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ONE FINANCIAL REPORTING GLOBAL LANGUAGE: THE ULTIMATE GOAL?

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Abstract. *This article aims to analyse the extent to which international accounting standards is applied and whether it is the ultimate goal. Up until the end of 2016, approximately there are 84% of the 149 jurisdictions analysed which require IFRS for all or most domestic publicly accountable entities. This may indicate that we are not that much further from having a single set of globally-accepted accounting standards. However, there is more to financial reporting than just accounting standards alone, such as the political aspect of accounting standard-setting, translation issues surrounding IFRS adoption, the US position and the complexity of financial reporting. Improving financial reporting quality needs more than just having global accounting standards, rather, it is also essential to consider the preparers' incentives and other institutions surrounding the firm. Stakeholders need to broaden the perspective when viewing financial reporting, so that it will not be focused merely on accounting standards alone.*
keywords: *accounting standards; financial reporting; IFRS.*

Abstrak. Artikel ini bertujuan untuk menganalisis sejauh mana standar akuntansi internasional telah diterapkan dan apakah hal tersebut merupakan tujuan akhir. Sampai dengan akhir tahun 2016, terdapat sekitar 84% dari 149 yurisdiksi yang dianalisis yang mensyaratkan IFRS bagi semua atau mayoritas entitas yang memiliki akuntabilitas publik. Hal ini dapat mengindikasikan bahwa standar akuntansi yang dapat diterima secara global tidak lama lagi akan tercapai. Namun, pelaporan keuangan lebih dari sekadar standar akuntansi, tetapi juga mencakup hal-hal lain, seperti aspek politis dari penyusunan standar akuntansi, kendala terjemahan dalam adopsi IFRS, posisi US dan kompleksitas pelaporan keuangan. Peningkatan kualitas pelaporan keuangan memerlukan lebih dari sekadar standar akuntansi global saja, namun merupakan hal yang penting juga untuk mempertimbangkan insentif dari para penyusun laporan keuangan dan institusi lain yang mengelilingi perusahaan. Para pemangku kepentingan perlu memperluas perspektif dalam melihat pelaporan keuangan, agar tidak hanya berfokus pada standar akuntansi saja.
Kata Kunci: pelaporan keuangan; standar akuntansi; *IFRS.*

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INTRODUCTION

On March 2016, the IFRS (International Financial Reporting Standards) Foundation released profiles of IFRS application in 143 jurisdictions around the world, which are then continuously updated to result in 149 jurisdictions as per end of 2016. Based on the publication alone, it seems that we are not that much further from having a single set of global accounting standards to be used for financial reporting. The term financial reporting here refers to general purpose financial reporting, whose objective is to 'provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity' (IASB 2015). Financial reporting is considered as a means of communication from the entity to its stakeholders, in particular to help them make the right economic decisions and capital allocation, which can increase the efficiency of the economy as a whole. Thus, financial reporting, among others, plays an important role in improving a nation's welfare.

Because of its importance, entities cannot just produce financial reports their own ways; there must be standards that should be followed. Initially, each of the jurisdictions may have their own national standards; however, economic globalisation has become a significant driver for the increasing demand of having a set of globally-accepted accounting standards. After many years of effort put into promoting the use of global accounting standards, have we finally reached one financial reporting language, as mentioned earlier in the opening sentence? Further, is it really the ultimate objective? This article tries to answer the questions by analysing the extent to which international accounting standards is applied and whether or not the application of those standards is the end goal.

LITERATURE REVIEW

Financial Reporting Roles and Quality

In literatures, financial reporting serves two main roles, that is the valuation (decision usefulness) role and stewardship role (Cascino, Clatworthy, Osma, Gassen, Imam, and Jeanjean 2016; Godfrey, Hodgson, Tarca, Hamilton, Holmes 2010). For the first role, financial reporting is regarded as one of the sources that can be used by investors to assess an entity's future cash flows that in turn can help them in making economic decisions pertaining to the entity. In contrast, the stewardship role considers financial reporting as a form of accountability from management (agents) to owners (principal) for the resources that they are entrusted with and from which their performance is evaluated.

To be considered useful, financial information must possess certain features, i.e. qualitative characteristics, as portrayed below in Figure 1.

