

THE IMPACT OF IFRS ADOPTION: A LITERATURE REVIEW

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ABSTRACT

Globalization of capital markets has increased the need for harmonized accounting standards all over the world. Regulators believe that International Financial Reporting Standards (IFRS) developed by International Accounting Standards Board (IASB) provide harmonized financial statements. Although, a large number of empirical studies examined the aftermath of IFRS adoption, these studies were limited in scope. This paper reviews the extant literature, which deals with harmonization of accounting standards and presents the overall consequences of IFRS adoption. The paper then provides some future research options.

INTRODUCTION

As the world is moving towards globalization, capital markets are becoming more and more homogeneous. Roussey (1992), Wyatt and Yospe (1993), and Nobes and Parker (1995) suggest that capital market globalization has increased the foreign investors' need for information as well as their desire for harmonized financial reporting standards. In order to invest in foreign markets, investors need reliable and comparable information. Globalization has increased the demand for universal financial reporting standards among investors. Aitken and Wise (1984), Collins (1989), Moulin and Solomon (1989), and Radebaugh and Gray (1993) suggest that harmonization facilitates the development of world trade and international capital markets which in turn promotes the economic growth of countries. Regulators believe that International Financial Reporting Standards (IFRS) developed by International Accounting Standards Board (IASB) provide harmonization of accounting standards across countries. International Financial Reporting Standards (IFRS) has emerged as the dominant reference for financial reporting in most countries around the world, perhaps due to the influence of investors' demand, cost minimization in financial reporting, security listing requirements, foreign investments, free trade, and global competition (Nulla, 2014).

The underlying benefit of harmonization is to provide comparable and reliable statements to decision makers and investors all over the world. Since financial markets are moving towards

globalization, there is a definite need to develop uniform accounting standards that can benefit investors, accounting firms, multinational corporations (MNCs), and financial institutions. Zeghal and Mhedhbi (2006) suggest that the main factors behind the IFRS development include: (1) international accounting firms, (2) Multinational Corporations, (3) foreign investors, and (4) international financial institutions.

A number of studies examined the consequences of IFRS adoption. These early studies investigated the impact of International Accounting Standards (IAS) adoption on countries from particular regions (Africa (Larson, 1993) and Asia (Woolley, 1998)), or from a particular level of economic development (developing countries (Larson & Kenny, 1995)) (Zaidi & Huerta, 2014) and others were limited to voluntary and mandatory adoptions of IFRS. Zaidi and Huerta (2014) is the only country level study that examine the impact of IFRS adoption on the economic growth rate of adopting countries around the world regardless of their geographic location or development status. The main purpose of this paper is to review the extant international accounting literature and examine the consequences of IFRS adoption around the world.

The remainder of the paper is structured as follows. Section 2 provides brief history of IFRS. Section 3 discusses the importance of IFRS. Section 4 presents some benefits and drawbacks of IFRS adoption. Section 5 provides the impact of IFRS adoption on developing and developed countries. Section 6 discusses enforcement mechanism. Section 7 reviews extant international accounting literature and provides a summary and discussion of our findings. Section 8 concludes the paper and section 9 presents some ideas for future research.

A BRIEF HISTORY¹

International Financial Reporting Standards are a set of high quality, transparent, and comparable global accounting standards developed by International Accounting Standards Board (IASB), an independent standard-setting board. In order to develop these standards, IASB follows an international consultation process, a practice of involving interested individuals and

¹ <http://www.iasb.org/About+Us/International+Accounting+Standards+Board+-+About+Us.htm>

organizations from all over the world in the development of accounting rules. IASB has been developing these standards since 2001. Before the establishment of IASB, International Accounting Standards Committee (IASC) was responsible for developing the accounting rules between 1973 and 2000. The IASC developed regulations known as International Accounting Standards (IAS).² Since 2001, over 100 countries including all European Union (EU) member countries have either required or permitted IFRS. Many non-adopter countries are seeking convergence, a process of narrowing the differences between the country's accounting standards and IFRS. Some of them are pursuing IFRS adoption.

