what actually diverges is the effectiveness of the enforcement mechanisms. Some authors, including Christensen et al.[109], indicate such enforcement mechanisms as one of the primary forces that drive the IFRS adoption.

The IASB is aware of the important role played by the institutional environment, although it does not directly takes part in the development of the accounting standards, as long as they are assumed to be effectively enforced.

Furthermore, the IASB considers the improvements that should take place within the institutional environment to enforce the accounting principles.

The final objective is that of increasing the level of convergence in the financial reporting practices in the future, even if this aim is very challenging because of the different national legislations among countries. Harmonization would require countries to give up their sovereignty, so it is put at a higher level.

The more some concepts and mechanisms are deeply rooted within national laws the less they can be harmonized. This is the case, for example, of enforcement and litigation.

A challenging question refers to whether the adoption of the IFRS among different countries actually leads to a better comparability among them; in other words, if a single set of accounting standards is enough to achieve a higher level of comparability.

In order to be comparable, two similar events should be recorded in a similar way and, vice versa, those events that are different between each other should be recorded in a different way. This concept would apparently seems obvious, although it is not always the case: if we consider, for example, the differences in financial institutions are not taken into enough consideration, the result of adopting the same set of accounting

---

[109] Christenses H.B., Hail L. and Leuz C. (2013). *Mandatory IFRS Reporting and Changes in Enforcement.* Working paper, University of Chicago.

standards is that comparability becomes much lower. This is because at the end it turns out that those different transactions that had to be recorded in a dissimilar way, are instead recorded in a similar way.

Some researches focus on the ways in which comparability can be measured among those countries in which the adoption of the IFRS is mandatory: the main measurements are input-based, which are based on accounting policies; the others are output-based, which considers the final accounting numbers deriving from similar economic transactions.

Just to provide an input to the challenging question asking whether adopting a single set of accounting standards actually increases comparability among countries, some authors suggest that this is not the case at all. This is particularly remarkable because, as a consequence of IFRS adoption, some countries also undertake a process of changing the institutional environments, in particular the mechanisms of auditing, governance and enforcement. As a result of such change the expectation would definitely be an increase in the comparability among these countries, which is not confirmed though.

In sum, it is possible to state that the main benefit that the adoption of IFRS provides has to do more with an increased quality of the financial reporting framework rather than with an increased comparability among the financial statements among countries.

A remarkable fact considering IASB is that it formulates the accounting principles without a detailed description about them, and this is important because it allows for some differences to persist among these accounting standards.

The quality of these accounting standards is much higher thanks to the fact that it is based on the sharing of ideas and experiences from many constituents scattered across the globe, and so it is the result of a mix of different cultural backgrounds, of course benefiting from that. The constituents learn from each other and an important result concerns the existence of economies of scale, which are an advantage as they reduce the total costs.

Another important aspect to consider concerns the fact that the IASB does not aim to eliminate the national accounting standards of a country, as long as they are an important source of improvement and their contribution may be beneficial. Moreover, they provide an interesting feedback to the international sets of accounting standards.

This is why the IASB incentives such national accounting standards to be maintained, even if it is costly for the specific country considered. In this perspective, the benefits of keeping the national accounting standard setters overwhelm the drawbacks.

Furthermore, the IASB undertook some important projects in collaboration to the individual national accounting standards.

It is important to remark that the drawback of having people from different countries to collaborate together is that their diverse cultural background, which is so powerful on the one hand, may results is a lower level of understandability and capacity to communicate. Different views could in fact negatively influences the standard setting in organizations where many people coming from different countries worldwide are asked to collaborate together. This is particularly tough as long as there is not a true and correct accounting practice, and so the different cultures of the constituents may collide. Further, the level of influence by politicians varies among countries as well.

The political influence over accounting standard setting processes have always been remarkable: a possible explanation of that is refers to the fact the creation of new accounting standards may benefit some stakeholders at the expenses of others and as a consequence there is a deep wealth redistribution. The way politicians are involved in the standard setting processes may occur in several ways, ranging from the monitoring mechanisms to the imposition of the veto. Furthermore, politics may be a source of financing for the accounting standard setters, especially if it not public.

As much as IASB's accounting standards and principles gain importance, the politics is willing to become more and more involved in those mechanisms, and exerts much pressure in order to influence the IFRS Foundation (IFRSF).

It is obvious to note that the global standard setters cannot neglect such political pressure; indeed, it is vulnerable to it because the politics of a country may withdraw its support in the development of the international accounting standard framework.

As already stated in this paper, the central point is the degree to which each country is willing to give up their sovereignty over the national territory in order to adopt the international accounting principles. This is the basic idea on which the global convergence of the accounting standards relies upon.

The global convergence of the accounting principles across countries worldwide is desirable as long as the benefits outweigh the costs. In the long run, the objective of harmonization is to develop a set of uniform accounting standards for countries to adopt in preparing their financial statements. In this perspective, the gap between the accounting standards of different countries is dramatically reduced.

The easiest way in which countries can converge with IFRS is that it employs them. There are many other ways but this is no doubt the most natural one. The problem that may arise in the accounting standard setting process is that it is not that obvious for a country to give up its national authority and substitute it with a private one such as IASB is. An approval decision then becomes fundamental, and other endorsement mechanisms may help in such problematic context.

A possible solution, that some countries have already adopted, refers to the incorporation of IFRS into the national accounting standards, as Australia did. In the case of Australia, in fact, the IFRS represents a part of the Australian Accounting Standards: in this way, the standard setting bodies are ensured that they perform in compliance with IFRS.

The forces of globalization, as already noted in this paper, played an important role in the convergence process of the listed companies of the capital markets. Multinational firms and, generally speaking, those organizations which are internationally oriented, are likely to benefit most from such convergence process. The EU mandates the adoption of IFRS for large listed companies, including multinationals.

Although, as already stated, those organizations that are internationally oriented, benefit from the IFRS convergence, it is important to remark that listed companies are likely to benefit way more than them.

The opposite holds true for firms that are locally oriented, which not only do not reap benefits from IFRS convergence, rather are actually those who incur in other costs.

This is the case of SMEs (small and medium-sized companies), which are not going to gain any benefit from the global convergence of the accounting standards.

The degree to which convergence is required depends according to the type of financial information has to be provided. Generally speaking, the largest companies are required to comply with IFRS because, due to their big size, they are the primary targets for

potential investors. Anyways, some countries mandate some more financial information besides the financial statements; this additional information includes, among the others, tax reporting and management accounting.

It is well know that the costs to which organizations incur in the process and mechanisms of preparing their consolidated financial statements may be pretty high; one of the aim of convergence is to reduce such costs up to a certain extent.

21. INSIGHTS ABOUT VOLUNTARY AND MANDATORY IFRS ADOPTION

Of course the adoption of IFRS standards is mandatory or voluntary depending on the willingness of specific countries to converge to the global accounting standards. Although the analysis of the potential benefits and the associated costs just pointed out does not change, there are some situations in which a mandatory IFRS adoption is much preferable than others. This is the case, for example, of listed companies, for which a mandatory employment of the global accounting standards is strongly recommended as far as they are part of the same group of organizations and consequently are similar in the standards adoption, and also are generally large-sized. Since they provide financial information that is useful to investors they need to be comparable. Of course, in this perspective, the specific institutions of a country play an important role in the determination of the final result.

The aim of the IASB is to make countries comply with the IFRS, through a mandatory adoption or allowing the organization decide whether to accept to prepare its financial statements in accordance to the IFRS.

If the converge to global standards occurs at a country level, the advantage is that such acceptance mechanisms are enforced by institutions of the country itself. If this is not the case, and the legal system of a country is too strong, then a company may choose to move its headquarters to other countries in order to have the possibility to make its own decisions to comply with the IFRS.

If just a unique set of global standards could be adopted in a voluntarily way by a country, this may give room for a global competition in the standards field, which turns out to be more costly, although the adoption of a single set of global standards would provide significant benefits.

Benefits are associated to the fact that there are many competing accounting theories in the literature that lead to remarkable differences among financial reports. Examples in this view are the prevalence of the asset-liability or the revenue-expense approach or other different measurement subjects.

The result of allowing each organization to decide which of these theories better suits it, is much desirable than undertaking a process of mixing these concepts in order to integrate them.

The advantages are related to the fact that competition in accounting standards provides feedbacks and increases innovation; furthermore the political pressure in then reduced. On the other hand, the drawback of having a monopoly of a single accounting framework definitely reduces comparability among the financial reports and increases the costs associated to the standard-setting process.

22. THE APPLICATION OF IFRS WORLDWIDE

As already mentioned in this paper, the different institutional environments of specific countries remarkably influence the application and adoption of the International Financial Reporting Standards (IFRS). This hold true especially nowadays, that these international principles became widely known and spread across the globe.

It is thus interesting to analyze the role of these institutional factors in the light of achieving a harmonization in the adoption of global accounting standards worldwide.

The history and diffusion of IFRS is important to consider, as long as its spread in the global scenario started with some difficulties, but then developed quickly.

The following section considers the most important events that characterized the IFRS development, although the historical path has already been described in this paper.

In fact, the establishment of the IASC is traced back to 1973, but actually the global accounting standards and principles, began to be adopted up to a significant degree not before than the 2000s.

Authors argue that the reason explaining why before 2000s such international accounting standards were rarely applied is that they were initially perceived to be in conflict with the national GAAP.

To cope with this situation, some companies decided to prepare their financial statements in accordance to both of the standards, the global and the national ones.

These companies indeed exploited some options of the domestic GAAP to comply with the IAS/IFRS; in this way they claimed to comply, at least partially, with IFRS framework.

Such possibility was used before 1999, when the IAS 1 document required that no companies could claim to perform in accordance to the IFRS framework if the financial statements prepared from 1 July 1998 did not comply with all of the IFRS principles.