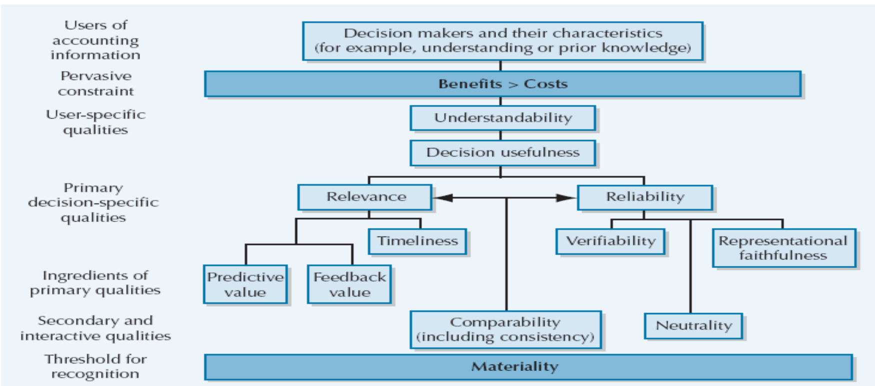

Figure 1. Qualitative Characteristics of Financial Information
Source: Godfrey, et al. 2010: 98

Based on Figure 1, qualitative characteristics of financial information are divided into 2 levels, primary and secondary. Relevance and reliability construct the first level where each has its own ingredients. Simply put, relevance means the usefulness of information in helping users to make economic decisions; whereas reliability talks about the truthfulness of information that is reported.

The IASB (International Accounting Standards Board) is still in the process of revising its conceptual framework (it is predicted that the final document will be released in 2017) and based on the exposure draft titled *Conceptual Framework for Financial Reporting* (IASB 2015), there are some differences with regards to qualitative characteristics as exhibited in Figure 1. Below is the summary from the document:

Table 1. IASB's Qualitative Characteristics of Financial Information (Exposure Draft)

Item	Classification
Cost	Pervasive constraint
Relevance	A fundamental qualitative characteristic
Predictive value	A characteristic of relevance
Confirmatory value	A characteristic of relevance
Materiality	An entity-specific aspect of relevance
Faithful representation	A fundamental qualitative characteristic
Complete	A characteristic of faithful representation
Neutral	A characteristic of faithful representation
Free from error	A characteristic of faithful representation
Comparability	An enhancing qualitative characteristic
Verifiability	An enhancing qualitative characteristic
Timeliness	An enhancing qualitative characteristic
Understandability	An enhancing qualitative characteristic

Source: adapted from IASB 2015

Comparing Figure 1 and Table 1, we can see that relevance is still the fundamental/ primary qualitative characteristic, whereas faithful representation replaces reliability. In ingredients of primary qualitative characteristics and enhancing qualitative characteristics sections, there are some observed differences. In spite of this, the overall tone is still the same, that is, entities should produce financial information that of high quality so that users can rely on that information to make economic decisions. To achieve this, financial reporting needs to be regulated.

Financial Reporting Regulation

There are two schools of thought as to whether financial reporting regulation is needed. The first one argues that regulation is not necessary for reasons such as (Deegan and Unerman 2006; Scott 2006; Godfrey, et al. 2010): (1) Market forces (demand and supply of accounting information) will function by itself to achieve the equilibrium point of optimum information (free-market perspective); (2) Market forces can control information asymmetry, hence investors are protected; (3) There are several incentives for entities to provide information voluntarily, for example punishment by the market and higher cost of capital for entities that do not provide information; (4) Regulation can result in oversupply of information in the market; (5) Due to regulation, there could be a condition whereby certain accounting methods that best suit the entity are restricted or prohibited.

On the other hand, some of the arguments proposed by those who are pro regulation are (Deegan and Unerman 2006; Scott 2006; Godfrey, et al. 2010; Leuz 2010): (1) Market forces alone will fail to protect investors and provide the optimum information due to the public good nature of accounting information; (2) Regulation can facilitate the needs of individual investors, which usually have limited power to access an entity's financial information; (3) To some extent, regulation can protect investors from fraudulent intention by entities; (4) Comparability of financial information is improved by having it regulated; (5) The externalities produced by financial reporting cause the necessity in regulating it; (6) Regulation of financial reporting can result in market-wide cost savings in terms of it is easier to compare and lowers the cost of negotiating disclosure with various stakeholders; (7) Insufficient private sanctions or penalty to incentivize entities in producing high quality financial information.