IMPORTANCE OF IFRS

Lee (1987) suggests that a well-developed accounting structure is required for the development of efficient capital markets. Efficient capital markets are the backbone of economic development of countries (Lee, 1987). Lee (1987) and Wallace (1990) suggest that accounting infrastructure directly relates to the economic growth of a country. Reliable financial information is the cornerstone of a robust market economy and efficient public sector (Birău, Birău, & Trivedi, 2014). Larson and Kenny (1996) suggest that IFRS provide accounting infrastructure that helps developing countries in promoting their economic growth by providing translucent accounting standards across countries. However, deficiency in accounting infrastructure leads to the emaciation of the market, which impedes the economic growth of a country (Lee, 1987). Adoption of well-developed accounting standards can meet a country's specific accounting needs. IFRS provide a coherent set of accounting standards and practices that help adoptees to improve both quality and credibility of accounting information. Extant literature suggests that IFRS improve disclosure and transparency of financial reporting. Moreover, IFRS not only enhance comparability and credibility of financial statements, but also reduce uncertainty and information asymmetry. Reduction in uncertainty and information asymmetry attracts more investors to the capital market, which in turn improves the market liquidity and increases the capital market efficiency. Efficient capital markets promote

² For consistency, we refer the terms IFRS and IASB throughout this paper to describe IAS and IASC respectively.

economic growth of countries (Lee 1987). Therefore, IFRS adoption leads to higher economic growth.

IFRS BENEFITS AND DRAWBACKS

This section discusses the benefits and drawbacks associated with the adoption of IFRS.

Benefits

Proponents of IFRS suggest that a single set of international standards such as IFRS promote economic development. The International Federation of Accountants (IFAC) has recently conducted a worldwide survey, which involved leaders of the accounting profession all over the world. The survey was designed to find leaders' perceptions about IFRS and the impact IFRS has on economic growth. Eighty-nine percent (143 leaders) of the respondents selected from 91 countries responded that the convergence to IFRS was either "very important" or "important" for their countries' economic growth (The CPA Letter, 2008). According to Ball (2006) and Choi and Meek (2005), IFRS has the potential to facilitate cross-border comparisons, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competitiveness, and efficiency of the markets (Nulla, 2014).

Moreover, IFRS provide reliable and comparable financial statements which help foreign investors and financial statement users in the decision making process. Adopting uniform standards such as IFRS eliminates informational externalities that arise from lack of comparability (Ball, 2006). In order to make investment decisions, foreign investors need accurate, timely, reliable, and comparable information. Ball (2006) suggests that IFRS reduce investors' cost of processing financial statement information by not only eliminating cross-border differences in accounting standards and standardizing reporting formats, but also providing comparable, accurate, comprehensive, and timely information. Reduction in cross-border differences in accounting standards helps investors in cross-border acquisitions and divestitures. Similarly, Jermakowicz and Gornik-Tomaszewski (2006) suggest that, by reducing differences in cross-border accounting, IFRS adoption reduces impediments in cross-border

trading. Tyrrall, Woodward, and Rakhimbekova (2007) report that most interviewees in their study believe that access to international funding is the major advantage of IFRS adoption.

Furthermore, IFRS promises increased transparency of financial statements. Increased transparency of financial statements reduces “agency costs between managers and shareholders,” and improves corporate governance (Ball, 2006). Reduction in agency costs benefits investors since managers will act in the interests of shareholders (Ball, 2006). In two surveys conducted by Jermakowicz (2004) in Belgium and Jermakowicz and Gornik-Tomaszewski (2006) in the European Union, most respondents believe that IFRS improve comparability and transparency of the financial statements. Improved quality, comparability, and transparency of financial statements lead to more efficient investment decisions, lower preparation cost, lower cost of capital, and increased market efficiency. Choi and Meek (2005) and Ball (2006) believe that IFRS has the potential to facilitate cross border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition, and efficiency of markets. In addition, Ball (2006) notes that the fair value orientation of the IFRS could add volatility to the financial statements in the form of both good and bad information (Nulla, 2014).

IFRS are part of the accounting infrastructure that helps countries to promote their economic growth (Larson & Kenny, 1996). Researchers suggest that IFRS adoption improves the transparency and disclosure of financial statements (Leuz & Verrecchia, 2000; Ball, 2006; Lambert, Leuz, & Verrecchia, 2007; Barth, Landsman, & Lang, 2008). Improved transparency and disclosure should reduce uncertainty, agency cost, information asymmetry, cost of capital, and estimation risk, while enhancing credibility, comparability, accuracy, information quality, accounting quality, corporate governance, market liquidity, and capital market efficiency (Leuz & Verrecchia, 2000; Jermakowicz, 2004; Ball, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Lambert et al., 2007; Armstrong, Barth, Jagolinzer, & Riedl, 2008; Barth et al., 2008; Zaidi & Huerta 2014).