So some companies, seeking to find another solution, started to prepare financial statements in accordance to the IAS/IFRS, in addition to the official ones that were prepared in compliance to the national GAAP. It is remarkable, however, that this option has been rarely applied, because of increased costs and the confusion that it created in the financial statement preparation processes.

European countries have traditionally been characterized by a variety of accounting traditions; the major ones were the Continental European on the one hand and the Anglo-Saxon on the other hand. So the desire to achieve a convergence if the accounting framework was considered almost a priority, and this is why in Europe many initiatives in order to make the member states adopting the IFRS standards took place. This convergence towards global standards was a necessity rather than a choice.

For sure, organizations were willing to adopt IFRS as long as the benefits deriving from such compliance were higher than the associated costs. IFRS give a particular emphasis to the role of the fund providers, and this explains why Anglo-Saxon group of countries more willingly shifted to these global standards, which were so close to their accounting tradition.

On the perspective of the Continental European group of countries, their desire was that the compliance to IFRS would result in an increased reliability of their financial information, and consequently foreign potential investors would have been attracted; furthermore, financing costs would have also been reduced.

As long as UK GAAP and IFRS were close to each other, British companies were not that willing to switch, as they perceived less benefits compared to the European companies.

In broad terms, what made the difference between the voluntary adoption of IFRS or not, was due to the individual incentives that any single firms had.

A study conducted by Cuijpers and Buijink[110] in Europe found that those firms that were more willing to voluntarily adopt IFRS were large-sized and internationally oriented; most of them moreover were also listed in the US stock exchange.

Such result found evidence also by a research conducted by Renders and Gaeremynck[111], always in Europe. They showed how the companies having a Big 5 auditor and that were listed in the foreign stock exchanges were much likely to comply with IFRS with respect to the other companies.

---

[110] Cuijpers R. and Buijink W. (2005). *Voluntary Adoption of Non-Local GAAP in the European Union: A Study of Determinants and Consequences.* European Accounting Review, 14 (3), 487-524.

[111] Renders A. and Gaeremynck A. (2007). *The Impact of Legal and Voluntary Investor Protection o the Early Adoption of International Financial Reporting Standards (IFRS).* De Economist, 155 (1), 49-72.

Both of these studies confirm that the influence of the outside markets plays an important role in the decision of a company to switch to the adoption of IFRS.

As stated before, as long as the incentives for IFRS adoption are individual, the expectations were that, depending on such incentives, each company would have decided whether to adopt or not the global standards. No one would expect that organizations could switch to the IFRS compliance all at once, especially because some institutional obstacles could not be removed. The results showed that the financial reporting became two-tier in the member states: some companies actually voluntarily adopted IFRS while others still used the national GAAP.

Especially the German countries were those that switched to comply to the global standards, so the geographical area of IFRS acceptance was not that large. This is why the capacity to compare organizations in Europe remained tough.

As a consequence the European Commission, whose objective was the creation of the Single Market, established that IFRS acceptance and compliance by companies had to become mandatory. In 2000 the result of such decision of the European Commission was that from 2005 all of the organizations had to prepare their financial statements in accordance to the IFRS[112].

This deliberation of the European Commission to standardize from 2005 all of the financial statements of the listed companies is a remarkable event, also because the firms used to amount to more than 7000.

It is a major historical event also because, as a consequence, IFRS became the first accounting standard framework worldwide.

Thus, the IASB was definitely considered the main reference in the standard setting field, and the legitimacy of IFRS was declared.

There is an interesting point to consider in relation to the IFRS global acceptance: indeed, the balance of power between the IASB and the US authorities SEC and FASB was challenged. Even though the IFRS adoption by US companies is still not permitted, the SEC declared in 2008 that foreign companies preparing their financial statements in

---

[112] Commission of the European Communities. (2000). *Communication from the Commission to the Council and the European Parliament. EU Financial Reporting Strategy: The Way Forward.* Brussels: Commission of the European Communities.

accordance with IFRS will no longer have to reconcile their accounting figures with the amounts that would have been obtained using UP GAAP.

The IASB claims that the financial reporting framework aims "to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (IASB[113]).

Such focus on fund providers is close to the Anglo-Saxon view of accounting, as mentioned before, but it is in conflict with the Continental European perspective. Under this last view, the information contained in the financial statements needs to be useful to several stakeholders, ranging from shareholders, employees, customers, the government and so on.

As a consequence of this orientation, the benefits derived from the IFRS adoption are presumed to be much more remarkable for countries and economies that do not share the Anglo-Saxon perspective of accounting framework.

As Hope and al.[114] indicated, there are two main classes that are more likely than others to comply with IFRS: those with relatively weak investor-protection mechanisms and those that are opening up their capital markets. Concerning those countries that form the first class, IFRS adoption is likely to reduce the expropriation risk by majority shareholders. On the other hand, concerning the second class, the adoption of IFRS by these countries is likely to facilitate and enhance the access to financial markets and attract new investors.

As already specified in this paper, the main objective of IFRS is to increase and improve the comparability of financial statements of companies scattered around the globe.

The IFRS provide a very accurate accounting framework, and just the US GAAP is more detailed than it.

22.1 The Earnings Management phenomenon

---

[113] IASB (2008). *Discussion Paper Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity. (May).* London: International Accounting Standards Board.

[114] O.K., (2006). Jin J. and Kang T. *Empirical Evidence on Jurisdictions that Adopt IFRS.* Journal of International Accounting Research, 5 (2), 1-20.

A phenomenon which is very likely to arise has been defined by Healey and Wahlen[115] as "earnings management": such behavior refers to the ability of some people within a firm that, exploiting the fact that the accounting standards cannot be that detailed and complete, end up manipulating and distorting some information for their own interest. The name "earnings management" is due to the fact that the main figures that managers manipulate are indeed the earnings. In particular, the two academics refer to it stating that: "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers".

Such behavior is not necessarily punished in all countries: indeed, in some areas, it is not only permitted but also encouraged. This is the case, for example, of the Germanic jurisdiction.

Concerning the IASB, the opposite holds true, as long as the IASB reputes the earnings management practice as in contradiction to the objective of "faithful representation" (IASB[116]), and thus cannot be accepted at all.

It is interesting to mention a study conducted by Barth et al.[117], who found that the earnings management practice became much less frequent among organizations that shifted to the global standards adoption in the recent years.

In the context of the accounting information, one important characteristic is timeliness, besides relevance. The fact that such information is available in time is very important in the decision making process. As stated in the IASB[118], "timeliness means having information available to decision-makers in time to be capable of influencing their decisions".

---

115 Healy P.M. and Wahlen J.M. (1999). *A Review of the Earning Management Literature and its Implications for Standard Setting.* Accounting Horizons, 13 (4), 365-83.

116 IASB (2010). *The Conceptual Framework for Financial Reporting 2010.* London: International Accounting Standards Board.

117 Barth M. and Taylor D. (2010). *In Defense of Fair Value: Weighing the Evidence on Earnings Management and Assess Securitizations.* Journals of Accounting and Economics 49, 26-33.

118 IASB (2010). *The Conceptual Framework for Financial Reporting 2010.* London: International Accounting Standards Board.

As long as IFRS are investor-oriented, the element of timeliness is definitely remarkable. This is especially true for IFRS voluntarily adoption, because the national GAAP cannot be considered investor-oriented as the IFRS are.

In their researches, found consistency with this concept.

As specified in this paper, the main objective of IFRS is to make the financial accounting information as useful as possible to potential investors. This coincides with the Anglo-Saxon vision of accounting.

An important thing to remember is that, in order to be relevant, accounting data should include also market values. This aspect is important because just in this way companies can be fairly valued. As Francis and Schipper[119] specified, values are said to be relevant whether the information of the accounting data is linked to the market prices.

Comparing IFRS to the domestic GAAP, it is possible to argue that the former are more market oriented than the latter, so the accounting data contained in the financial statements should be much more relevant once IFRS are adopted.

The results are not clear in this sense: some authors, including Barth et al.[120], argue that this prediction holds true, and those companies that voluntarily shifted to the global standards adoption provide financial information with higher value relevance. This result is also confirmed by the studies conducted about the mandatory IFRS adoption in China[121] and Romania[122].

Other authors, including Aubert and Grudnitski[123], who focused his research in EU countries and Karampinis and Hevas[124], who conducted a study in Greece, claim that there is actually no evidence of an increase in value relevance after the IFRS adoption.

---

[119] Francis J. and Schipper K. (1999). *Have Financial Statements Lost their Relevance?*. Journal of Accounting Research, 37 (2), 319-52.

[120] Barth M.E., Landsman W.R. Lang M. and Williams C. (2012). *Are IFRS-based and US GAAP-based Accounting Amounts Comparable?*. Journal of Accounting and Economics 54, 68-93.

[121] Liu C., Yao, L. J. Hu, N. and Liu L. (2011). *The Impact of IFRS on Accounting Quality in a Regulated Market: an Empirical Study of China.* Journal of Accounting, Auditing and Finance, 26 (4), 659-76.

[122] Filip A. and Raffournier B. (2010). *The Value Relevance of Earnings in a Transition Economy: The Case of Romania.* The International Journal of Accounting, 45 (1), 77-103.

[123] Aubert F. and Grudnitski G. (2011). *The Impact and Importance of Mandatory Adoption of International Financial Reporting Standards in Europe.* Journal of International Financial Management and Accounting, 22 (1), 1-26.

[124] Karampinis N.I. and Hevas D.L. (2011). *Mandating IFRS in an Unfavourable Environment. The Greek Experience.* The International Journal of Accounting, 46 (3), 304-32.