The fact that financial reporting in practice is regulated may be attributable by the notion that the benefits of reporting exceed the costs, although this warrants further study (Scott 2006). Financial reporting does not operate in isolation; rather, it is surrounded by legal, economic, political and social settings (Godfrey, et al. 2010). Hence, regulation, in terms of accounting standard setters, audit standard setters and securities regulator, is needed to achieve high quality financial reporting (Golden 2015). IFAC (International Federation of Accountants) also addresses the importance of having a cooperative, consistent and high quality global regulation as one of the determinants to achieve sustainable economic growth (IFAC 2016a & 2016b).

International Accounting Standards Institutional Structure

In 1973, the International Accounting Standards Committee (IASC) was formed in London with the purpose of developing accounting standards for the private sector to be used throughout the world (Godfrey, et al. 2010, IFRS Foundation 2016g). However, due to independency issue, the committee was then restructured in 2001 into the International Accounting Standards Board (IASB). The IASB is the independent standard-setting body of the IFRS Foundation (IFRS Foundation 2016d), which currently consists of 11 full-time members. To preserve its independency, there are Trustees (the oversight body of the board), as portrayed below:

Figure 2. The IFRS Foundation Structure
Source: IFRS Foundation 2016

The IASB also consists of 3 other bodies that form the board: the IFRS Interpretation Committee (consists of 14 members), technical staff and advisory bodies. All IASB meetings are open to public and can be accessed by webcast, this is to ensure the public accountability of the board. The 2015 funding structure consists of 53% from jurisdictional contributions, 26% from accounting firms contribution and 21% from self-generated income, with a total income of £27.4 million in 2015.

Benefits and Criticisms

There are benefits from having a single set of globally-accepted accounting standards, i.e. IFRS. To name a few (Bloomfield, Bruggemann, Christensen, and Leuz 2015; Golden 2015; IFRS Foundation 2015; Wood 2015; IFRS Foundation 2016e): (1) Enhance transparency, accountability and efficiency in the financial market, hence investors can better allocate their capital; (2) Reduce the costs needed to prepare multiple reports due to different accounting standards; (3) With the adoption of IFRS, users can compare financial reports better; (4) IFRS adoption increases the opportunity for accounting professionals to migrate from one country to another (cross-border migration), thus it can contribute to the labour market efficiency.

Despite the benefits offered, there are also several criticisms addressed towards the IFRS adoption, such as (McEnroe and Sullivan 2014; Deloitte 2016a): (1) High transition costs of adopting IFRS that could outweigh its benefits; (2) The extent to which IASB is independent in the standard-setting process; (3) The comparability issue that has not been completely resolved; (4) The complexities or difficulties associated with IFRS adoption.

Regardless of the criticisms as mentioned above, recently there is an increasing trend towards IFRS adoption around the world, at least over the past 15 years (IFRS Foundation 2015).

Principles- vs. Rules-Based Standards

In general, there are 2 approaches of developing accounting standards, namely principles-based and rules-based standards (Scott 2006; Godfrey, et al. 2010; McEnroe and Sullivan 2013). As the name suggests, rules-based aims to give detailed rules and requirements that must be followed to treat an account or a transaction, whereas principles-based only gives the general guideline hence relies more on the accountant’s professional judgment. IFRS is deemed to be more principles-based while US GAAP is considered to be rules-based. McEnroe and Sullivan (2013) found that auditors and chief financial officers prefer the rules-based approach as it offers more guidelines. In contrast, principles-based approach is the preferred method by ICAS (The Institute of Chartered Accountants of Scotland) that they support this position by releasing a framework on how to exercise professional judgement, an important skill needed to apply the principles-based approach (ICAS 2016). Kabureck (2016) also supports the principles-based accounting and stresses the need for a robust conceptual framework and reasonable judgement to well implement the approach.

Thus, both approaches have their own benefits and drawbacks, however this article does not attempt to state that one approach is better than the other one. The principles- vs. rules-based debate is another issue which is out of scope of this article, hence interested readers should refer to relevant literatures related to this matter.

RESEARCH METHODOLOGY

The research method used in this article is a critical review on relevant literatures pertaining to the topic of accounting standards and financial reporting in general. The literatures come from varying sources, such as journal articles, textbooks, published reports by credible organisations/ institutions, research reports, working papers and expert opinion. Based on the analysis, conclusion and suggestion are drawn.