Most developing countries do not have local accounting standards or standard-setting bodies. Peasnell (1993) argues that it is very costly to develop accounting standards from scratch and most developing countries lack financial resources. Therefore, it will be a cost-saving strategy for developing countries to adopt IFRS. The major advantages of IFRS adoption include time savings, cost savings, and increased credibility of financial statements of listed companies (Mir & Rahaman, 2005). Larson and Kenny (1996) suggest that IFRS provide accounting infrastructure that could be helpful in economic development of developing countries.

Drawbacks

Opponents of IFRS argue that IFRS not only ignore cultural and country differences, but also categorize in the lowest acceptable levels of reporting (Samuels & Piper, 1985). Opponents believe that IFRS adoption negatively impacts economic development of developing countries due to their different accounting needs and the differences in their cultural, political, social, and economic environment from those of developed countries (Hove, 1989; Briston, 1990). Respondents of the survey believe that cultural and socio-economic differences between developing and developed countries make IFRS adoption unsuitable for developing countries (Mir & Rahaman, 2005).

Moreover, Jermakowicz (2004) and Jermakowicz and Gornik-Tomaszewski (2006) suggest that IFRS is a complex set of standards which is very costly to implement and transitioning from local standards to IFRS is a burdensome process. One of the biggest challenges in implementing IFRS is the sophisticated nature of its standards, which requires voluminous efforts to implement (Jermakowicz & Gornik-Tomaszewski, 2006). Similarly, Larson and Street (2004) suggest that the complicated nature of standards is one of the major barriers to IFRS convergence. Moreover, the two major hindrances in IFRS convergence include: (1) lack of guidance to implement them, and (2) differences in their interpretation (Jermakowicz, 2004; Jermakowicz & Gornik-Tomaszewski, 2006). In a survey performed by Jermakowicz and Gornik-Tomaszewski (2006), most respondents cite that the major challenges of IFRS adoption/conversion include

lack of education, lack of training, and lack of IFRS knowledge. Continuous training is required to learn more about such a complex set of standards.

Jermakowicz (2004) and Jermakowicz and Gornik-Tomaszewski (2006) find that the use of fair value approach to measure assets or liabilities is one of the major problems in conversion to IFRS. IFRS require the use of fair value accounting. In the reported values of both assets and earnings, the fair value approach brings increased volatility (Jermakowicz, 2004; Jermakowicz & Gornik-Tomaszewski, 2006). Jermakowicz (2004) argues that, in the movement towards fair value accounting, banks and insurance companies are two major institutions that experience significant problems. These industries are already highly regulated. Moreover, the transition process from local standards to IFRS is very costly. Different countries have different environmental influences causing deviation in the accounting standards. In order to eliminate those differences, tremendous amount of capital and resources are required (Jermakowicz & Gornik-Tomaszewski, 2006). Additionally, the move to fair value accounting makes accounting earning figures more volatile (Nulla, 2014). The survey also indicates that the use of fair values is the key challenge in IFRS adoption since it may increase the volatility in reported values of assets and earnings (Jermakowicz, 2004). Furthermore, the survey findings reveal that IFRS lack implementation guidance and are not only complex but also very costly to implement (Jermakowicz, 2004).

Furthermore, most respondents in the study conducted by Tyrrell et al. (2007) believe that difficulty in transition from local accounting system to IFRS is the major disadvantage of IFRS adoption. Mir and Rahaman (2005) suggest that IFRS are not the solution for developing countries' accounting problems. IFRS is not a "one-size-fits-all" solution. Effective implementation of IFRS in developing countries requires modification of standards or corporate laws (Mir & Rahaman, 2005).

DEVELOPING/DEVELOPED COUNTRIES

Decision makers and investors need reliable information in order to make optimal assessments. Developed countries include (in alphabetical order) : Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, UK and USA (Birău et al., 2014). Developing countries lack reliable sources of information. Samuels and Piper (1985) suggest that adequate and reliable accounting information plays a crucial role in the economic growth of developing countries. Inappropriate or inadequate accounting systems may hamper economic growth (Lee, 1987). Financial statements are a critical source of information for the capital-market investors in both developing and developed countries (Zeghal & Mhedhbi, 2006). Moreover, Belkaoui (1988) suggests that IFRS facilitate economic growth. If a developing country adopts IFRS, arguably more reliable compared to the country's local standards or GAAP, the flow of foreign investment in a country will increase since international investors can have both comparable and reliable information available. Increase in foreign investment will promote economic growth. However, investors have to consider other factors before making their investment decisions since merely adopting IFRS does not increase the reliability. Larson and Kenny (1995) suggest that mere adoption of IFRS does not lead to greater equity market development and economic growth. Enforcement plays an important role in this regard. Enforcement is as crucial as standards themselves (La Porta, Lopez-De-Silanes, Schleifer, & Vishny, 1997). The reliability of financial statements can be doubtful with the adoption of IFRS when the enforcement mechanism is not active. Harmonization of accounting statements exists when enforcement mechanisms are active. Since accounting harmonization provides not only the better-quality standards but also the best quality accounting framework, it is beneficial for developing countries.