According to Devalle et al.[125], who conducted a studies focusing on the European countries France, UK, Germany, Spain and Italy, the effect of IFRS changes depending to the stock exchange considered. His findings suggest that the value relevance in the case of the first two countries (France and the UK) has increased as a consequence of the IFRS adoption, while it decreased in the last three countries (Germany, Spain and Italy). Also Paananen and Lin[126] confirmed the bad influence of IFRS adoption over the value relevance in Germany.

As long as the results of these empirical studies are so different from each other, it is consequently not possible to draw clear conclusions about this topic. However, these apparently contradictory findings can be explained by the closeness of a certain national GAAP to the IASB standards.

In order to analyze the economic consequences of IFRF adoption, it is interesting to consider that the European Community declared that the underlying objective of IFRS adoption in the EU was to make European securities more attractive to extra-European investors and allowed the growth of European stock exchanges that, at the beginning of the century, were around half the size of US capital markets[127].

The adoption of IFRS was expected to reduce information processing costs faced by foreign investors by making it less costly to analyze foreign financial statements. Some researches have been conducted with the aim to evaluate the impact of IFRS adoption on the financial market and foreign investments.

The main economic consequences of IFRS adoption can be measured in the degree to which they have influenced the capital markets, the foreign investments and the cost of capital.

22.2 How did IFRS adoption influence the capital markets?

---

[125] Devalle A., Onali E. and Magarini R. (2010). *Assessing the Value Relevance of Accounting Data after the Introduction of IFRS in Europe.* Journal of International Financial Management and Accounting, 21 (2), 85-119.

[126] Paananen M. and Lin H. (2009). The *Development of Accounting Quality of IAS and IFRS over Time: the Case of Germany.* Journal of International Accounting Research, 8 (1), 31-55.

[127] Commission of the European Communities. (2000). *Communication from the Commission to the Council and the European Parliament. EU Financial Reporting Strategy: The Way Forward.* Brussels: Commission of the European Communities.

In order to answer this question, three aspects are worth of consideration: information asymmetry, analysts' forecasts and market liquidity.

Concerning information asymmetry, this concept confutes the market efficiency hypothesis. Recall that information efficiency in capital market is defined as the ability of prices to show all of the available information at any time. The adoption of IFRS is expected to lower the information asymmetry in the capital markets, as long as IFRS are more investor-oriented than the domestic GAAP, and so once they substitute the national standards, they require a higher level of disclosure of the financial information.

There is however a consideration to make, that is referred to the fact that, as the evidence shows, there are big differences across countries, suggesting that the national features of a specific country have a strong influence over the decrease or the increase of the information asymmetry consequent to the IFRS adoption.

Concerning analysts' forecasts, intuitively IFRS should be useful to the analysts, as long as the adoption of global standards is expected to reduce information asymmetry and a more efficient and timely financial accounting information. Thus, predicting the future for the analysts should become easier, as several studies attempted to demonstrate.

Concerning market liquidity, as already noted in this paper, one of the main benefits of IFRS adoption is the increase in the quality of the financial statements, which also involves a better distribution of power and information, so all this should determine an increase in investments in the large listed companies. Investors indeed should feel reassured about their investments and the liquidity of the security market should be higher. This increase in liquidity is believed to be one of the most important motivations for EU member states to comply with the IFRS[128].

In sum, the researches conducted about the possible consequences on IFRS adoption over capital markets attempted to demonstrate that it reduced information asymmetry, increased market liquidity and made earnings forecasts easier.

22.3 How did IFRS adoption influence foreign investments?

---

[128] Commission of the European Communities. (2000). *Communication from the Commission to the Council and the European Parliament. EU Financial Reporting Strategy: The Way Forward.* Brussels: Commission of the European Communities.

Financial literature claims that in order to diversify risks, investors should invest in foreign companies, and so operate internationally. However, most portfolios are overinvested in domestic securities.

A possible explanation is associated to the additional costs that investors would face if they decided to operate in foreign countries.

Beneish and Yohn[129] identified three different types of information costs that are linked to foreign investment: information processing costs, costs resulting from the uncertainty about the quality of financial reporting and about the distribution of future cash flows.

Some empirical researches tried to demonstrate that, as a consequence of IFRS adoption, the information costs of foreign investors would be lower and so this would make investors more willing to operate in foreign countries.

22.4 How did IFRS adoption influence the cost of capital?

The fact that adopting global standards improves the quality of accounting information and lowers the risk of information asymmetry should lower the perceived risk of securities by investors.

Thus, investors should claim weigh more before IFRS adoption then after.

One would expect that adopting IFRS would result in lower financing costs for companies. This would definitely be the most important criterion on which firms base their decision to whether switch or not to the global accounting standards adoption, as it represents the main benefit.

The cost of capital is the average cost of all financings used by a company, and it focuses on both the cost of equity capital and the cost of borrowings, although the literature mainly considers the cost of equity capital.

Some academics, including Daske et al.[130] and Li[131], argue that there is a significant

---

[129] Beneish M.D. and Yohn T.L. (2008). *Information Friction and Investor Home Bias: A Perspective on the Effect of Global IFRS Adoption on the Extent of Equity Home Bias.* Journal of Accounting and Public Policy, 27 (6), 433-43.

[130] Daske H., Hail L., Leuz C. (2013). and Verdi R. *Adopting a Label: Heterogeneity in the Economic Consequences around IAS/IFRS Adoptions.* Journal of Accounting Research 51, 495-547.

[131] Li S. (2010). *Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the Cost of Equity Capital?*. The Accounting Review, 85 (2), 607-36.

decrease in the cost of capital by those companies that adopted IFRS; on the other hand, other authors, notably Daske[132] nor Cuijpers and Buijink[133] claim that there is no evidence that proves that assertion, and so no decrease in a firm's cost of capital can be associated to IFRS adoption.

There is only one author, who conducted a study concerning the cost of debt. The results of his work suggest that IFRS adopters are charged remarkably lower loan rates by lenders with respect to those who did not switch to IAS.

---

[132] H. (2006). *Economic Benefits of Adopting IFRS or US-GAAP: Have the Expected Costs of Equity Capital Really Decreased?.* Journal of Business Finance and Accounting, 33 (3-4), 329-73.

[133] Cuijpers R. and Buijink W. (2005). *Voluntary Adoption of Non-Local GAAP in the European Union: A Study of Determinants and Consequences.* European Accounting Review, 14 (3), 487-524.

23. THE RELEVANCE OF THE NATIONAL CHARACTERISTICS OF A SPECIFIC COUNTRY

When seeking to determine the effects the IFRS adoption has in a specific country, it is not possible to take into great consideration the country characteristics and features in many aspects.

This is especially remarkable when the institution environment is concerned: the context in which the accounting standard framework is established in fundamental in the debate of the global standards impact.

Among countries that have adopted IASB standards, there are worth of noting differences related to the degree of compliance to IFRS.

Although one could arguably expect that, as a consequence of the mandatory IFRS adoption in Europe and outside Europe, the financial accounting frameworks of most countries would be, at least to a certain degree, standardized, in reality there is evidence of a noncompliance with the disclosure requirements of IFRS among companies. Several studies demonstrated this tendency.

Some academics, including Hodgdon et al.[134], attempted to demonstrate that such non compliance to the global standards provided some benefits to the countries that comply with IFRS, especially in relation to the fact that the more a country is complying with IFRS the less is the degree of probability that analysts' forecasts incur in errors.

Considering the national characteristics of a country, one important aspect to consider is the legal and regulatory environment.

The legal system of a specific country can be distinguished between the common law and the code law. The code law is also known as the civil law. The main difference between these two classes of legal system is related to the degree of consideration of the private property owners versus the state: indeed, the state is given a higher importance under the code law with respect to the common law, as Beck et al.[135] noted.

---

[134] Hogdon C., Tondkar R.H., Harless D.W. and Adhikari A. (2008). *Compliance with IFRS Disclosure Requirements and Individual Analysts' Forecasts Errors.* Journal of International Accounting, Auditing and Taxation, 17 (1), 1-13.

[135] Beck T., Demirgüç-Kunt A. and Levine R. (2003). *Law and Finance: Why Does Legal Origin Matter?*. Journal of Comparative Economics, 31 (4), 653-75.

An important element concerning the legal system is the level of stakeholder protection: La Porta et al.[136] claims that there are substantial differences among the ways different systems protect the shareholders' interests.

As far as non-compliance to the international accounting principles has a negative effect over shareholders, one could expect that it would be less frequent in those countries that devote a great consideration to the shareholder protection.

Moreover, in those countries that actively protect shareholders, domestic GAAP are likely to be less different from IFRS with respect to other countries.

The shift to the IFRS adoption is definitely less dramatic in these jurisdictions if compared to the countries in which the shareholder protection has traditionally received less attention. Thus, it is possible to ascertain that the higher the investor protection within a country the higher the level of compliance with IFRS.

The presence of a strong legislation that claims shareholder protection is very important, although it is not sufficient to guarantee it. What makes the difference is the proper enforcement of such legal rules.

There is a positive relationship between the enforcement of the legal provisions and the compliance to the IFRS: this is because the higher the enforcement the higher the probability that the legislation aiming at protecting shareholders is respected. Some authors, among whom Daska et al.[137], confirmed this prediction, claiming that the stricter the enforcement regimes of a country the higher is the increase in liquidity and equity valuations that is consequent to the mandatory adoption of IFRS.

Besides the legal and regulatory environment, there are three other remarkable factors that are worth considering: these are the corporate governance quality, the role of auditors and especially the financial system.

Concerning the corporate governance quality, this is an important source that can positively influence the investor protection. If efficient, in fact, it can be considered as another factor of protection for shareholders besides legislation, in order to lessen the

---

[136] La Porta R., Lopez-de-Silanes F. Shleifer A. and Vishny R. (2000). *Investor Protection and Corporate Governance.* Journal of Financial Economics 58, 3-27.

