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Editorial
IFRS application in Central and South-Eastern European countries

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Abstract: The purpose of this paper is to introduce and reflect on the International Financial Reporting Standards (IFRS) application in Central and South-Eastern European (CSEE) countries, by providing an overview of IFRS research conducted in this geographical area, put in the context of the countries included. This special issue thus comprises the IFRS experience of eight countries: the Czech Republic, Estonia, Moldova, Poland, Romania, Slovenia, Turkey and Ukraine. Accounting research in these countries is in an incipient phase, and there is generally little information available in the international literature about accounting reforms and the manner in which international standards are applied, with a few exceptions.

Keywords: IFRS, developing countries, Central and South-Eastern Europe, literature review

JEL codes: M41

1. Introduction

In line with the mission of the Journal of Accounting and Management Information systems (JAMIS), which is to support and make visible research conducted in CSEE, this special issue is dedicated to the IFRS implementation aspects in this area, and comprises the experience of eight countries in this region (i.e., the Czech Republic, Estonia, Moldova, Poland, Romania, Slovenia, Turkey and Ukraine).

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Research in accounting in emerging/developing/transitioning countries published in international journals intensified over the last decades, mainly because of the economic interest in these economies. Terminological clarifications emerged too (Ezzamel & Xiao, 2011) because of the diversity of the geographical, cultural, socio-economic, and political contexts of various countries. However, developing countries or emerging economies are terms widely used, sometimes interchangeably, to refer to the countries which are not classified as developed or advanced, considering their economic development indicators. If in 2000 emerging markets accounted for 37% of global GDP, they produced 50% in 2013 and will continue to strongly influence the global economic growth (ICEF, 2014). Emerging countries that gained most attention from an economic and an accounting point of view, are the biggest ones, known as BRIC countries (Brazil, Russia, India and China), expected to be in top ten largest economies by 2020 (ICEF, 2014). However, economic and research interests expand to countries "beyond BRIC", given the economic opportunities and perspectives for economic growth and geographical position that they offer.

Developing countries share a pace of rapid change, the reforms that they underwent, and the desire of achieving economic development, but differ in terms of economic development, historical evolution, and socio-economic background (Chand, 2005; Ezzamel & Xiao, 2011). The countries included in this special issue share their former communist experience (except for Turkey), and the membership or candidacy for membership of the European Union (EU) (except for Moldova and Ukraine) (the Czech Republic, Estonia, Poland and Slovenia became EU members in 2004, and Romania became member in 2007). Therefore, these countries share both similarities and differences, which provides an appealing background to study their experience regarding IFRS implementation.

Accounting research in these countries is in an incipient phase, and there is generally little information available in the international literature about accounting reforms and the manner in which international standards are applied, with a few exceptions. In all of these countries, academia had to keep the pace with (or sometimes drive) accounting reforms, and to be involved in preparing teaching materials, training professionals and working with the business environment and the regulators. More than that, little resources are available or have been allocated to strengthen accounting research in these countries. Some of these countries are also very small (such as Estonia and Slovenia) and they have a small number of researchers (app. 15-20) (Cadez *et al.*, 2011; Haldma & Lääts, 2012).