Furthermore, in order to increase their economic growth, developing countries need foreign investment inflow. To make investment decisions, foreign investors need reliable information, which IFRS provides. Therefore, a large number of developing countries have already adopted

IFRS. A majority of countries have adopted IFRS since they do not have their national standard-setting bodies (Chamisa, 2000). Lack of national standard-setting bodies in the developing countries is due to lack of financial and human resources and experience in developing their own standards (Chamisa, 2000). Similarly, Ball (2006) argues that developing accounting standards is costly. This process is long, tedious, and exhaustive.

Developed countries already have well developed accounting standards such as United States has U.S. GAAP (Generally Accepted Accounting Principles). Most developed countries follow U.S. GAAP or derive their standards from U.S. GAAP. Hove (1989) and Nobes and Parker (1991) find many similarities between IFRS and U.S. and U.K. GAAP. Similarly, Mir and Rahaman (2005) argue that most IFRS are “carbon copies” of either U.S. or U.K. GAAP. The authors argue that predominant Anglo-American had a tremendous influence in the development of IFRS. Hoarau (1995) also suggest that the U.S. accounting standards influences IFRS. Based on these findings, we concluded that developed countries have an advantage over developing countries in adopting or adapting IFRS due to similarities between IFRS and their local standards. Therefore, it is less costly for developed countries to transition from their local accounting standards to IFRS. Larson (1993) suggests that for countries that follow U.S. or U.K. accounting standards, transition from their local standards to IFRS is less burdensome process since they have a higher base of expertise. Even though IFRS are costly to implement, unlike developing countries, developed countries do not lack financial resources albeit limited as all others.

ENFORCEMENT

Ball (2006) argues that IASB can persuade individual companies or countries to adopt IFRS but cannot enforce its standards. IASB is a standard-setter, which lacks enforcement mechanism (Ball, 2006). Similarly, Soderstrom and Sun (2007) argue that although IASB issues IFRS, it does not have a power to enforce these standards. Only security exchanges and the courts of the firms’ country have power to enforce the standards (Soderstrom & Sun, 2007). IASB has no authority to penalize any country or a company in the situations where managers, auditors, or regulators are unable to implement IFRS completely (Ball, 2006). Based on low quality, IASB has

not yet disallowed any company or a country to use its “brand name” which has increased the risk of using its “brand name” inappropriately (Ball, 2006). International Organization of Securities Commissions (IOSCO), which not only develops but also promotes security regulation standards, persuades member countries towards IFRS adoption; however, it also lacks enforcement authority (Ball, 2006). Moreover, Ball (2006) suggests that countries’ political and economic factors have a significant impact on its financial reporting practices. The author warns against drawing inferences from IFRS adoption without proper enforcement. The main problem in adopting and implementing IFRS consists of the activity of ensuring the effective and sustained implementation of the standards (Birău et al., 2014).

La Porta et al. (1997) suggest that enforcement of standards is as crucial as standards themselves. Better enforcement of standards directs positive changes in the financial statements. Application of proper enforcement mechanism will enhance the quality of IFRS worldwide. Ashraf and Ghani (2005) argue that Pakistan’s adoption of IFRS standards in 1985 has not improved financial reporting quality in the country. They conclude that enforcement mechanisms, not just mere adoption, play a crucial role in improving financial reporting quality (Ashraf & Ghani, 2005). Similarly, Mir and Rahaman (2005) suggest that enforcement mechanisms as well as auditing functions, and disciplinary procedures for non-compliance would influence the adoption and implementation of IFRS. Daske, Hail, Leuz, & Verdi, (2008) suggest that only countries with strict enforcement mechanisms and institutional environment, which promotes transparency, experience capital market benefits. Country’s legal system plays a crucial role in accounting quality improvement after IFRS adoption (Soderstrom & Sun, 2007).

LITERATURE REVIEW

Whether IFRS adoption has a positive impact on a country’s economic growth or not has been a topic of constant debate among academic researchers, accounting professionals, and regulatory authorities. Several studies explore arguments for and against IFRS adoption and their impact on economic growth of adopting countries; however, limited empirical research remains in the area to prove a particular point of view. Most research conducted in this area is

limited in scope. For example, some studies were limited to developing countries while others were limited to particular geographical regions, such as Africa and Asia (Zaidi & Huerta, 2014). Generalization of results is inhibited, since these studies concentrate on a particular region or a group of countries.