[137] Daske H., Hail L., Leuz C. and Verdi R. (2007). Adopting a Label: *Heterogeneity in the Economic Consequences of IFRS Adoptions* - Working paper available at ssrn.com.

risk of expropriation by insiders. Just to cite an example, Durnev and Kim[138] demonstrated that companies showing better governance mechanisms are given higher values on the stock markets; this holds true particularly when legal investor protection is weak. This suggests that efficient corporate governance practices could be a good substitute for poor legal environments.

The way the features of corporate governance influences the accounting quality is becoming a more and more interesting topic for academics to research over time.

As Beekes et al.[139] indicated, the proportion of outside directors is claimed to be positively associated to earnings timeliness and, as Klein[140] indicated, negatively related with earnings management.

As long as IFRS adoption increases the accounting quality, one would arguably expect that there is a positive relation also between IFRS compliance and corporate governance characteristics; in other words, companies showing a stronger compliance with IFRS are those that features higher quality corporate governance mechanisms. However, this hypothesis has not already confirmed empirically.

Concerning auditors, several researches attempted to analyze the influence of auditor activities on with respect to the accounting quality. These studies generally demonstrated a positive relationship between the quality of the accounting information and the size of the audit firm: indeed, it is easier for them to fight eventual violations to the GAAP, the practice of earnings management or the creative accounting.

The adoption of IFRS was anticipated, and also remarkably, by the four largest international professional services networks (the Big 4 audit firms), namely Deloitte, PwC, EY and KPMG.

Some authors, including Glaum and Street[141], and Hodgdon et al.[142], noted that the

---

[138] Durnev A. and Kim E.H. (2005). *To Steal and Not to Steal: Firm Attributes, Legal Environment and Valuation.* The Journal of Finance, 60 (3), 1461-93.

[139] Beekes W., Pope P. and Young S. (2004). *The Link Between Earnings Timeliness, Earnings Conservativism and Board Composition: Evidence from the UK.* Corporate Governance: An International Review, 12 (1), 47-59.

[140] Klein A. (2002). *Audit Committee, Board of Directors Characteristics and Earnings Management.* Journal of Accounting and Economics, 33 (3), 375-400.

[141] Galum M. and Street D.L. (2003). *Compliance with the Disclosure Requirements of Germany's New Market: IAS versus US GAAP.* Journal of International Finance Management and Accounting, 12 (1), 64-100.

larger the audit firm that audits a company, the higher the IFRS compliance.

23.1 The role of the financial system

Concerning the financial system, it is worthwhile specifying that there are two systems which have been traditionally opposed: the bank-oriented financial system and the market-oriented financial system.

The bank-oriented financial system has some specific features; for example in this system the company financing is principally provided by the banks. Furthermore, those countries characterized by this system show the tendency to provide a high accounting quality demanded by many shareholders, especially concerning the need to incorporate the economic income into the accounting earning in a certain time.

On the other hand, in the market-oriented financing system, it is the security market the preferred choice for organizations that need to raise some fund. Moreover, as suggested by Ball et al.[143], these countries are more likely to solve the information asymmetry problem through a close communication with the management and thus the demand for high-quality accounting data is lower than in countries having a bank-oriented tradition.

The accounting information that IFRS require is of higher quality with respect to the national GAAP; so one could expect that market-oriented countries are more likely to adopt IFRS standards rather than the bank-oriented countries. Although there is not a clear demonstration of this statement, there are some studies that provide evidence with it, for example the one conducted by Leuz et al.[144], who demonstrated that the earnings management practice is much more diffused in countries that are not bank-oriented.

---

[142] Hogdon C., Tondkar R.H., Harless D.W. and Adhikari A. (2009). *Compliance with International Financial Reporting Standards and Auditor Choice: New Evidence on the Importance of the Statutory Audit.* The International Journal of Accounting, 44 (1), 33-35.

[143] Ball. R, Robin A. and Wu J.S. (2003). *Incentives versus Standards: Properties of Accounting Income in Four East Asian Countries.* Journal of Accounting and Economics 54, 68-93.

[144] Leuz C. and Oberholzer-Gee F. (2006). *Political relationships, global financing, and corporate transparency: evidence from Indonesia.* Journal of Financial Economics, 81, 411-439.

24. THE FUTURE PERSPECTIVES OF THE GLOBAL CONVERGENCE OF THE ACCOUNTING STANDARDS

In the perspective of a future global convergence of the accounting standards, the IASB played a remarkable role in the international accounting standard-setting process.
Especially in the most recent years, there is a large number of countries that decided to shift to the IFRS adoption.
Moreover, the US FASB are required to be followed just within the US, and there is also a collaboration between the FASB and the IASB aimed at reaching a convergence between the US GAAP and the IFRS in the long run, when the US will also shift to IFRS adoption.
Although its remarkable success, which the IASB was able to reach in such a short time, there are still some controversial issues and challenging questions which should be taken into consideration.
The IAS[145] provided that, unless a company respects all of the IFRS requirements, it cannot claim to comply with IFRS, even not partially.
There is an important aspect to consider in this context: sometimes the fact that there is not a full compliance to the IFRS is not simply attributable to a selfish and opportunistic behavior.
In certain circumstances, it is actually impossible to achieve such full compliance with IFRS, because of the existence of some specific rules that work as an obstacle.
There is a practice, which may be dangerous, that is taking place nowadays: the so-called "local-version" of IFRS. In other words, some countries outside the EU (for which the European Commission approves the IFRS adopted by each country), instead of complying with the IFRS as such, they rather integrate the international accounting principles into their national laws, so a new set of accounting standards is actually created. These copies are called "IFRS-equivalents". Even though in some countries such as Australia, New Zealand and Korea the changes are not that remarkable, in some

[145] IASC (1989). *Framework for the Preparation and Presentation of Financial Statements.* London: International Accounting Standards Committee.

other countries including China, Philippines and Singapore, there are big differences among the two sets of accounting standards.

Such problem is dangerous because only the IFRS are considered high-quality standards, and any deviation from them would undermine their reputation. So it is important for the IASB to prevent the proliferation of such copies.

Although the remarkable diffusion and acceptance of IFRS, there are some criticisms; such criticisms have a double nature: on the one hand they are technical, on the other hand they are political.

The technical criticisms focus on the excessive importance that IFRS attribute to the fair value. Moreover, they accused IFRS to have played a significant role in the 2007 financial crises.

The political criticisms are much less diffused in the literature and mainly focus on the lack of the IASB legitimacy.

As already noted, the IFRS main objective is to provide useful financial information to the potential investors, which is a perspective much closer to the Anglo-Saxon vision of accounting. The IASB[146] states that "the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity".

However, some Continental European countries, particularly France, claim that there are many other users of such accounting information, besides investors, whose interests should not be preferred with respect to other internal or external users.

So this tendency towards investor protection is a challenging topic for IFRS, which should be seriously addressed.

The IASB has not always been the supranational body that is today: up until 2000, it used to function as a support for the domestic GAPP. With the mandatory adoption of the IFRS by major listed companies, the IASB gained the legitimacy in its role as a standard-setting body.

---

[146] IASB (2010). *The Conceptual Framework for Financial Reporting 2010.* London: International Accounting Standards Board.

Continental European group of countries demonstrated to be much willing to give up part of their sovereignty to comply with the global standards, with respect to the Anglo-Saxon group of countries.

As long as, before the 2000s, the IASB was just a technical organization, some literature critics a lack of legitimacy. The opinion of Burlaud and Colasse[147] is that, since the IASB members are not democratically elected, the legitimacy of IASB cannot be accepted.

On the other hand, Gélard and Pigé[148] replied that such democratic election is not the only way to obtain legitimacy, also because IFRS have been approved and adopted by the European Commission, which a democratic entity.

According to the Anglo-Saxon view of accounting, the accounting regulation should be left to highly specialized professionals, also considering the fact that such financial information should provide the highest information ever. Not surprisingly, the Continental European view of accounting claims that such financial information should also take into consideration the perspectives of shareholders, the state, the employees and so on, as Chiapello and Mejad[149] argued.

As far as democratically elected representatives should regulate financial reporting framework, then the legislation needs to incorporate the rules related to the regulation mechanisms.

All of these criticisms to the global convergence of accounting standards should be taken into serious consideration by the IASB, especially in the light of its mission to make countries adhere more and more to the IFRS.

As long as the IASB is no more just a private body but became the standard-setting model in several countries worldwide, it faces the problem related by the influence of politicians. Although in 2008 the IASB, in response to a too high political pressure,

---

[147] Burlaud A. and Colasse B. (2011). *International Accounting Standardization: Is Politics Back?*. Accounting in Europe, 8 (1), 23-47.

[148] Gélard G. and Pigé B. (2011). *Normalization comptable international et légitimité: Commentaires sur Normalization comptable international.* Le retoure du politique? Comptabilité Contrôle Audit, 17 (3), 87-99.

[149] Chiapello E. and Medjad K. (2009). *An Unprecedented Privatization of Mandatory Standard-Setting: The Case of European Accounting Policy.* Critical Perspectives on Accounting, 20 (4), 448-68.

permitted some financial instruments to be re-classified, it nowadays faces the challenge to demonstrate that the 2008 event was unique and will not happen again. This will permit to the IASB to affirm with no doubt that it is the international standard-setting body, which is independent of any political pressure.

This is particularly important as long as some political institutions, including the European Parliament and the G20, claimed to take part of the decision-processes concerning IFRS, as a consequence of that unfortunate event, as Bengtsson[150] noted.

[150] Bengtsson E. (2011). *Repoliticalization of Accounting Standard Setting: The IASB, the EU and the Global Financial Crisis.* Critical Perspectives on Accounting, 22 (6), 567-80.