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Financial reporting research on the countries included in this special issue is present to different extents in the international literature. There is a reasonable number of papers in international journals on Poland (Jaruga *et al.*, 2007; Krzywda and Schroeder, 2007; Dobija and Klimczak, 2010; Szychta and de la Rosa, 2012 etc.), Turkey (Alp & Ustundag, 2009; Elitas & Uc, 2009; Uyar & Gungormus, 2013), the Czech Republic (Schroll, 1995; Sucher & Jindrichovska, 2004 etc.) and Romania (Ionaşcu et al., 2007; Filip and Raffournier, 2010; Albu & Albu, 2012; Albu et al., 2011, 2014 etc.) (see Balsari & Varan, 2014; Grabinski *et al.*, 2014; Ionaşcu *et al.*, 2014; Jindrichovska *et al.*, 2014 in this special issue for an overview). The financial reporting experience of the other countries is disseminated rather through book chapters (Estonia - Haldma, 2006; Alver & Alver, 2009, Alver *et al.*, 2013; Slovenia – Novak, 2008; Jerman, 2013; Moldova – Alexander and Ghedrovici, 2013; Ukraine - Mattessich, 2008) (see Alver *et al.*, 2014; Ghedrovici *et al.*, 2014; Jerman & Novak, 2014; Kuzina, 2014 in this special issue for an overview). Few studies are conducted in a comparative manner on these countries (Albu *et al*., 2013; Bonaci *et al.*, 2008), even though they share many economic and social characteristics. Considering the institutional characteristics of these environments (difficult access to data, lack of databases, low relevance of their countries' experience for an international audience), research was also conducted and published in the country's local language (or other languages besides English) targeted for a national audience. Therefore this special issue is intended is to reflect on the local practices, successes and efforts of implementing IFRS in these countries by reviewing the research conducted and published both in the English language, but mainly in each country's local language (which would be otherwise inaccessible to an international audience).

Therefore, the aim of this special issue is twofold: (1) to regroup significant findings about IFRS implementation in CSEE countries in a special issue, in order to facilitate the understanding of IFRS implementation issues in this area. Although each paper is focused on one country, the special issue will give an overview of the region; and (2) to make visible the results of research published in other languages than English, to provide a solid background for conducting future research in these countries. In this manner, JAMIS complements the efforts of other researchers, journals and publishers (such as the special issue "Accounting in Central and Eastern Europe" of Research in Accounting in Emerging Economies, book series published by Emerald in 2013 (co-edited by C. Albu and R. Mustaţă; or the special issue of the Theoretical Journal of Accounting (Zeszyty Teoretyczne Rachunkowości) on "Development of accounting research and practice in Central and Eastern Europe" (edited by A. Szychta)) to facilitate the diffusion and development of knowledge in this area.

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2. General considerations regarding the countries included in the special issue

Accounting (in the form of rules but mainly practices) is influenced by the economic and social environment. Therefore, many studies explore a multitude of economic, social, cultural and legal factors in order to facilitate the understanding of accounting practices and their consequences. Table 1 presents some general information about the eight countries included in the special issue.

Table 1. Economic indicators

Country	Population (mil.)	Gross national income per capita (USD)	GDP (bil. USD)	GDP growth (%)	Inflation	Foreign direct investments (mil. USD)
Czech Republic	10.51	18,130	196.4	-1.0	1.6	10,581
Estonia	1.33	16,270	22.39	3.9	3.3	1,648
Moldova	3.56	2,070	7.25	-0.8	7.5	185
Poland	38.54	12,660	498.8	1.8	2.5	6,701
Romania	20.08	8,560	169.4	0.4	5.2	2,024
Slovenia	2.05	22,810	45.28	-2.5	0.2	-227
Turkey	74	10,830	789.3	2.2	6.8	12,519
Ukraine	45.59	3,500	176.3	0.2	8.0	7,833

(*Source*: World Bank, 2014; World Economic Forum, 2014)

Table 1 shows the differences in terms of size and economic development between countries. Besides the level of wealth and growth (expressed by GDP), size (population), and the international openness of the business environment (FDI), other variables are generally also employed in accounting studies to capture the country-level context. These variables come in many cases from reputed international organizations such as the World Bank, the World Economic Forum, the World Federation of Exchanges (an example is Isidro and Raonic, 2012) and reflect the existence and development of local institutions, business diversification, economic stability, the type of legal system, the development of the financial markets etc. Table 2 includes some variables for the countries in the special issue.