Economic Growth

Larson (1993) conducts a cross-sectional empirical study in African countries to determine whether the economic growth rates of countries that adopt IFRS differ from those of non-adopter countries. Although, several studies have been conducted in the past and many arguments have been made “both for higher and lower economic growth to be associated with” the adoption of IFRS, no empirical research has been conducted to test whether IFRS adoption has a positive or negative impact on the economic growth of a country (Larson, 1993, p.39). Larson (1993) fills this vacuum in literature by empirically testing the arguments previously made in descriptive papers without supporting results. The results confirm that countries that adapt IFRS with the adjustments to meet local environmental factors experience better economic growth than countries that either adopt them without adjustments or do not adopt them at all.

Larson and Kenny (1995) conduct an empirical study in 27 developing countries with equity markets to determine the effects of IFRS adoption on equity market development and economic growth. Extending Larson’s (1993) prior research, Larson and Kenny (1995) examine the effect of IFRS adoption on equity market development in addition to economic growth. The authors find no major association between IFRS adoption and equity market development or economic growth of developing countries. Their findings suggest that, compared to non-adopter countries, IFRS adopter countries have lower equity market development and economic growth. Larson and Kenny (1995) further suggest that any conclusion drawn based on these results would be premature without further research to explore the other factors that could play crucial roles in equity market development and economic growth of a country.

Similarly, Samuels and Piper (1985) and Hove (1989) do not find any benefits from IFRS adoption in developing countries.

According to Zeghal and Mhedhbi (2006), Woolley (1998) examines the differences in economic growth rates between IFRS adoptee and non-adoptee Asian countries. However, Woolley (1998) finds no significant differences in the economic growth rates of adoptee and non-adoptee countries (Cited in Zeghal & Mhedhbi, 2006). The results from Woolley (1998) cannot be generalized since they are based on a study conducted in a particular continent.

Zaidi and Huerta (2014) examine the impact of IFRS adoption on the economic growth rate “of the adopting countries taking into consideration the level of enforcement of the adopting countries” (p.1). Their study was different from previous country level studies in two ways. First, their sample includes countries from all over the world regardless of their geographical location and development status. Second, they include level of enforcement as a moderator variable. The authors hypothesize that there is a positive relationship between IFRS adoption and the economic growth rate of a country when enforcement level is high. The authors use several statistical procedures and models to estimate regression; however, they find partial support for their hypotheses. Some models confirm a positive relationship between IFRS adoption and the economic growth rate of a country when enforcement level is high while the others show no relationship.

In summary, Larson (1993) conducts first empirical research to examine the impact of IFRS adoption or adaption on the economic growth of African countries. Although the results show positive relationship between IFRS adaption and the economic growth of adapting countries, these findings cannot be generalized since this study was limited to a particular continent. Larson and Kenny (1995) extend Larson’s (1993) research to examine the impact of IFRS adoption on equity market development and economic growth of developing countries. This research is different from Larson’s (1993) study in two ways. First, in addition to economic growth, this study examines the impact of IFRS adoption on equity market development.

Second, the sample taken for this study is not limited to a particular continent. Findings from both studies are surprisingly different. Larson and Kenny (1995) finds negative relation between IFRS adoption and equity market development or economic growth of developing countries. Similar to Larson's (1993) research, Woolley (1998) conduct a study focusing only Asian countries. However, Woolley's (1998) finds no relationship between IFRS adoption and economic growth. Zaidi and Huerta (2014) extend their sample size and include countries from all over the world. They also include enforcement as a moderator variable. However, they find partial support for their hypotheses. Some models confirm a positive relationship between IFRS adoption and economic growth rates of adopting countries.

Harmonization

Jermakowicz (2004) investigates the impact of IFRS adoption on BEL-20 companies (publicly traded companies) in Belgium and their internal organization and finance strategies. The author finds that harmonization of both internal as well as external reporting across the firms is the major benefit of adopting IFRS. The survey results suggest that IFRS provide superior information, which not only meets stockholders' expectations but also helps management in making strategic decisions. Moreover, the results suggest that IFRS adoption enhances transparency of financial statements and increases the comparability of consolidated accounts for many companies. However, strong enforcement of IFRS attains comparability of financial statements across the European Union. The survey results further reveal that IFRS has a positive impact on competitiveness and the growth of European companies.