CONCLUSIONS

In the first part of the paper the main focus is geared towards the identification and analysis of each environmental factor influencing the financial accounting reporting system of any country.

Such environmental factors are classified into eight groups, which are the economic environment, the political environment, the legal and tax environment, the professional environment, the business environment, the cultural environment, the education environment and the international environment.

Together with the identification of such environmental factors there is also a brief analysis on the effects that these elements exerted both in the past and nowadays on the adoption of the international accounting standards (IFRSs) in order to pursue an overall objective of worldwide accounting standards harmonization.

The paper highlights that the existence of a remarkable diversity in environmental factors has an important implication for accounting harmonization. Indeed, the awareness of the environmental differences between countries is essential in order to achieve the overall objective of international accounting harmonization, which allows a better understanding and reliability of financial reporting framework, as the global business language becomes the same in a worldwide perspective. Although the number of countries that are adopting the IFRSs is increasing and is expected to continue to become larger and larger, the environmental factors are likely to remain extremely important in the accounting literature, as they reflect the context in which the financial reporting framework is developed.

In the second part of the paper the focus is shifted to the primarily role of accounting, at least at the very beginning.

It is stressed that the reason why accounting information is so important in business is that it helps decision makers, providing them with useful financial information. In this respect, two are the fundamental qualitative characteristics of the financial information: relevance and faithful representation.

Accounting is considered the key function is all businesses because it provides useful information for decision making in investment and control.

The regulation of accounting is an important topic in the field of financial information.
The basic assumption underlying the regulatory function of the FASB and the IASB is to provide guidance and especially they claim to serve the public interest. These two standard-setting bodies serve the public interest thanks to the use of the qualitative characteristics of understandability, relevance, reliability and comparability of financial statements. This allows internal and external users to be guided in their decision-making processes regarding any businesses.
The phenomenon of accounting regulation is fairly recent and arose in different ways according to the specific environment in which it was developed. In particular, accounting regulation in Anglo-Saxon countries was developed alongside the role of accounting information in the public debt and equity (capital) markets. Conversely, the paramount role played in EU by the major sources of financing, labeled financial institutions and government, led to the great demand by non-market actors for financial information. In the recent years capital markets have been very important in the process of accounting regulation.
There is a debate concerning the accounting regulations: one the one hand there are criticisms to the need for accounting regulation, while on the other hand there are considerations supporting the need for accounting regulations. In particular, the authors refuting the need for accounting regulation provide thesis that are linked to the concept of market information, being self-regulating, while the arguments that support the need for accounting regulation center on the inefficiencies of the market and the ability of regulation to correct such inefficiencies.
It is claimed that the reason why some authors argue that there is no need for accounting regulation is that they see the accounting information as an economic good. If, on the contrary, the perspective is changed and accounting information is seen as a social good, then it turns out that the need to be regulated is essential, because regulation in the only force which is able to protect it from bad consequences that may occur.
Investors benefit from the market regulation in the sense that they feel protected from the risks of information asymmetry and moral hazard, which arise respectively from an imbalance of access to information and power distribution.

Consequently, the importance of the accounting regulation is that it seeks to promote the same level of information and power to both sides, in such a way that no one party plays in a more advantaged manner than the other one. Thus, both parties are aware that there is not unfair distribution of information among them.

An important aspect that is stressed in this paper is that the mission of the standard-setting bodies, including the IASB, to take into consideration the public interest theory in the harmonization process, especially when different institutional environments are considered. This is relevant especially nowadays, when the role of globalization is becoming more and more important.

In such a context of convergence of the accounting standards, it is remarked that some countries present legal institutions that are still very different among each other, and such differences are going to persist in the future. This is because, as is deeply demonstrated in the first introductory part of this paper, the accounting framework is originated by the intersection of the environmental factors that differ substantially from one country to another. In particular, the financial institutions play a substantial role in the development of the accounting framework in a specific country.

The role of past colonialism, for example, is significant: indeed, the history indicates that the past convergence of accounting standard framework was the result of a mandatory imposition of the legal and accounting system of the dominant countries on the colonies. When such process of imposition decreased with the gained independence of the dominated countries, there was a parallel reduction of the convergence of the accounting system between countries. Indeed, such divergence was maintained, as countries were self-sustaining with no interdependencies and there was no need to uniform the accounting standards in order to make them comparable.

Although the persistence of national country-specific characteristics, the tendency towards global convergence in the financial reporting framework is demonstrated by the fact that IFRS is used in more than one hundred countries nowadays, which also represents a prove of the success of the IASB and its predecessor IASC.

It is claimed that there are still two big countries that have not adopted yet the IFRS: the USA and Japan. About the USA, the US SEC aim is to converge with the IFRS; on the

other hand, Japan has not taken a decision yet, but allowed some Japanese organizations to perform their financial statement according to IFRS principles.

Besides the cases of these two countries, it is a matter of facts that the accounting standards and principles gained that much acceptance among countries. This confirms that the associated benefits are much higher than the costs that companies would incur in complying with IFRS.

In particular, it is remarked that IFRSs are not adopted just because they allow for uniform and thus comparable financial accounting reports, but also because these standards are considered of a much higher quality with respect to the national GAAP. Thus countries are willing to adopt IFSR, substituting them to the GAAP, because they provide a better quality in the financial reporting framework of companies.

The paper stresses the fact that, although the level of acceptance of IFRS promoted by the IASB is definitely successful, also because they are relatively recent, it is important to remember that the total convergence of the accounting standards will probably never be reached. A possible explanation is that such convergence is much more benefiting the companies that are internationally oriented, so it is worthwhile to perform complying with IFRS just to a small part of the total companies in the market.

Concerning the financial system, it is claimed that, traditionally, there are two different types of financial reporting systems, namely respectively the Anglo-Saxon and the Continental European ones. The main difference is that, in the Anglo-Saxon environment, the private sector has played an important role in the development of the standard-setting model, and especially the accounting practice has dramatically influenced it. The lack of a supranational authority that characterize the Anglo-Saxon group of countries may explain the reason why the standard-setting arrangements are much stronger in these countries rather than in the Continental-European group of countries, where the absence of standard-setters is in part justified by the tough role played by the national laws. These countries do not actually need another authority, as they already have one.

Moreover, the two traditionally opposed financial systems, the bank-oriented financial system and the market-oriented financial system, are taken into consideration. It is claimed that in the bank-oriented financial system the company financing is principally

provided by the banks, while in the market-oriented financing system it is the security market the preferred choice for organizations that need to raise some fund. Thus, these countries are more likely to solve the information asymmetry problem through a close communication with the management and thus the demand for high-quality accounting data is lower than in countries having a bank-oriented tradition.

As long as the accounting information that IFRS require is of higher quality with respect to the national GAAP, one could expect that market-oriented countries are more likely to adopt IFRS standards rather than the bank-oriented countries.

Besides that, there are criticisms concerning the IASB Conceptual Framework, as some authors claim that they lack of political legitimacy.

There is a deep analysis concerning institutions and incentives, as they are part of the factors that play a role in influencing the accounting practice, together with the accounting standards. In particular, institutions include the legal systems, capital market regulation, product market competition, company law, enforcement and firm-level incentives, such as ownership structures, financing, and corporate governance and compensation practices. Institutions, together with traditions and education, shape incentives.

It is furthermore asserted that it is extremely improbable that a unique set of accounting standards works perfectly in all institutional environments.

Nevertheless, in some cases local institutions played a paramount role in helping the IASB to prepare the translations of the IFRS, which were originally written in English. Indeed, besides the complexity in the interpretation of the standards created by the legal system, there is also another topic that is worth of consideration, which is the translation from one language into another one. IFRS have been translated into many languages over years. The example of Portugal and Brazil are remarkable, as these two countries adopted two different translations of IFRS from Portuguese.

Also auditing, corporate governance and enforcement in the financial reporting framework differ significantly worldwide.

It is claimed that the adoption of IFRS standards is mandatory or voluntary depending on the willingness of specific countries to converge to the global accounting standards; however, there are some situations in which a mandatory IFRS adoption is much

preferable than others. This is the case, for example, of listed companies, for which a mandatory employment of the global accounting standards is strongly recommended as far as they are part of the same group of organizations and consequently are similar in the standards adoption, and also are generally large-sized. Since they provide financial information that is useful to investors they need to be comparable. Of course, in this perspective, the specific institutions of a country play an important role in the determination of the final result.

For sure the aim of the IASB is to make countries comply with the IFRS, through a mandatory adoption or allowing the organization decide whether to accept to prepare its financial statements in accordance to the IFRS.

In sum, in the view of a future global convergence of the accounting standards, the IASB played a remarkable role in the international accounting standard-setting process. Especially in the most recent years, there is a large number of countries that decided to shift to the IFRS adoption. It is remarked that the US FASB are mandatory just within the US and the overall objective is to reach a convergence between the US GAAP and the IFRS, at least in the long run.

It is claimed that, even though the success of the IASB is paramount, especially in such a short time, there are still some controversial issues and challenging aspects that should be taken into consideration.

One of the dangerous practices that are taking place nowadays is the so-called "local-version" of IFRS, which consists of the integration of the international accounting principles into the national laws of some countries outside the EU. In this way, these countries do not comply with the IFRS as such, but rather to the IFRS copies, which are called "IFRS-equivalents". It is thus important for the IASB to prevent the proliferation of such copies.

The last challenge that is the IASB should affirm its independence of any political pressure, claiming it is the international standard-setting body.

REFERENCES

Abd-Elsalam, O., and Weetman P. (2003) *Introducing international accounting standards to an emerging capital market: relative familiarity and language effect in Egypt.* Journal of International Accounting, Auditing and Taxation, 12, 63-84.