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Table 2. Economic and financial market development variables

Country	Year of the creation of the stock exchange	Listed domestic companies[1]	Market capitalization (mil. USD)	Market liquidity (% GDP)	Protecting investors	Financial market development	Competitiveness score	Quality of institutions	Macroeconomic environment
Czech Republic	1993	17	37,163	5.2	2	4.20	4.43	3.60	5.00
Estonia	1996	16	2,332	0.7	8	4.59	4.65	4.90	5.89
Moldova	1995	NA	NA	NA	7	3.60	3.94	3.24	4.62
Poland	1991	844	177,730	13.7	7	4.54	4.46	4.01	4.88
Romania	1995	77	15,925	1.3	9	3.95	4.13	3.34	5.14
Slovenia	1989	61	6,475	0.9	5	2.98	4.25	3.94	5.03
Turkey	1985	405	308,775	44.2	9	4.40	4.45	4.08	4.62
Ukraine	1996	198	20,711	0.7	5	3.46	4.05	2.99	4.20

The first four variables present information about the stock exchanges (source: World Bank, 2014). Protecting investors measures on a scale from 0 to 10 the extent to which investors are protected through disclosure of ownership and financial information (source: World Bank, 2014). Financial market development reflects the functioning of the financial sector on a scale from 1 to 7 (source: World Economic Forum, 2014). Competitiveness is assessed on a score from 1 to 7 reflecting the set of institutions, policies and factors that determine the level of productivity of a country (source: World Economic Forum, 2014). Competitiveness is based on several scores reflecting the economic environment, including the financial market development, the quality of local institutions and the stability of the macroeconomic environment. The quality of institutions score reflects on a score from 1 to 7 the legal and administrative framework in which individuals, firms, and governments interact to generate wealth. The macroeconomic environment reflects on a score from 1 to 7 the macro stability of the country (source: World Economic Forum, 2014).

Prior research investigated the association between these factors and the status of accounting, but the focus was mainly on developed countries and only some of the countries in the special issue were included. Table 3 presents some of the international comparative studies conducted on this topic and the countries included:

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Table 3. Multi-country studies including the countries in the special issue

Study	Sample	Countries from the special issue included	Research question	Findings	Variables and data
Zeghal and Mhedhbi (2006)	64 countries	All but the Czech Republic and Turkey	To identify the factors that could explain the adoption of IFRS by developing countries	IFRS are more likely to be adopted in countries with the highest literacy rates, functional capital markets, and with an Anglo-Saxon culture	Economic growth, education level, degree of external economic openness, cultural membership, financial market
Ramana and Sletten (2009)	102 countries	Moldova Turkey, and Ukraine	To analyze the factors impacting the decision of a country to adopt IFRS	IFRS are more likely to be adopted when governments make timely decision making, when there is a low cost of switching standards and when the countries in the region are adopters	Economic development, quality of local governance institutions, international power politics, culture; data from 2007
Francis et al. (2011)	62 countries	All	If voluntary use of assurance services is a complement to strong institutions	Firm incentives dominate country factors in countries with weaker institutions	Legal origin, legal enforcement, audit, financial constraints, corruption, judicial constraints; data from 2000

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Study	Sample	Countries from the special issue included	Research question	Findings	Variables and data
Gordon et al. (2012)	124 countries	All	The effect of IFRS adoption on FDI	The FDIs increase in developing economies following IFRS application	Economic and social indicators (including GDP, FDI, exports, interest rates, governance etc.); data from 2009
Houqe et al. (2012)	46 countries	Czech Republic, Poland and Turkey	The effects of mandatory IFRS adoption and investor protection on the quality of accounting.	Earnings quality increases for mandatory adoption when a country's investor protection regime provides stronger protection	Enforcement of accounting and auditing, protection of minority shareholders, board independence, judicial independence; data from 2007/2008
Isidro and Raonic (2012)	26 countries	Czech Republic and Poland	How firm reporting and institutional factors affect accounting quality	Accounting quality increases in environments with stronger institutions	Economic development, local institutions, financial markets, education, innovation; data between 2006 and 2008
Cieslewicz, 2013	49 countries	Poland, Slovenia and Turkey	The relationship between culture, institutions and accounting	In a country, institutions influence accounting, and they are maintained by the national economic culture.	Cultural variables, institutions variables, national accounting variables