Murphy (2000) investigates the effect of IFRS adoption on harmonization of accounting practices of firms. Murphy's (2000) study is different from prior research since this is the first study on a firm level to examine the impact of IFRS adoption on harmonization level among firms. The author does not find any strong evidence, which suggests IFRS adoption leads to increased harmonization. Jermakowicz (2004) conducts a similar study in Belgium. However, contrary to Murphy's (2000) findings, Jermakowicz (2004) finds increased harmonization after IFRS adoption.

In summation, Jermakowicz (2004) examines the impact of IFRS adoption on BEL-20 companies. The author finds that IFRS adoption leads to harmonization of both internal and external reporting across the firm. The authors find that IFRS provide superior information, which enhances transparency of financial statements and increases the comparability of consolidated accounts for many companies. Murphy (2000) examines the effect of IFRS adoption on the harmonization of accounting practices of firms. Murphy's study is different from prior studies in that no such study has been conducted in the past, which investigates the impact of firms' IFRS adoption on harmonization level among firms (Murphy, 2000). The results indicate increased level of harmonization; however, Murphy (2000) does not find any strong evidence that supports the conjecture that the increased harmonization was due to IFRS adoption.

Earnings

Jong, Rosellon, and Verwijmeren (2006) empirically examine the impact of IFRS regulation 32 on preferred stocks in the Netherlands. This is the first study of its kind that tests the consequences of a particular IFRS regulation instead of the impact of overall IFRS adoption. The authors argue that the IFRS consequences are not limited to financial statements rather they have some significant economic consequences as well. The authors conclude that IFRS cause firms to change their capital structure by reducing their capital structure diversity.

Gassen and Sellhorn (2006) conduct an empirical study to examine the determinants and consequences of IFRS adoption in Germany. The authors first analyze the determinants of voluntary IFRS adoption and then they investigate whether there are any differences in the earnings quality and information asymmetry between IFRS and German-GAAP firms. While analyzing the determinants, Gassen and Sellhorn (2006) find that four important drivers (firm size, international exposure, dispersion of ownership, and recent IPOs) influence voluntary adoption of IFRS. Finding the differences in earnings quality of IFRS and German-GAAP firms, the authors suggest that IFRS firms have higher quality earnings compared to German-GAAP firms. Their findings suggest that firms that adopt IFRS not only have more persistent and less

predictable earnings, they have more conditionally conservative earnings. Moreover, their findings show a lower level of information asymmetry in IFRS adopters compared to German-GAAP firms. These results show that IFRS adopters experience a decline in bid-ask spread on one hand and higher level of volatility in stock prices on the other hand.

Stenka and Ormrod (2007) investigate how IFRS adoption influences listed firms' reported net profit and equity. The authors try to fill the vacuum in international accounting literature by focusing on group accounting issues, whereas most extant research focuses on broad issues such as comparing countries' accounting practices with IFRS procedures. The authors find a negative impact of IFRS adoption on firms' earnings. Their findings highlight large differences between IFRS and UK GAAP earnings in the goodwill treatment. IFRS adoption increases the combined value relevance of the book value and earnings in particular. Outcomes of relative value relevance analysis highlight that earnings markedly improve their ability to explain stock prices in the post-adoption period compared to the pre-adoption one (Nulla, 2014).

In synopsis, Jong et al. (2006) examine the impact of IFRS regulation 32 on preferred stocks in Netherlands. This study is different from prior research in that it examines the impact of a particular IFRS regulation, whereas most prior research has examined the impact of overall IFRS adoption. Jong et al. (2006) find that IFRS regulation 32 causes firms to modify their capital structure but does not affect firms' net earnings. Gassen and Sellhorn (2006) conduct a similar study in Germany but find contrasting results. The authors find an increase in the earnings quality of IFRS adoptee firms. Their findings also show lower information asymmetry after IFRS adoption. In contrast to Jong et al. (2006) and Gassen and Sellhorn's (2006) findings, Stenka and Ormrod (2007) find negative impact of IFRS adoption on firms' earnings.

Cost of Capital

Daske (2006) study in Germany examines the effect of adopting internationally recognized standards (i.e., IFRS or US-GAAP) on cost of equity capital of adoptee firms. Due to the presence of the highest number of IFRS adoptee firms, Daske (2006) chooses Germany for this empirical

research. The study examines a large sample of German firms that pre-adopted mandatory IFRS. The author finds no evidence that supports adoption of IFRS reduces the cost of equity capital of adopting firms. In fact, the author finds an increase in the cost of equity capital for firms that adopt either IFRS or US-GAAP.

