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International Financial Reporting Standards: what are the benefits?

Philip Brown

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Abstract

When countries have announced plans to adopt IFRS in lieu of the standards that had applied previously, they have referred to a number of benefits, mostly to do with equity markets. So it is not surprising that academics have looked to equity markets to assess the extent to which benefits may have materialised. The evidence they have gathered can fairly be characterised as mixed, partly because of differences in samples and the use of a wide range of proxies for the same underlying but unobservable idea. Nonetheless, it seems relatively clear that the shift to IFRS has had many consequences both for the valuation of equities and for equity markets more generally. Although there will always be winners and losers from changes in accounting standards, if only because of their distributive effects, undoubtedly some consequences are regarded by companies and investors as, on balance, beneficial. However, the story is far from complete. Ample scope remains to expand the range of possible benefits

that are investigated and to improve, substantially, the methods used to seek them out.

Keywords:

accounting standards analysts forecasts benefits of IFRS cost of capital
globalisation of equity markets liquidity in equity markets

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Notes

For simplicity I will not distinguish either between the IASB (International Accounting Standards Board) and its predecessor the IASC (International Accounting Standards Committee) or between IFRS (International Financial Reporting Standards collectively) and IAS (International Accounting Standards, the forerunner to IFRS).

One would expect the degree of credibility would depend on matters such as: the extent to which IFRS are adopted by a country as and when they are issued by the IASB; the quality of education and training of preparers, users, auditors and regulators; the extent and consistency of any guidance on IFRS available to preparers, auditors and other relevant parties; and the incentives of managers and controlling shareholders, auditors and regulators.

It occupied a mere 27 pages in Fra Luca Pacioli's 615-page *Summa de arithmetica, geometria, proportioni et proportionalita*, printed in 1494. (Accounting texts tend to be somewhat longer these days.)

Source: <http://www.iasplus.com/country/useias.htm#totals> (accessed 6 December 2010). [Editor's note: The full table shows that some of the jurisdictions classified as 'not permitted' are in the process of aligning domestic standards closely to IFRS.]

See http://www.cnc.min-financas.pt/Documentos/Press_release_reg_IAS.htm (accessed 14 January 2011).

Commonwealth of Australia [\(1997\)](#).

http://eng.kasb.or.kr/web/services/page/viewPage.action?page=eng/about/a_intro.html (accessed 17 January 2011).

See Pope and McLeay [\(2011\)](#) for a discussion of other papers not covered in this review.

Countries that mandated adoption of IFRS can be further sub-divided into those where early adoption was permitted (such as Germany) and those where it was not (such as Australia).

On the other hand, the earnings response coefficient (ERC) was found to be lower post-IFRS for a sample of Norwegian companies, which was attributed to the influence of volatility in earnings due to the use of fair value measurement under IFRS (Beisland and Knivsflå [2010](#)). The capitalisation of intangibles was believed to have the opposite effect, that is, to raise the ERC because of better matching of costs and revenues.

Niels Bohr received the Nobel Prize for Physics in 1922. In fact the quote has been attributed to many others as well as Bohr and its origin is therefore in doubt. See <http://physics.about.com/od/nielsbohr/tp/Niels-Bohr-Quotes.htm> (accessed 17 January 2011).

See Howieson [\(2010\)](#) for an interesting analysis of the political pressures on standard-setters following the (global) financial crisis.

See Pope and McLeay [\(2011\)](#) for a discussion of four INTACCT papers that have considered the implications of IFRS for debt markets.

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