RESULT AND DISCUSSION

Current State of IFRS Adoption

In 2015, the IFRS Foundation released a report entitled Financial Reporting Standards for the World Economy which gives an analysis of IFRS implementation in 140 countries (IFRS Foundation 2015). Since then, they have been updating the progress that as of December 2016, there are already 149 jurisdiction profiles made available for the public to access (IFRS Foundation 2016a).

Table 2 provides a snapshot of the IFRS use in 149 jurisdictions:

Table 2. The Use of IFRS in 149 Jurisdictions

	Number of Jurisdictions				
Region	**Jurisdictions in the region**	**Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities**	**Jurisdictions that require IFRS Standards as a % of total jurisdictions in the region**	**Jurisdictions that permit or require IFRS Standards for at least some (but not all or most) domestic publicly accountable entities**	**Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities**
Europe	43	42	98%	1	0
Africa	23	19	83%	1	3
Middle East	13	13	100%	0	0
Asia-Oceania	33	24	73%	3	6
Americas	37	27	73%	8	2
Totals	149	125	84%	13	11
As % of 149	100%	84%		9%	7%

Source: IFRS Foundation 2016a

Based on the table, we can see that 125 out of 149 jurisdictions require IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets. For the remaining 24 jurisdictions, 12 permit IFRS, 1 requires IFRS for financial institutions but not listed companies, 1 is in process of adopting IFRS in full, 1 is in process of converging national standard setters substantially but not entirely with IFRS and 9 use national or regional standards. In addition, modifications to IFRS are rare, if any; also the audit report generally refers to IFRS (IFRS Foundation 2015, 2016a, 2016c, 2016e, 2016f)

The 125 jurisdictions that require IFRS for all or most domestic publicly accountable entities represent approximately 47% of the total world GDP (based on 2015 data). There are 3 major jurisdictions (the United States, China and India) whose GDP account for 94% of the GDP of profiled jurisdictions that do not permit the use of IFRS for any domestic publicly accountable entities (IFRS Foundation 2016b). Table 3 provides the numbers as follows:

Table 3. GDP of the 149 Jurisdictions

	US$ (billions)	**Per cent (of total world GDP)**	**Per cent (of profiled jurisdictions GDP)**
Total world GDP	73,026	100	
GDP of 149 profiled jurisdictions	72,000	98.6	100
GDP of jurisdictions that require IFRS Standards for all or most domestic Publicly Accountable	34,188		47.5

Entities (PAEs)		
GDP of jurisdictions that require IFRS Standards for some (but not all or most) domestic PAEs	67	0.1
GDP of jurisdictions that permit IFRS Standards for at least some domestic PAEs	4,991	6.9
GDP of jurisdictions that do not permit IFRS Standards for any domestic PAE	32,755	45.5

Source: IFRS Foundation 2016b

The Foundation (IFRS Foundation 2016c) also provides the information regarding the number of listed companies that use IFRS, based on WFE (World Federation of Exchanges) and FEAS (Federation of European and Asian Stock Exchanges) November 2016 data (some assumptions are made), as follows:

Table 4. Domestic Listed Companies

	DOMESTIC LISTED COMPANIES NOVEMBER 2016					
	Number of member exchanges	**Number of domestic listed companies**	**IFRS Standards required for all or most companies**	**IFRS Standards permitted or required for at least some (but not all or most) companies**	**IFRS Standards neither required nor permitted for any companies – use local standards**	**Accounting framework unknown – no profile**
World Federation of Exchanges (WFE)	81	48,482	26,848	4,285*	17,134	215
Federation of European and Asian Stock Exchanges (FEAS) – includes only those exchanges and companies not also members of or listed on WFE	9	1,408	1,348	0	0	60

exchanges						
Totals	90	49,980	28,196	4,285	17,134**	275

* Of these, 141 Japanese companies and 116 Swiss companies use IFRS Standards
** Of the 17,134 copanies, 15,006 (88 per cent) are listed in China, India and the United States
Source: IFRS Foundation 2016c

Table 5. Foreign Listed Companies

	FOREIGN LISTED COMPANIES NOVEMBER 2016					
	Number of member exchanges	**Number of foreign listed companies**	**IFRS Standards required for all or most companies**	**IFRS Standards permitted or required for at least some (but not all or most) companies**	**IFRS Standards neither required nor permitted for any companies – use local standards**	**Accounting framework unknown – no profile**
World Federation of Exchanges (WFE)	81	3,068	257	2,795*	5	11
Federation of European and Asian Stock Exchanges (FEAS) – includes only those exchanges and companies not also members of or listed on WFE exchanges	9	0	0	0	0	0
Totals	90	3,068	257	2,795	5	11

