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GLOBAL FİNANSAL RAPORLAMA MAKBUL VE MÜMKÜN MÜ?

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ÖZ

Makale tekbiçimli bir muhasebe standartları setinin tercih edilir bir olgu olup olmadığını, eğer öyle ise böyle bir muhasebe standartları setinin mümkün olup olmadığını ortaya koymaya çalışmakta, bu bağlamda Uluslararası Muhasebe Standartları Kurulu'nun (IASB) dönüşüm projesini değerlendirmektedir. Bu amaçla çalışmada öncelikle dönüşüm projesine eleştirel yaklaşımıyla bilinen Ray Ball'un 2006 yılında yazdığı makalesinde projeye karşı ileri sürdüğü 3 temel argüman tartışılmakta ve bu argümanlara karşı literatürde elde edilen sonuçlar ortaya konmaktadır. Her ne kadar Ball'un argümanları amprik çalışma sonuçları ışığında karşılanabilmişse de projenin başarısı için dikkat edilmesi gereken hususlara da makalede yer verilmiştir. Makalenin birinci bölümünde dönüşüm projesinin tarihçesi anlatılmış, ikinci bölümde dönüşüm projesi, üçüncü ve dördüncü bölümlerde ise Ball (2006)'nın projeye karşı eleştirel argümanları incelenmiş, beşinci bölümde IASB'in projede karşılaşabileceği muhtemel zorluklar ortaya konularak makale sonuçların özetlenmesi suretiyle sonlandırılmıştır.

Anahtar Kelimeler: *IASB, UFRS, Dönüşüm, Karşılaştırılabilirlik, Serbest Pazar Teorisi, Tekbiçimlilik*

IS UNIFORM GLOBAL FINANCIAL REPORTING IS DESIRABLE AND POSSIBLE?

ABSTRACT

The paper, tries to put forward if it is desirable to have a uniform standard set; and if so, to what extent it is possible. By doing this the paper firstly examine one of the seminal papers written by Ray Ball in 2006 in which he put forward 3 main argumants against the Convergence Project. The paper continues to the anlyize by debating his arguments and tries to put forward that literature has significant evidence that convergence works. However, there are certain aspects to take into account in the project. In the first section paper tries to analyze history of convergence. In the second section Ball (2006)'s three main arguments criticizing convergence is examined. In the third and fourth sections Ball's arguments are debated with the help of literature. In the fifth section Challenges for IASB on the way of Convergence Project are put forward and the paper is finalised by the conclusions regarding the convergence efforts of IASB.

Keywords: *IASB, UFRS, Convergence, Cross Border Investment Comparability, Free Market Theory, Uniformity*

INTRODUCTION AND HISTORY OF CONVERGENCE

The task of developing uniform accounting standards is being executed by two main standard setters, namely IASB (former IASC) and FASB. IASB and FASB have been working on the convergence project in order to create a uniform accounting standards set for the whole world. Nowadays the project is being stalled by the question of whether it is possible to have "one size fit all" accounting standards set. In this essay, I will try to put forward if it is desirable to have a uniform standard set; and if so, to what extent it is possible.

Understanding the history and interaction of these institutions is crucial in order to figure out why and how these rival institutions had to work together on preparing uniform accounting standards.

Accounting Standards Committee (IASC) was founded in 1973 in London. Its main motivation was to promote the international convergence of accounting standards and by doing this, increasing the comparability of financial reporting systems of countries. Founding of this institution was a first attempt to set accounting standards internationally. According to Zeff (2012), it was a noteworthy development that IASC was founded on June 29th, 1973; since Financial Accounting Standards Board (FASB) replaced the Accounting Principles Board (a committee of The American Institute of CPAs – AICPA) two days after this date. In my opinion, this clearly shows that these two institutions were in direct competition with each other in the area of setting international standards. Until Enron and WorldCom crises, FASB had been claiming that rule based accounting standards namely, US GAAP was far superior to the principle based accounting standards namely, IASs. However, after the crisis of Enron and Worldcom, FASB saw that there were loopholes in US GAAP. US GAAP could be weak to handle the new economic order of the world. To a certain degree, Americans lost their faith in their accounting standards. I think accounting crisis was a huge incentive for FASB to work with IASC to promote uniform accounting standards.