Al-Akra M., Ali, M.J., and Marashdeh, O. (2009). *Development of accounting regulation in Jordan.* The International Journal of Accounting, 44, 163-186.

Ali A. and Hwang L. (2000) *Country-specific factors related to financial reporting and the value relevance of accounting data.* Journal of Accounting Research, 38, 1-23.

Ali K. and Leaman O. (2007) *Islam: The Key Concepts.* London: Routledge.

Al-Shammari. (2007). *Development of enforcement mechanisms following adoption of International Accounting Standards in the Gulf Co-Operation Council Member States* - Working paper, University of Western Australia.

Alsharairi M.A. and Al-Abdullah R.J. (2008). *The impact of adopting IASs on the Jordanian environment: the perspective of accountants, auditors and academicians "an exploratoty study".* International Conference on Business Globalization: Challenges and Opportunities in the 21st Century.

Al-Shiab M.S. (2008). *The effectiveness of International Financial Reporting Standards adoption on cost of equity capital: a vector error correction model.* International Journal of business, 13 (3), 271-298.

Archambault (2003). *A multinational test of determinants of corporate disclosure.* The International Journal of Accounting, 38, 173-194

Ashraf J. and Ghani W.I. (2005). *Accounting development in Pakistan.* The International Journal of Accounting, 40, 175-201.

Askary S. (2006). *Accounting professionalism, a cultural perspective of developing countries.* Managerial Auditing Journal, 21 (1), 102-111.

Aubert F. and Grudnitski G. (2011). *The Impact and Importance of Mandatory Adoption of International Financial Reporting Standards in Europe.* Journal of International Financial Management and Accounting, 22 (1), 1-26.

Baker C. R. and Barbu E.M. (2007). *Evolution of research on international accounting harmonization: A historical and institutional perspective.* Socio-Economic Review, 5 (4), 603-632.

Ball R. and Shivakumar. (2005). *L. Earnings quality in U.K. private firms.* Journal of Accounting and Economics, 39 (1), 83-128.

Ball R. (2001) *Infrastructure requirements for an economically efficient system of public financial reporting and disclosure.* Brookings-Wharton Papers on Financial Services, 127-169.

Ball R., Kothari S.P. and Robin A. (2000). *The effect of international institutional factors on properties of accounting earnings.* Journal of Accounting and Economics, 29 (1), 1-51.

Ball R.J. and Brown P. (1968). *An Empirical Evaluation of Accounting Income Numbers.* Journals of Accounting Research 6 (2), 159-78.

Ball. R, Robin A. and Wu J.S. (2003). *Incentives versus Standards: Properties of Accounting Income in Four East Asian Countries.* Journal of Accounting and Economics 54, 68-93.

Barth M. and Taylor D. (2010). *In Defense of Fair Value: Weighing the Evidence on Earnings Management and Assess Securitizations.* Journals of Accounting and Economics 49, 26-33.

Barth M. (2006). *Research, Standard Setting and Global Financial Reporting.* Foundations and Trends in Accounting 1, 71-165.

Barth M.E., Landsman W.R. Lang M. and Williams C. (2012). *Are IFRS-based and US GAAP-based Accounting Amounts Comparable?*. Journal of Accounting and Economics

54, 68-93.

Barth M.E., Landsman W.R. and Lang M.H. (2008). *International Accounting Standards and Accounting Quality.* Journal of Accounting Research, 46 (3), 467-98.

Beaver W.H. (1998). *Financial Reporting: An Accounting Revolution,* 3rd edn. Upper Saddle Rive, NJ: Prentice-Hall.

Beaver W. and Demski J. (1979). *The Nature of Income Measurement.* The Accounting Review, 54 (1), 38-46.

Beck T., Demirgüç-Kunt A. and Levine R. (2003). *Law and Finance: Why Does Legal Origin Matter?.* Journal of Comparative Economics, 31 (4), 653-75.

Beekes W., Pope P. and Young S. (2004). *The Link Between Earnings Timeliness, Earnings Conservativism and Board Composition: Evidence from the UK.* Corporate Governance: An International Review, 12 (1), 47-59.

Beneish M.D. and Yohn T.L. (2008). *Information Friction and Investor Home Bias: A Perspective on the Effect of Global IFRS Adoption on the Extent of Equity Home Bias.* Journal of Accounting and Public Policy, 27 (6), 433-43.

Bengtsson E. (2011). *Repoliticalization of Accounting Standard Setting: The IASB, the EU and the Global Financial Crisis.* Critical Perspectives on Accounting, 22 (6), 567-80.

Bernstein M. (1955). *Regulating Business by Independent Commission.* Princeton, NJ: Princeton University Press.

Botzem S. and Quack S. (2006). *Contested Rules and Shifting Boundaries: International Standard Setting in Accounting, in M-L Djelik and K. Sahlin-Andersson (eds). Transnational Governance: Institutional Dynamics of Regulation (pp.266-86).* Cambridge: Cambridge University Press.

Buchanan J. (1968). *The Demand and Supply of Public Goods.* Chicago, IL: Rand

McNally & Co.

Burlaud A. and Colasse B. (2011). *International Accounting Standardization: Is Politics Back?*. Accounting in Europe, 8 (1), 23-47.

Bushman R. and Landsman W.R. (2010). *The Pros and Cons of Regulating Corporate Reporting: A Critical Review of the Arguments".* Accounting and Business Research 40 (3): 259-73.

Bushman R. and Landsman W.R. (2010). *The Pros and Cons of Regulating Corporate Reporting: A Critical Review of the Arguments".* Accounting and Business Research 40 (3)

Camfferman K. and Zeff S. (2007). *Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000.* Oxford: Oxford University Press.

Cairns D. *The Use of Fair Value in IFRS in Walton P. (ed) The Routledge Companion to Fair Value and Financial Reporting, Chapter 2, pp. 9-23* - London: Routledge, 2007

Cairns D. (2011). *The Conceptual Framework: The International Experience.* Working paper, available at www.cairns.co.uk.

Cairns D., Massoudi D., Taplin R. and Tarca A. (2011). *IFRS Fair Value Measurement and Accounting Policy Choice in the United Kingdom and Australia.* The British Accounting Review, 43 (1), 1-21.

Chand P. and Patel C. (2008). *Convergence and harmonization of accounting standards in the South Pacific region. Advances in Accounting, incorporating Advances in International Accounting, 24, 83-92.*

Chiapello E. and Medjad K. (2009). *An Unprecedented Privatization of Mandatory Standard-Setting: The Case of European Accounting Policy.* Critical Perspectives on Accounting, 20 (4), 448-68.

Christensen J. (2010). *Accounting Errors and Errors of Accounting* - The Accounting Review, 85 (6), 1827-38.

Christensen J. and Demski J. (2003). *Accounting Theory: An Information Content Perspective.* New York: McGraw-Hill/Irwin.

Christensen J. and Demski J. (2007). *Anticipatory Reporting Standards.* Accounting Horizons, 21 (4), 351-70.

Christensen J. and Frimor H. (2007). *Fair Value. Accounting Aggregation and Multiple Sources of Information, in R. Antle, P.J. Liang and F. Gjesdal (eds) Essays on Accounting Theory in Honour of Jeel S. Demski.* New York: Springer, pp. 35-51.

Christensen P.O. and Feltham G.A. (2003). *Economics of Accounting, Vol.1: Information in Markets (Springer Series in Accounting Scholarship 1).* New York: Springer Science + Business Media.

Christensen P.O. and Feltham G.A. (2005). *Economics of Accounting, Vol.2: Performance Evaluation (Springer Series in Accounting Scholarship 2).* New York: Springer Science + Business Media.

Christensen P.O., Demski J.S. and Frimor H. (2002). *Accounting Policies in Agencies with Moral Hazard and Renegotiation* - Journal of Accounting Research, 40 (4), 1071-90.

Christensen P.O., Feltham G.A. and Sabac F. (2005). *A Contracting Perspective on Earnings Quality.* Journal of Accounting and Economics, 39 (2), 265-94.

Christensen P.O., de la Rosa L.E. and Feltham G.A. (2010). *Information and the Cost of Capital: An Ex Ante Perspective.* The Accounting Review, 85 (3), 817-48.

Christensen P.O., Frimor H. and Sebac F. (2013). *The Stewardship Role of Analyst Forecasts and Discretionary Versus Non-Discretionary Accruals.* European Accounting Review, 22 (2), 257-96.

Christenses H.B., Hail L. and Leuz C. (2013). *Mandatory IFRS Reporting and Changes in Enforcement.* Working paper, University of Chicago.

Christensen J. (2010). *Conceptual Frameworks of Accounting from an Information Perspective.* Accounting and Business Research 40 (3), 287-99.

Clikeman P.M. (2009). *Called to Account: Fourteen Financial Frauds That Shaped the American Accounting Profession.* New York: Routledge,.

Commission of the European Communities. (2000). *Communication from the Commission to the Council and the European Parliament. EU Financial Reporting Strategy: The Way Forward.* Brussels: Commission of the European Communities.

Cuijpers R. and Buijink W. (2005). *Voluntary Adoption of Non-Local GAAP in the European Union: A Study of Determinants and Consequences.* European Accounting Review, 14 (3), 487-524.

Daske H. (2006). *Economic Benefits of Adopting IFRS or US-GAAP: Have the Expected Costs of Equity Capital Really Decreased?.* Journal of Business Finance and Accounting, 33 (3-4), 329-73.

Daske H., Hail L., Leuz C. (2013). and Verdi R. *Adopting a Label: Heterogeneity in the Economic Consequences around IAS/IFRS Adoptions.* Journal of Accounting Research 51, 495-547.

Daske H., Hail L., Leuz C. and Verdi R. (2007). *Adopting a Label: Heterogeneity in the Economic Consequences of IFRS Adoptions.* Working paper available at ssrn.com.