Christensen, Lee, and Walker (2007) conduct a firm-based study to investigate the economic consequences of mandatory IFRS adoption in the UK. The purpose of their study is twofold: (1) to examine the price response to IFRS adoption news in the short-term, and (2) to find the changes in implied cost of equity of UK firms “between a date before the mandatory adoption was expected and a date by which mandatory adoption effectively certain” (Christensen et al., 2007, p.342). The authors find that the costs and benefits associated with IFRS adoption are not uniform across firms. The authors find no consistent evidence that suggests whether mandatory IFRS adoption is associated with an increase or decrease in the cost of capital. Benefits associated with the mandatory adoption of IFRS depend on firm-specific characteristics. The authors find positive relation between stock-price reaction and firms’ willingness to adopt IFRS and negative reaction between implied cost of equity and firms’ willingness to adopt IFRS.

Daske et al. (2008) examine the relationship between mandatory adopters and economic consequences in adopting countries. The authors use firm-year panel regression to analyze the effects of mandatory IFRS adoption on stock market liquidity, cost of equity capital, and equity valuations. They also conduct country-month liquidity analysis. Their results show a significant increase in the market liquidity and a decrease in firms’ cost of capital of mandatory adopters after adopting IFRS. Moreover, their findings suggest that the magnitude of benefits of IFRS adoption is higher for voluntary adopters than for mandatory adopters. The authors find that only countries, whether voluntary or early adopters, that have strict enforcement mechanisms and “countries where the institutional environment provides strong incentives to firms to be transparent” experience capital-market benefits (Daske et al., 2008, p.1089).

Daske, hai, Leuz, and Verdi (2013) empirically investigate the economic consequences of voluntary IFRS adoptions around the world. Since firms vary in their reporting as well as disclosure policies, economic consequences of voluntary IFRS adoptions show significant heterogeneity. In order to explain the heterogeneity in economic consequences of IFRS adoption, the authors split firms into two groups: (1) “label” adopters, firms that adopt the standards to get IFRS brand name and (2) “serious” adopters, firms that adopt the standards as a serious commitment to transparency. The authors hypothesize that the economic consequences of IFRS adoption differs between “label” adopters and “serious” adopters. Leuz and Verrecchia (2000) and Lambert et al. (2007) suggest that adopting IFRS seriously increases transparency and reduces uncertainty, information asymmetry, and estimation risk which in turn lead to higher market liquidity and lower cost of capital. Daske et al. (2013) find that compared to “serious” adopters, “label” adopters experience weaker effects on both the cost of capital as well as the market liquidity. In other words, the authors find large decline in the cost of capital of “serious” adopters compared to “label” adopters. The authors find a positive relationship between “serious” adoptions and cost of capital and between serious adoptions and market liquidity.

To summarize, Daske (2006) examines the impact of IFRS adoption and the firms’ cost of equity in Germany. The author finds negative relation between firms’ cost of capital and IFRS adoption. Christensen et al. (2007) conduct a similar study but on mandatory adopters. However, the authors find no consistent evidence that supports a positive or negative relationship between IFRS adoption and firms’ cost of capital. Daske et al. (2008) conduct a study similar to that of Christensen et al. (2007) to examine the relationship between mandatory adopters and cost of capital. However, Daske et al. (2008) discover contradictory findings. The authors find positive relationship between IFRS adoption and firms’ cost of capital. Daske et al. (2013) conduct a similar study but on voluntary adopters. The authors find a positive relationship between voluntary adopters and cost of capital.

Accounting Quality

Soderstrom and Sun (2007) review the extant accounting literature and discuss the impact of widespread IFRS adoption on accounting quality of the European Union. Most studies conducted before Soderstrom and Sun (2007) examine either the economic consequences or market reactions to IFRS adoption. Soderstrom and Sun's (2007) study is different from others' in that it examines the impact of IFRS adoption on accounting quality, which is the basis for economic growth of countries. Their findings suggest that voluntary adoption of IFRS (having more transparent and global accounting principles) has a positive impact on country's accounting quality. The authors suggest that their findings cannot be generalized to mandatory IFRS adoption in the European Union setting since their findings are based on voluntary IFRS adoption. They argue that the quality of accounting standards, legal and political systems of a country, and incentives of financial reporting are three major factors that play a crucial role in enhancing the accounting quality of a country after IFRS adoption. Overall, their findings suggest that accounting quality of IFRS adopting countries differs due to cross-country differences in firms' institutional settings as well as countries' legal and political system.

