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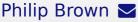
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Volume 41, 2011 - Issue 3: INTERNATIONAL ACCOUNTING POLICY FORUM

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# International Financial Reporting Standards: what are the benefits?



Pages 269-285 | Published online: 04 Jul 2011

**66** Cite this article ▶ https://doi.org/10.1080/00014788.2011.569054











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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 r	markets li	iquidity in equ	uity markets		

### Acknowledgements

I appreciate the comments of professional staff of the Institute and of its academic adviser, Richard Macve. Helpful comments were also received from Wendy Beekes, Greg Clinch, Raymond da Silva Rosa, Jayne Godfrey, Bryan Howieson, Kevin Stevenson, Ann Tarca, Paul Taylor, Stephen Taylor and Tony van Zijl along with participants in a Research Workshop at The University of Western Australia. I also acknowledge the comments of the editor Pauline Weetman and the anonymous reviewer; and the research assistance of John Preiato and Jeremy Cowcher. Earlier versions of this paper were presented at the conference of the Korean Accounting Association, Busan, 17–19 June 2010 and at the Birkett Memorial Lecture, Sydney, 20 October 2010.

### 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: <a href="http://www.iasplus.com/country/useias.htm#totals">http://www.iasplus.com/country/useias.htm#totals</a> (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 <a href="http://www.cnc.min-financas.pt/Documentos/Press\_release\_reg\_IAS.htm">http://www.cnc.min-financas.pt/Documentos/Press\_release\_reg\_IAS.htm</a> (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 <a href="http://physics.about.com/od/nielsbohr/tp/Niels-Bohr-Quotes.htm">http://physics.about.com/od/nielsbohr/tp/Niels-Bohr-Quotes.htm</a> (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.

#### Related Research Data

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Source: Journal of International Financial Management and Accounting

Incentives versus standards: properties of accounting income in four East Asian

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Source: Journal of Accounting and Economics

The Effect of Mandatory IFRS Adoption on Financial Analysts' Information Environment

Source: Journal of Accounting Research

Economic Benefits of Adopting IFRS or US-GAAP - Have the Expected Cost of Equity

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