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Study	Sample	Countries from the special issue included	Research question	Findings	Variables and data
Chen et al. (2014)	30 countries	Czech Republic, Poland, Turkey	If convergence with IFRS promotes FDI	They find support for the hypothesis that IFRS leads to FDI	GDP, rule of law; data for 2001 and 2005

These examples suggest that rarely all the countries of the special issue are included in international studies, for various reasons. The main reason is the lack of data for these countries, especially given the fact that they have small stock exchanges. For example, Christensen et al. (2013) investigate the impact of the mandatory IFRS adoption on market liquidity in the EU countries, but did not include several EU member states (such as Romania) because of the lack of data. Most of the studies included in Table 3 use variables for the country as a whole (such as adoption of the IAS/IFRS, level of convergence with IFRS etc.) and not information about the actual application of IFRS companies in these countries. Because of the small number of listed companies or the inaccessibility of data, these countries are rarely included in studies using company-level information. The papers in this special issue will provide additional insights about the economic and accounting context of these countries.

3. IFRS application

Implementing international standards have been considered to be a legitimating act (Jermakowicz & Gornik-Tomaszewski, 2006), and a boost for foreign direct investment and trading (Márquez-Ramos, 2011). However, the process of IFRS adoption and application was not an easy one. The purpose of this section is to give an overview of IFRS research in CSEE.

Karampinis and Hevas (2011) portrait the "unfavorable environment" for IFRS implementation as being characterized by code-law tradition, concentrated ownership and poor investors' protection, reduced enforcement, and low regulatory quality. The CSEE countries more than clearly illustrate this "unfavorable environment", each displaying a blend of other local impediments. Larson and Street (2004) capture the difficulties of the new EU members and candidate countries in relation with the IFRS implementation. These difficulties mainly include the complicated nature of IFRS, the tax-driven nature of financial accounting, the insufficient guidance, and the existence of limited capital markets (Larson & Street, 2004: 98). However, there is a limited number of studies about

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the ‘unfavorable conditions’ for the implementation of IFRS in these countries (Zeghal & Mhedhbi, 2006), and this special issue is intended to contribute in this direction. One way is to explicate the local accounting environment, required to accommodate in time many influences (see Table 4):

Table 4. Foreign influences in accounting

Country	Types of influences
Czech Republic	Accounting was rooted in the strong domestic industrial base of the pre-war and early post-war Czechoslovakia. Accounting was also influenced by the French, Italian and German traditions before 1950s. Russian took a lead in 1950s and 1960s in the construction of the accounting system for the planned economy. After the breakdown in 1989, German and French influences occurred again, followed by the Anglo-Saxon accounting approach and IAS influence.
Estonia	German influence until 1944. Soviet influence between 1945 and 1990. United States influence in 1991-1994, followed by IAS influence.
Moldova	Previous influences depend on the period and the part of Moldova (right bank of Dniestr river or left bank, unrecognized Transnistria). While being a part of the Russian Empire, Greater Romania or Soviet Union – accounting took different influences, from French and Italian to Russian and, in present, IAS and European.
Poland	German, Austrian, Russian and French influences, in 1939-1944 incorporation of German and Soviet accounting solutions. Russian influences during communism. Over the recent years, due to the country’s efforts to join the EU, compliance with the European Directives and IAS/IFRS.
Romania	French, Italian and German influences before 1950s. Russian influences during communism. French influences in the decade 1990-2000, followed by IAS and some British influence, but with the general objective of complying with the European Directives.
Slovenia	The first Slovene accounting standards (SAS) issued in 1993 were developed based upon the Yugoslav standards. The first Companies Act of 1993 was inspired predominantly by the German/Austrian corporate law model. The first revision of SAS in 2001 was an important step toward harmonization with IAS/IFRS. Upon accession to the EU in 2004, Slovenia had to adopt the EU’s legal framework.
Turkey	German Influence since the establishment of the Turkish Republic to 1960s. American (Anglo-Saxon) influence after 1960s.
Ukraine	Modern Ukrainian accounting system combines the features of several Western models. From the perspective of accounting regulation the continental model dominates (government regulation, standardized reporting forms and centralized chart of accounts). On the other hand, an integrated system of accounts and functional approach based on the definition of a financial result is used, which is specific to the Anglo-Saxon system.