Although it was an important issue Enron crisis wasn't the sole reason for this policy shift. It can be inferred that IASB made itself a credible standard setter in the eyes of IOSCO in 2000. In cross-border listings and offering securities, IOSCO recommended to its regulator members to consent multinational enterprises to use IASs of IASC, in financial statements. Another step stone for IASB on the way to becoming an international standard setter is the

European Unions' announcement about its revised strategy stipulating that listed companies in the EU should be required to adopt IAS in their consolidated statements by 2005.

In the 2001 European Financial Reporting Group (EFRAG) was founded to counsel the European Commission about whether the final standard or interpretation was technically sound for required use in EU. For

Europe EFRAG become a *proactive* reviewer on accounting standards. Aftermath the Commission founded Accounting Regulatory Committee (ARC) for the political acceptability of standards. The committee was formed by representatives from all of the member state governments.

After its success, IASB was after a mutual convergence with FASB. *"In October 2002 following the first formal, joint meeting between two boards, the IASB and the FASB issued a Memorandum of Understanding (MoU) known as "The Norwalk Agreement" which affirmed their commitment to make their existing financial reporting standards fully compatible as soon as is practible."* (Zeff, 2012)

IASB proved itself to be an international standard setter. From IASC to IASB one could see that the institution evolved according to the needs of financial statement preparers and users. Corresponding to IASC, IASB is the better funded the better staffed and the more independent institution which is ready to put through the convergence project with FASB.

CONVERGENCE

According to Ball (2006) IFRS adoption is an economic and political experiment. As time passes one will be able to see what the pros and cons of IFRS to investors will turn out to be. Ball's paper is highly pessimistic about convergence project. However, as he stated at the beginning of his paper: *" I begin with a description of IFRS and their history, and warn that there is little settled theory or evidence on which to build an assessment of the advantages of uniform accounting rules within a country, let alone internationally."* (Ball, 2006)

It was true by the date this paper was written. However, as one could see in the next section there is evidence that convergence has significant benefits on capital markets, foreign investments and comparability. However, Ball has got certain things right regarding the issues that would be problematic in convergence. They are mainly:

1) Different Markets and politics affecting how IFRSs are adopted in different countries

2) There is a brand name problem because IASB lacks enforcement mechanisms:

3) Financial reporting is essentially an internal process; therefore, it stands to reason that an externally developed set of accounting standards will not significantly change the reporting behaviour of firms.

It is clearly seen that Ball's way of thinking convergence is in accordance with the free market theory. He states that the market and the political system have to be changed in order to change firms' financial behaviour. In my opinion, this position is not supported by the evidence obtained from research. Despite being exogenous, implementation of the IFRS has effects on firms' reporting behaviour.

The market has a power to realize and price the brand name problem. Countries realizing that just using the IFRS brand without complying with it will eventually have repercussions in the form of the cost of capital and cross border investments. So, they will comply more eventually. However, market force can't be enough to reach an optimum level of uniformity. If free market theory applies then one shouldn't see any difference between pre and post IFRS implementation in terms of financial reporting. However, research has evidence that either mandatory or voluntary IFRS implementation has profound effects in financial reporting quality of firms.

In order to answer to the first two considerations of Ball (2006) one should take a look at outcomes of IFRS implementation.

OUTCOMES OF IFRS IMPLEMENTATION

Firstly, the main expected effect of IFRS to capital markets is decreasing the cost of capital and increasing liquidity. Daske et. al. (2008) found that after implementation of IFRS there is a significant decrease in the cost of capital, a significant increase in the market liquidity and increase in the shareholders' equity. However, these results are more significant in the countries which have sound legal systems and incentives for transparency. Li(2010) found that mandatory IFRS implementation leads to significant decreases in the cost of capital (47 basis points) of firms. This situation is not observed in the firms which started to implement IFRSs voluntarily. As Daske et. al. 2008 observed, this effect depends on the strength of countries' legal enforcement.