Daske H., Hail L., Leuz C. and Verdi R. (2008). *Mandatory IFRS Reporting Around the World: Early Evidence on the Economic Consequences.* Journal of Accounting Research, 46 (5), 1085-142.

Deegan G. (2001). *Financial Accounting Theory* - Sydney: Irwin/McGroaw-Hill.

Devalle A., Onali E. and Magarini R. (2010). *Assessing the Value Relevance of*

Accounting Data after the Introduction of IFRS in Europe. Journal of International Financial Management and Accounting, 21 (2), 85-119.

Djelic M.-L. and Sahlin-Andresson K. (2006). *Introduction: A World of Governance - The Rise of Transnational Regulation, in Djelic M.-L. and Sahlin-Andresson K. (eds), Transnational Governance: Institutional Dynamics of Regulation (pp. 1-30).* Cambridge: Cambridge University Press.

Douglass B. (1980). *The Common Good and the Public Interest.* Political Theory 8 (1), 103-17.

Duska R. Shay Duska B. and Ragatz J. (2011). *Accounting Ethics, 2nd edn.* John Wilwy & Sons.

Durnev A. and Kim E.H. (2005). *To Steal and Not to Steal: Firm Attributes, Legal Environment and Valuation.* The Journal of Finance, 60 (3), 1461-93.

Dye R.A. (2002). *Classifications Manipulation and Nash Accounting Standards.* Journal of Accounting Research, 40 (4), 1125-62.

Dye R.A. and Sunder S. (2001). *Why Not Allow FASB and IASB Standards to Compete in the US?.* Accounting Horizons, 15 (3), 257-71.

Eirle B. (2005). *Differential Reporting in Germany: A Historical Analysis.* Accounting, Business & Financial History 15 (3), 279-315.

El-Gazzar S. M., Finn P.M. and Jacob R. (1999). *An empirical investigation of multinational firms' compliance with International Accounting Standards.* The International Journal of Accounting, 34 (2), 239-248.

Elsayed M.A. and Hoque Z. (2010). *Perceived international environmental factors and corporate voluntary disclosure practices: An empirical study.* The British Accounting Review, 42, 17-35.

Fama E.F. (1965). *The Behaviour of Stock Market Prices* - Journal of Business 38, 34-

105.

Fama E.F. (1970). *Efficient Capital Markets: A Review of Theory and Empirical Work.* Journal of Finance 25, 383-417.

Fama E.F. (1980). *Agency Problems and the Theory of the Firm.* Journal of Political economy 88 (2).

Fama E.F. and Jenses M.C. (1983). *Ownership and Control.* Journal of Law and Economics 26 (2), 301-325.

FASB (1978). *Statement of Financial Accounting Concepts No. 1: Objectives of Financial Reporting by Business Enterprises.* Norwalk, CT: Financial Accounting Standards Board.

FASB (1980). *Statement of Financial Accounting Concepts No. 3: Elements of Financial Statements of Business Enterprises.* Norwalk, CT: Financial Accounting Standards Board.

FASB (2008). *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information.* Exposure Draft No. 1570-100, Norwalk, CT: FASB.

FASB (2010). *Statement of Financial Accounting Concepts No. 8*. Norwalk, CT: FASB.

FASB (2012). *Concepts Statements.* Available at www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156317989.

Filip A. and Raffournier B. (2010). *The Value Relevance of Earnings in a Transition Economy: The Case of Romania.* The International Journal of Accounting, 45 (1), 77-103.

Foreman-Peck J. (1995). *Accounting in the Industrialization of Western Europe in Walton P. (ed) European Financial Reporting: A History* - Burlington, MA: Academic

Press Limited.

Francis J. LaFond R., Olsson P. and Schipper K. (2004). *Cost of Equity and Earnings Attributes* - The Accounting Review, 79 (4), 967-1010.

Francis J. LaFond R., Olsson P. and Schipper K. (2005). *The Market Pricing of Accruals Quality* - Journal of Accounting and Economics, 39 (2), 295-327.

Francis J. and Schipper K. (1999). *Have Financial Statements Lost their Relevance?*. Journal of Accounting Research, 37 (2), 319-52.

Francis J.R., Kurana I.K., Martin X. and Pereira R. (2008). *The Role of Firm-Specific Incentives and Country Factors in Explaining Voluntarily IFRS Adoptions: Evidence from Private Firms.* European Accounting Review, 17 (2), 331-60.

Frankel R. and Li X. (2004). *Characteristics of a firm's information environment and the information asymmetry between insiders and outsiders.* Journal of Accounting and Economics, 37, 229-259.

Galum M. and Street D.L. (2003). *Compliance with the Disclosure Requirements of Germany's New Market: IAS versus US GAAP.* Journal of International Finance Management and Accounting, 12 (1), 64-100.

Gambling T. (1977). *Magic, Accounting and Morale.* Accounting, Organizations and Society 2 (2): 141-51.

Gélard G. (2010). *Du Bon Usage d'un cadre conceptual amélioré.* Revue Française de Comptabilité 437 November.

Gélard G. and Pigé B. (2011). *Normalization comptable international et légitimité: Commentaires sur Normalization comptable international.* Le retoure du politique? Comptabilité Contrôle Audit, 17 (3), 87-99.

Gerschenkron A. (1962). *Economic Backwardness in Historical Perspective: A Book of Essays.* Cambridge MA: Belknap Press of Harvard University Press.

Gray SJ. (1988). *Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally.* Abacus, 24, 1-15.

Grossman S. (1981). *An introduction to the Theory of Rational Expectations under Asymmetric Information.* Review of Economic Studies 48 (4), 541-59.

Grossman S.J. and Stiglitz J.E. (1980). *On the Impossibility of Informationally Efficient Markets.* American Economic Review, 70 (3), 393-408.

Guenther D. and Young D. (2000). *The association between financial accounting measures and real economic activity: a multinational study.* Journal of Accounting and Economics, 29 (1).

Hamid (2003). *The influence of riba and zakat on Islamic accounting.* Indonesian Management and Accounting Review, 2 (2), 149-167.

HassabElnaby (2003). *The impact of environmental factors on accounting development: an Egyptian longitudinal study.* Critical Perspectives on Accounting, 14, 273-292.

Healy P.M. and Wahlen J.M. (1999). *A Review of the Earning Management Literature and its Implications for Standard Setting.* Accounting Horizons, 13 (4), 365-83.

Hill C. (1998). *A qualitative assessment of Arab culture and information technology transfer.* Journal of Global Information Management, 6 (3), 29-38.

Hofstede G. (1984). *Cultural Dimensions in Management and Planning.* Asian and Pacific Journal of Management, 83-84.

Hogdon C., Tondkar R.H., Harless D.W. and Adhikari A. (2008). *Compliance with IFRS Disclosure Requirements and Individual Analysts' Forecasts Errors.* Journal of International Accounting, Auditing and Taxation, 17 (1), 1-13.

Hogdon C., Tondkar R.H., Harless D.W. and Adhikari A. (2009). *Compliance with International Financial Reporting Standards and Auditor Choice: New Evidence on the Importance of the Statutory Audit.* The International Journal of Accounting, 44 (1), 33-

35.

Hope O.K., (2006). Jin J. and Kang T. *Empirical Evidence on Jurisdictions that Adopt IFRS.* Journal of International Accounting Research, 5 (2), 1-20.

Hung M. and Subramanyam K.R. (2007). *Financial statement effects of adopting international accounting standards: the case of Germany.* Review of Accounting Studies, 12 (4), 623-657.

IASB (May 2010). *Exposure Draft: Presentation of Items of Other Comprehensive Income.* London: International Accounting Standards Board.

IASB (October 2010). *Staff Paper: Presentation of Items of Other Comprehensive Income. Comment letter analysis.* London: International Accounting Standards Board.

IASB (2010). *The Conceptual Framework for Financial Reporting 2010.* London: International Accounting Standards Board.

IASB (2008). *Discussion Paper Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity. (May).* London: International Accounting Standards Board.

IASC (1989). *Framework for the Preparation and Presentation of Financial Statements.* London: International Accounting Standards Committee.

IFRS Foundation (2010). *IFRS Foundation Constitution.* London: IFRS Foundation. Available at www.iasb.org/NR/rdonlyres/B611DD9A-F4FB-4A0D-AEC9-0036F6895BEF/0/Constitution2010.pdf, accessed 30 September 2012

IFRS Foundation (2013). IFRS *Constitution.* Available at www.ifrs.org/The-organization/Governance-and-accountability/Constitution/Documents/IFRS-Foundation-Constitution-January-2013.pdf, accessed 11 March 2013

IFRS Foundation *(2011). Report of the Trustees' Strategy Review, IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade.* (April) London:

International Financial Reporting Standards Foundation.

IFRS Foundation (2012). *IFRSs as Global Standards: Setting a Strategy for the Foundation's Second decade. February.* London: International Financial Reporting Standards Foundation.

Irvine H.J and Lucas N. (2003). *The rationale and impact of the adoption of International Financial Reporting Standards: the case of the United Arab Emirates.* 18th Asian-Pacific Conference on International Accounting Issues, 1-22.

Irvine, H. (2008). *The global institutionalization of financial reporting: the case of the United Arab Emirates.* Accounting Forum, 32, 125-142.

Jensen M and Meckling W. (1976). *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure.* Journal of Financial Economics, October: 305-60.

Joshi P.L. (2008). *Perceptions of accounting professionals in the adoption and implementation of a single set of global accounting standards: Evidence from Bahrain.* Advances in Accounting, incorporating Advances in International Accounting, 24, 41-48.

Kamla R. (2007). *Critically appreciating social accounting and reporting in the Arab Middle East: A postcolonial perspective.* Advances in International Accounting, 20, 105-177.