Barth et al. (2008) conduct an empirical study to examine the association of IFRS application with accounting quality. This study is similar to Soderstrom and Sun's (2007) study in that both examine the accounting quality after IFRS adoption. However, Soderstrom and Sun's (2007) study is limited to European Union whereas Barth et al. (2008) use countries across the world. The authors examine whether the application of IFRS enhances the accounting quality or not. The authors measure accounting quality using earnings management, timely loss recognition, and value relevance metrics with a sample of firms from 21 countries (Barth et al., 2008). Their findings suggest that firms that apply IFRS exhibit not only less earnings smoothing and less earnings management, but also more timely loss recognition as well as higher value relevance of accounting amounts. Furthermore, their results show that, compared to non-adopting firms, firms that adopt IFRS exhibit higher accounting quality. The accounting quality of IFRS adopting firms improves between the pre-adoption and post-adoption period. Overall, the results suggest that application of IFRS is associated with improved accounting quality.

In closing, Soderstrom and Sun (2007) examine the impact of IFRS adoption on accounting quality of the European Union. The authors do not find any consistent results across different countries. Barth et al. (2008) conduct a similar study to examine the relationship between IFRS adoption and accounting quality. However, contrary to Soderstrom and Sun's (2007) findings, Barth et al. (2008) find positive relationship between IFRS adoption and accounting quality.

CONCLUSION

Globalization of capital markets has increased the investors' demand for harmonized financial statements across the world. In order to invest in foreign markets, investors need reliable and comparable information. Harmonization of financial statements is helpful in promoting economic growth of a country. The goal of harmonization is to provide comparable and reliable statements to decision makers and investors across the world. Regulators believe that International Financial Reporting Standards (IFRS) developed by International Accounting Standards Board (IASB) provide harmonization of accounting standards. A large number of studies investigate the consequences of IFRS adoption with limited scope. Some studies were limited to certain geographic regions such as Asia, Africa, or Europe, some were limited to certain group of countries such as developing or developed nations, and others were limited to voluntary or mandatory IFRS adoptee countries. This paper reviews the extant literature and examines the consequences of IFRS adoption all over the world regardless of countries' geographic region or group.

FUTURE RESEARCH

We compile findings of previous studies to direct future research. Several studies note IFRS adoption and their economic consequences on both developing and developed countries; however, limited empirical research is conducted. Some studies focus on a particular continent, such as African countries (Larson, (1993) and Asian countries (Woolley, 1998), other studies observe a particular group of countries (developing or developed) such as Larson and Kenny's (1995) study on developing nations, and some other focus on voluntary or mandatory IFRS

adoption such as Christensen et al. (2007), Daske et al. (2008), and Daske et al. (2013). However, Zaidi and Huerta (2014) is the only study that examines the worldwide impact of IFRS adoption on the economic growth of countries regardless of their region or group. However, due to mixed findings, we cannot generalize their results. One reason of mixed findings is the lack of available data. Future research may be conducted by increasing sample size and by including more data.

Moreover, most of the studies that examine the impact of IFRS adoption on the economic growth of a country fail to consider other factors such as level of enforcement and level of compliance with IFRS, which can have a tremendous impact on the economic growth of adopting countries. Zaidi and Huerta (2014) use level of enforcement as a moderator variable; however, level of enforcement is the general level of law and enforcement in a country measured by rule of law. It does not measure the country's level of compliance with IFRS. There is no compliance index available at this time. Therefore, future research may include level of compliance with IFRS, once it is available, as a moderator variable. Additionally, some other factors play crucial roles in the economic growth of a country. These factors include corporate governance, economic status, existence of capital market, composition of workforce, and tax status of a country, to name a few. Future research may be conducted by including some or all of the missing variables as control variables.

A large number of studies test the economic consequences of IFRS adoption on African, Asian and European countries. However, we do not find any empirical study that examined the consequences of IFRS adoption on Middle Eastern countries. Middle Eastern countries are full of natural resources such as gasoline and gold. A large number of countries depend on gasoline supply from Middle East. In addition, the oil industry has more complex and specialized accounting standards. Due to their large oil exports, some Middle Eastern countries like Kuwait and Saudi Arabia has very high and positive balance of trade. IFRS adoption can have a significant impact on the accounting numbers of oil and gold producing countries in that region particularly since the oil industry mandates more complex accounting standards. Future

research can be conducted in Middle Eastern countries due to their extra-ordinary supply of natural resources and dissemination of those resources all over the world. These are just a few unexplored areas. We look forward to these future studies.

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