Secondly, an increase in the cross border investment is expected after the IFRS implementation. Florou and Pope(2012) found that financial entities, examples of which include but is not limited to mutual funds and superannuation funds; invested in IFRS adopters in such a way as to increase their shares in them by four percent more compared to their share increase in non-adopters over the course of two years following adoption date. This effect was especially prevalent among those entities that are more likely to utilize reports of higher quality. (e.g., actively managed funds, for which the adoption of IFRS had the most sizeable effect.) (Brown, 2013)

Thirdly, comparability is expected to increase after the implementation of IFRS. Barth, et al., (2012) found that the adoption of IFRS improved the comparability of a firm's results with those of US firms under US GAAP. They find that, compared to the periods during which firms utilized domestic standards, financial statements and underlying accounting figures showed greater convergence with that of US firms' when the firms utilized IFRS. This effect only strengthens when the adoption of IFRS is not optional, when the firms in question are common law firms or based in countries with a high level of enforcement. These findings have a pertinent conclusion: The effort of harmonizing accounting standards, IFRS shedding its optional status in many places, the emergence of international auditing standards and work done towards the goal of coordinated action between international securities market regulators had a positive effect on the comparability of the accounting figures. Despite this increase in comparability, substantial differences still exist between the two groups. (Barth, et al., 2012)

Yip and Young (2012) found that significantly increased cross-country information comparability in the post IFRS period in 17 European countries that adopted IFRS in 2005. Their results suggest that both accounting convergence and higher quality accounting information are likely to be the mechanisms underlying the observed comparability improvement. Further, their results suggest that similarity of the institutional environments have positive correlation with the increase in compatibility.

Although there are beneficial outcomes of IFRS implementations there are different results stemming from National differences.

THE FOUNDATIONS OF DIFFERENCES IN ACCOUNTING PRACTICES OF NATIONS

There is no doubt that IFRS implementation has benefits to the implementer country. However, the effect is not same for every country. Depending on the national culture, legal and taxation systems of countries and provider of capital in implementing countries, effect of IFRSs differs in magnitude.

There are two main legal systems in the world, namely Common law and Code law. In common law systems, accounting rules are formed by private institutes. However, in code law systems, accounting rules are formed by laws. U.S. and U.K are examples for common law countries. France and Germany are examples for code law countries.

Main providers for capital are Banks, Shareholders and government. Need for accounting information differs for these three groups. In U.K and U.S. main capital providers are shareholders whereas in Germany, Italy and Turkey main providers are Banks. From 1990s onwards, the size and the importance of equity capital markets began increasing in both the European continent and other places in the world. However, aversion for disclosing financial figures is still prevalent. (Zeff, 2007) So, it is expected that even in countries depending on Banks for investment capital, usage of shareholder capital will increase. Disclosures are of vital importance for shareholders. In contrast, banks are able to get direct information from firms in order to be able to protect their investment in the firm.

Taxation is not considered when forming accounting standards in common law countries. However, in code law countries taxation is of vital importance on accounting rules.

When it comes to culture Gray's theory is of great importance. According to Gray pairs of accounting values have a great impact on accounting practices of Nations. These values are summarized in table 1:

Professionalism versus statutory control: Professionalism and government control are inversely related, with self-regulation and high level government regulation forming the tips of the scale.	**Uniformity versus flexibility:** As uniformity increases, application of professional judgement in the manner with which the accounting rules are applied decreases, leading to a prescribed operation, with little flexibility.
Conservatism versus optimism: Risk taking behaviour increases as one moves from conservatism to optimism.	**Secrecy versus transparency:** This value is about how much information companies present in their disclosure. Secrecy is consistent with restricted disclosure while transparency means the eagerness to share more information with the public.

Table-1 Accounting Values (Fritz & Lämmle, 2003)

The Structure of accounting standards in different nations are shaped by these accounting values which are derived from Hoffstede's culture theory.

Another aspect of culture, effecting the accounting practices is the Audit Culture of nations. Zeff (2007) reported that*: "in some European Countries, there has been an inclination of the auditor not to issue a qualified report if the company's financial statements departed from national standards. I saw instances in the 1990s where the external auditor, aware that the company was not following the statutory accounting and disclosure requirement, did not issue a qualification even when the difference was material."*

It is obvious that if a company thinks that there may not be any sanctions for departure from IFRS, departure becomes inevitable. Differences in audit cultures lead to departure from IFRS which will result in diminishing comparability.