Kothari S.P., Ramanna K and Skinner D.J. *Implications for GAAP from an Analysis of Positive Research in Accounting.* Journal of Accounting and Economics (50): 246-86, 2010

Karampinis N.I. and Hevas D.L. (2011). *Mandating IFRS in an Unfavourable Environment. The Greek Experience.* The International Journal of Accounting, 46 (3), 304-32.

Klein A. (2002). *Audit Committee, Board of Directors Characteristics and Earnings Management.* Journal of Accounting and Economics, 33 (3), 375-400.

Lamoreaux N. (1985). *The Great Merger Movement in American Business, 1885-1904.* New York: Cambridge University Press.

La Porta R., Lopez-de-Silanes F. Shleifer A. and Vishny R. (2000). *Investor Protection and Corporate Governance.* Journal of Financial Economics 58, 3-27.

La Porta R. Lopez-de-Silanes F. and Schleifer A. (1997). *Legal Determinants of External Finance.* The Journal of Finance, 52 (3), 1131-50.

La Porta R., Lopez-De-Silanes F., Shleifer A. and Vishny R. (1998). *Law and finance.* Journal of Political Economy, 106, 1113-1155

Leuz C. and Oberholzer-Gee F. (2006). *Political relationships, global financing, and corporate transparency: evidence from Indonesia.* Journal of Financial Economics, 81, 411-439.

Leuz C. (2010). *Different Approaches to Corporate Reporting Regulation: How Jurisdictions Differ and Why.* Accounting and Business Research 40 (3), 229-56.

Leuz C. and Wustemann J. (2004). *The Role of Accounting in the German Financial System, in J.P. Krahnen and R.H. Schmidt (eds) The German Financial System (pp. 105-44).* Oxford and New York: Oxford University Press.

Leuz C., Nanda D. and Wysocki P.D. (2003). *Earnings Management and Investor Protection: An International Comparison.* Journal of Financial Economics, 69 (3), 505-27.

Lev B. (1989). *On the Usefulness of Earnings and Earnings Research: Lessons and Directions from Two Decades of Empirical Research.* Journal of Accounting Research, 27 (2): 157-78.

Li S. (2010). *Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the Cost of Equity Capital?.* The Accounting Review, 85 (2), 607-36.

Liu C., Yao, L. J. Hu, N. and Liu L. (2011). *The Impact of IFRS on Accounting Quality in a Regulated Market: an Empirical Study of China.* Journal of Accounting, Auditing and Finance, 26 (4), 659-76.

Macve R. (1981). *A Conceptual Framework for Financial Accounting and Reporting: the Possibilities for an Agreed Structure.* London: ICAEW.

Macve R. (2010). *Conceptual Frameworks of Accounting: Some Brief Reflections on Theory and Practice.* Accounting and Business Research 40 (3), 303-308.

Mashayekhi B. and Mashayekh S. (2008). *Development of accounting in Iran.* The International Journal of Accounting, 43 (1), 66-86.

Mathews M.R. and Perera M.H.B. (1996). *Accounting Theory and Development.* 3rd edition. Melbourne. Nelson.

Milanovic B. (2003). *The Two Faces of Globalization: Against Globalization as We Know It.* World Development 31 (4), 667-83.

Milanovic B. (2011). *The Haves and the Have-Nots.* New York: Basic Books.

Moran M. (1991). *The Politics of the Financial services Revolution: the USA, UK and Japan.* Basingstoke: Palgrave Macmillan.

Moran M. (2010). *The Political Economy of Regulation: Does It Have Any Lessons for Accounting Research?.* Accounting and Business Research 40 (3), International Accounting Policy Forum, 215-25.

Muiller G. (1993). Accounting: *An International Perspective.* Irwin Professional Publishing, third revised edition.

Muiz Alia & Joel Branson. (2011). *The effect of environmental factors on accounting diversity. A literature review.*

Nioche J.P. and Pesqueux Y. (1997). *Accounting, Economics and Management in France: The Slow Emergence of an Accounting Science.* European Accounting Review

6(2), 231-50.

Nobes C. W. (1998). *Toward a general model of reasons for international differences in financial reporting,* Abacus, 34 (2), 495-519.

Nobes C. and Parker R. (2004). *Comparative International Accounting,* 8th edn, Harlow: Prentice Hall.

Nobes C.W. and Parker R.B. (2010). *Comparative International Accounting,* 11th edn, Harlow: Prentice Hall.

Nobes C. (1984). International Classification of Financial Reporting. London: Croom Helm.

Olson M. (1965). *The Logic of Collective Action: Public Goods and the Theory of Groups.* New York: Schocken Books.

Paananen M. and Lin H. (2009). The *Development of Accounting Quality of IAS and IFRS over Time: the Case of Germany.* Journal of International Accounting Research, 8 (1), 31-55.

Perera H. and Baydoun N. (2007). *Convergence with International Financial Reporting Standards: the case of Indonesia.* Advances in International Accounting, 20, 201-224.

Perry J. and Nolke A. (2006). *The Political Economy of International Accounting standards.* Review of International Political Economy 13, 559-86.

Perumpral S.E. (2009). *The evolution of Indian accounting standards: Its history and current status with regard to International Financial Reporting Standards.* Advances in Accounting, 25, 106-111.

Pigou A. (1932). *The Economics of Welfare.* London: Macmillan.

Posner R. (1974). *Theories of Economic Regulation.* Bell Journal of Economics and Management Science 5, 335-58.

Posner E. (2010). *Sequence as Explanation: The International Politics of Accounting Standards.* Review of International Political Economy 17, 639-64.

Rahman *(2002). Accounting practice harmony, accounting regulation and firm characteristics.* Abacus 38 (1).

Renders A. and Gaeremynck A. (2007). *The Impact of Legal and Voluntary Investor Protection o the Early Adoption of International Financial Reporting Standards (IFRS).* De Economist, 155 (1), 49-72.

Richardson A. and Aberlain B. (2011). *Legitimating Transnational Standard-Setting: The Case of the International Accounting Standards Board.* Journal of Business Ethics 98 (2), 217-45.

Ritchie B. and Khorwatt E. (2007). *The attitude of Libyan auditors to inherent control risk assessment,* The British Accounting Review, 39, 39-59.

Roberts C. (2005). *International Financial Reporting. A comparative approach.* Third Edition. London: Prentice-Hall.

Roudaki J. (2008). *Accounting profession and evolution of standard setting in Iran.* Journal of Accounting, Business & Management, 15, 33-52.

Sanders T.H. Hatfield H.R. and Moore U. (1938). *A Statement of Accounting Principles.* New York: American Institute of Accountants.

Sanders T. Hatfield H. and Moore U. (1959). *A Statement of Accounting Principles.* Sarasota, FL: American Accounting Association.

Schipper K. (2005). *The Introduction of International Accounting Standards in Europe: implications for international convergence.* European Accounting Review, 14 (1), 101-126.

Schroeder, Richard G., Clark, Myrtle W. and Cathey, Jack M. (2001). *Financial Accounting Theory and Analysis,* 7th edn. New York: John Wiley & Sons.

Scott W.R. (1997). *Financial Accounting Theory, International edn.* Upper Saddle River, NJ: Prentice-Hall.

Scott W. (2003). *Financial Accounting Theory, 3rd edn.* Toronto: Pearson Education Canada.

Soderstrom N. and Sun. K. (2007). *European Accounting Review.* A Review of the Accounting Quality after IFRS adoption in the European Union, 16 (4), 675-702.

Sun K. (2006). *Financial reporting quality, capital allocation efficiency, and financing structure: an international study.* Working Paper, University of Hawaii at Manoa.

Sunders S. (2002). *Regulatory Competition Among Accounting Standards Within and Across International Boundaries.* Journal of Accounting and Public Policy 21 (3), 219-34.

Sunder S. (2009). *IFRS and the Accounting Consensus.* Accounting Horizons 23, 101-11.

Sunder S. (2011). *IFRS Monopoly: The Pied Piper of Financial Reporting.* Accounting and Business Research 41, 291-306.

Sutton T. (1984). *Lobbying and Accounting Standard-Setting Bodies in the US and the UK: A Downsian Analysis.* Accounting, Organizations and Society 9 (1), 81-95.

Tamm-Hallstrom K. (2004). *Organizing International Standardization: ISO and the IASC in Question of Authority.* Cheltenham: Edward Elgar.

Taylor M.E. and Jones R.E. (1999). *The use of International Accounting Standards terminology, a survey of IAS compliance disclosure.* The International Journal of Accounting, 34 (4), 557-570.

Tyrrall D. (2007). *The relevance of International Financial Reporting Standards to a developing country: Evidence from Kazakhstan.* The International Journal of Accounting, 42, 82-110.

Van Mourik C. (2010). *The Legitimacy of the Assumptions on which the IASB Conceptual Framework is Based: An Institutional Perspective.* Working Paper, Open University.

Watts R.L. and Zimmerman, J.L. (1978). *Towards a Positive Theory of the Determination of Accounting Standards.* The Accounting Review. 53 (1), 112-34.

Walton P. and van Mourik C. (2014). *The Routledge Companion to Accounting, Reporting and Regulation*. Walton P. and van Mourik C. editors. Routledge: London.

Watts R. and Zimmerman J. (1986). *Positive Accounting Theory of the Firm: Some Evidence.* Journal of Law & Economics, 26 (3), 613-33.

Watts R. and Zimmerman J. (1986). J. *Positive Accounting Theory.* Englewood Cliffs, NJ: Prentice Hall.

www.iasb.org

www.iasplus.com

http://en.wikipedia.org/wiki/Luca_Pacioli

http://en.wikipedia.org/wiki/Securities_Act_of_1933