Note: This table was prepared with information provided by the authors of the papers in the special issue

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First and foremost, the papers included in the special issue discuss how IFRS were implemented in each country, and will take an in-depth look at the local context of this decision. Consequently, the pace and role of all of these sources of influence are analyzed and the impact on IFRS implementation is discussed.

In prior studies, mainly in cross-country ones, the countries are presented as either adopting or not adopting IFRS. For example, according to Zeghal and Mhedhbi (2006), Estonia adopted IAS in 1995, Poland in 1997, Romania in 1999, and Ukraine in 2000. However, Ramana and Sletten (2009) report Ukraine as a non-adopter. Chen *et al.* (2014) go in more depth by using a conformity value which captures the extent to which the national system conforms to IFRS for 111 accounting items (the score is computed for 2001) (as such, the conformity value for Poland is 58 and for Turkey 40). One of the sources for the information about the implementation of IAS/IFRS is the website www.iasplus.com maintained by Deloitte (used for example as a source by Ramana & Sletten, 2009).

Reasons for the differences in how countries are portrayed in prior studies are at least twofold: the differences over time in terms of national decisions, and the differences in the manner of adoption. With regard to the first reason, emerging economies embraced in many cases more rapidly than developed countries the international standards, because they expected benefits at the macro-economic level (Brown, 2011), or they were advised by the World Bank or the International Monetary Fund to reform accounting based on IAS/IFRS (Zeghal & Mhedhbi, 2006; Le & Barbu, 2010). These reforms manifested indeed in the 1990s in most of the countries, but with variations in terms of how the reform was made, for what kinds of companies, and on which time horizon. The papers in this special issue reflect these differences. The second cause is related to the differences in the meaning of 'implementation'. Zeff and Nobes (2010) discuss the various implementation approaches, ranging from adoption (adopting the process or standard by standard) to convergence (total or partial). The papers also illustrate how countries generally began with a form of convergence, and continued with an adoption approach. Table 5 synthesizes this evolution, based on the papers included in the special issue:

Table 5. Overview of the IAS/IFRS implementation

Country	IAS/IFRS implementation
Czech Republic	IAS/IFRS were incorporated into the Czech accounting system in 2005m when the issuers of securities began to be obliged to prepare consolidated financial statement in accordance with IAS/IFRS. The other companies are allowed but not required to prepare consolidated statements according to IAS/IFRS. Entities that are a part of financial groups that prepare consolidated statements in accordance with IAS/IFRS can use IAS/IFRS (as per their own decision) in individual (separate) financial statements. Extensive changes of the accounting legislation were brought at the end of