Although empirical research shows that there are differences according to either accounting or auditing culture, as convergence goes on it is possible that some part of these differences may vanish. Future research will prove if this is the case. While these variations form the basis for the need for convergence, they also can be considered as hurdles to overcome on the way to convergence. Countries find it hard to forgo their traditional accounting philosophies in order to be a part of convergence. (Fritz & Lämmle, 2003) As a result of this debate, IASB should bear in mind cultural differences in nations when setting standards.

CHALLENGES FOR IASB

In the convergence project there is a great amount of work to be done by the IASB. In my opinion, main challenges for IASB to tackle are as follows:

Firstly, IASB should have a road map in the case of SEC's possible decision to not to adopt IFRSs. It is naïve to expect the US to fully implement IFRSs in the foreseeable future. This is the point where the convergence project is stalling. U.S. investors have a preference for companies using U.S. GAAP. This is not because of superiority of U.S. GAAP. This is because they have a familiarity with the GAAP. In research it is reported that there weren't large differences between IFRS and U.S. GAAP in terms of quality (Erickson, et al., 2009). However, SEC's action is important as a signal to a considerable number of countries, including Japan and China. In case, SEC has an unfavourable decision IASB should be able to urge these countries to adopt IFRS too. IFRS is adopted by over 100 countries for now. If this will be the trend it seems US will be isolated (in case of mandatory adoption by countries like Japan and China) in the financial world in its commitment to the GAAP. So, it seems to me that convergence will be eventually inevitable even for U.S..

Secondly, IASB should form a well-managed and balanced feedback mechanism which consists of regional and national standard setters in addition to Europe and the US (Zeff, 2005). Feedback is crucial for a global standard setter as IASB doesn't have any enforcement power. It has to rely on local regulators. So, to the extent regional standard setter groups think their needs are being taken into account, IFRSs would be implemented as published by IASB rather than designated Their adapted versions) ones.

Thirdly, IASB is in need of motivating regulators of securities markets to urge listed companies to comply with the IFRS. The success of regulators has great variance between EU countries, and naturally between the countries in the rest of the world, markedly in developing countries having emerging markets. (Zeff, 2005) Otherwise, brand name problem is expected for the IFRSs. Companies in less regulated countries claiming to prepare financial statements compliant with the IFRS take advantage of the IFRS brand name. This situation is clearly an obstacle for IASB on the way to becoming a global standard setter.

Fourthly, in jurisdictions where IFRSs are governing standards, there are confusing disclosures about how IFRSs are adopted. In the EU, companies and auditors are required to ascertain compliance to IFRSs as adopted by the EU. In Japan, listed companies are allowed to prepare financial statements according to designated IFRSs. IASB should find a way to make it clear that how much these adoptions reflect IFRSs issued by the IASB. Otherwise, it would be hard to ensure comparability of financial statements of companies operating in different jurisdictions.

CONCLUSION

The need for an international set of accounting standards increases along with the interconnectivity of the business world. Despite the negative effects of the global financial crisis, compatibility of reporting remains desirable. With today's world as interwoven as it is, the basis for defending differing accounting standards between countries erodes day by day.

IASB has succeeded to establish a set of standards with high quality. So far empirical findings support the work done by IASB. However, convergence project needs to be completed and regarding this, there is still the issue of U.S. SEC's indecision about adoption of IFRS. This uncertainty of SEC is affecting countries' (i.e. Japan and India) decisions of adoption. Hence, U.S. decision is important for the IASB's credibility in the eyes of nations which are expected to adopt the IFRSs.

Moreover, IASB should bear in mind that although its standards are international, markets and regulators are local. Politics will have great effect as it had before on the implementations of the IFRS. As Ball (2006) stated having a uniform set of standards doesn't mean having same accounting practices.

To conclude, it is absolutely preferable to have a uniform set of accounting standards. It has more pros than cons to financial information preparers, users and auditors. Having in mind potential pitfalls explained above it is possible to realize this goal. However, it will take a long time and patience.

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