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Country	IAS/IFRS implementation
	1990s, but the Czech accounting system as a whole is not fully converged with IAS/IFRS. There are not also much incentives to implement the IFRS for SMEs.
Estonia	In 1995–2001, Estonian Good Accounting Practice was based on the IFRSs and since 2013 on the IFRS for SMEs. Starting 2003, all companies must choose between two accounting frameworks to apply: IFRSs as issued by the IASB and endorsed by the EU, or the Estonian Good Accounting Practice.
Moldova	IAS/IFRS according to the Accounting Law (2007) had to be implemented by entities of public interest (commercial banks, insurance companies and others) starting from 2009. However, this objective was not attained and IFRS implementation was postponed for 2011. Entities of public interest are obliged to apply IFRS, other entities may apply either IFRS or National Accounting Standards.
Poland	Since 1 January 2002, when amendments to the Accounting Act of 9 November 2000 began to be applied, Polish regulations are strongly influenced by IAS (convergence). Since 2002 and 2003, selected groups of Polish listed companies started to apply simultaneously Polish regulations and IAS. Starting with 2005, IFRS as adopted by the EU were mandatory for listed groups and financial institutions. In the case of separate financial statements, IFRS application is voluntary for listed companies. Implementation of the IFRS for SMEs in Poland is not probable in the nearest future due to lack of public debate and legislative preparation.
Romania	IAS with carve-outs were included in the national regulations, along with other requirements (European Directives) (convergence). These national regulations were applied in 1999 by a pilot sample of 13 entities, in 2000 by the listed entities, and between 2001 and 2005 by large entities. Starting with 2007, IFRS as adopted by the EU should be applied by listed groups and banking institutions, and in separate financial statements starting with 2012. The national regulations still have influences from IFRS. Tentative and embryonic discussions about the implementation of the IFRS for SMEs emerged.
Slovenia	Starting in 2005, Slovenia introduced the mandatory application of the IFRS for consolidated financial statements of publicly traded companies. Slovenia extended the mandatory application of the IFRS to both consolidated and non-consolidated financial statements of all banks and insurance companies. Slovenia also allows the application of IFRS for other entities than the publicly traded ones, for their consolidated financial statements, and to all types of companies for separate annual (non-consolidated) financial statements.
Turkey	IFRS implementation after 2005 for listed companies, banks and financial institutions.
Ukraine	The initial approach was to adapt national accounting standards to the international standards. Further, this process has been refocused on the progressive convergence to IFRS. IFRS application: public companies, banks, insurance companies prepare financial statements and consolidated financial statements according to international standards since 2012; businesses providing financial services, except insurance and pension funds since 2013;companies performing support activities in the financial services

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Country	IAS/IFRS implementation
	and insurance since 2014; all other companies determine the appropriateness of the use of international standards for financial reporting independently.

Note: This table was prepared with information provided by the authors of the papers in the special issue

The papers in the special issue illustrate the complexities of the implementation process and the particularities of each country. Also, where available, the authors explain the consequences of IFRS implementation, in terms of compliance, costs and benefits, and impact on the quality and transparency of the accounting information. Assessment of these effects is based on both academic and professional papers and opinions published in international or local journals, on studies conducted by big auditing firms and professional organizations, and on the World Bank's Reports on the Observance of Standards and Codes. However, the papers included in this special issue depend on the number and research contributions of the papers and reports published in each country. Therefore, they are a good reflection not only of the IFRS implementation in the context of overall accounting developments, but also of the local academic environment in terms of research effervescence. Where available, insights about compliance with IFRS, impact on the cost of capital, expected costs and benefits, and implications for the profession are summarized.

4. Conclusion

Research on IFRS application published in the international literature is rather limited to developed countries, for several reasons, including and not limited to the lack of available data. Therefore, there is a limited understanding of the accomplishments and challenges in many emerging economies. The aim of this special issue is to facilitate an understanding of the IFRS implementation and application of IFRS in Central and Southeastern European countries, by bringing together the experience of eight countries, sharing both commonalities and differences.

The results summarized in each paper represent a starting point for future research focusing on the particular context of each country, but mainly for multi-country studies.

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[1] There might differences between the manner in which the number of listed companies is computed by the World Bank and other sources (because of time differences, whether companies that are listed on unregulated markets are included or not etc.). In some cases, the difference is significant. For example, the table reports 198 listed companies in Ukraine, while Kuzina (2014) advances (based on Ukrainian sources) a much higher number. These differences speak again to the difficulty of conducting multi-country studies based on large databases and to the complexity of the local contexts.

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