* We are aware that approximately 500 of these companies are users of IFRS Standards whose securities trade in the United States, and another 250 companies are mainland China companies that use IFRS Standards for listings in Hong Kong. Adding these 750 companies to the 257 foreign listed companies known to be using IFRS Standards brings the total foreign listed companies known to be using IFRS Standards to over 1,000.
Source: IFRS Foundation 2016c

Thus far, based on the numbers presented in Tables 2 up to 5, it can be inferred that IFRS is pretty much on its way to become global accounting standards: (1) 84%

of the 149 jurisdictions analysed require IFRS for all or most domestic publicly accountable entities (2) those 84% represents approximately 47% of the world's GDP (3) around 56% of domestic listed companies are required to use IFRS for all or most companies. However, basing the conclusion on numbers alone may not be appropriate as there are other factors that need to be considered. In the next section, the impact of IFRS adoption in 3 regions, i.e. Australia, Korea and Europe, is discussed.

Impact of IFRS Adoption

With the increasing number of countries adopting IFRS as discussed previously, it is worthwhile to take a look at some research on the impact of IFRS adoption. On October 2016, AASB (Australian Accounting Standards Board) released a research report (AASB 2016) on the impact of IFRS adoption in Australia by analysing 35 qualified research papers and then grouping them as follows:

Figure 3. AASB IFRS Adoption Research Categories
Source: AASB 2016: 5

After approximately 10 years of adopting IFRS (Australia adopted IFRS in 2005), it seems that this decision has benefited the Australian economy. Specifically, there are 4 key findings highlighted in the report: (1) IFRS adoption improves the accuracy of analyst forecast (2) the quality of financial reporting has improved, in terms of the increasing financial report value relevance and the reductions in earning management practice (3) financial reporting comparability is improved and (4) there was pessimism from listed companies during the period if IFRS adoption towards the benefits that it would bring. However, as the report also pointed out, there are some studies that found that there has not been much improvement in the financial reporting quality compared to Australian Generally Accepted Accounting Principles, especially in the intangible assets topic.

A similar report (KASB 2016) was published by KASB (Korea Accounting Standards Board) in May 2016, however this report is more focused on assessing the impact of IFRS adoption on the usefulness of financial information and the capital globalization of Korean firms. After around 5 years of adopting IFRS (Korea adopted IFRS in 2011), some major findings are: (1) foreign stock investments starts to flow to small firms (2) there has not been much change in terms of international financing (3) the overall total cost of preparing financial report has increased due to the complex nature of IFRS principles-based application (4) IFRS adoption brings a positive impact on capital globalization by attracting foreign capital, this is made possible by the increased accessibility of foreign investors to financial reports and (5) financial statements usefulness has improved, in terms of comparability, reliability, quality, understandability, economic substance, relevance, accessibility (presented in order of significance). Nevertheless, despite these benefits of IFRS adoption, from financial report preparers' point of view, the costs of IFRS adoption is considered to be higher than the benefits (Deloitte 2016a). Some factors that contribute to the high costs are preparation of notes to and consolidated financial statements, fair value measurement, judgments needed to implement principles-based accounting and accounting for financial instruments. The preparers also suggest several aspects to be improved in order to implement IFRS more effectively and efficiently: accounting education reformation, relevant laws and regulations amendments, improvements in notes to financial statements and technical inquiry help.

In the European context, a research finding concludes that accounting harmonisation does have a positive impact on labour market efficiency and cross-border migration (Bloomfield, et al. 2015). They used EU's Labour Force Survey to support their research. In another European research setting, Christensen, Hail, and Leuz (2013) found that mandatory IFRS reporting only had little impact on liquidity. Further, they emphasize the importance of making substantive changes in financial reporting enforcement to enhance market liquidity, not just the adoption of IFRS itself. In other words, it is questionable whether IFRS adoption alone can affect the capital market, as there are other interfering factors as well, such as regulatory framework, economic factors, or institutional changes.

From the discussion above, it can be summarized that: (1) in Australia, there seems to be a positive overall tone towards IFRS adoption (2) in Korea, the impact of IFRS adoption is somewhat differ between users' and preparers' point of view, with the later point out the high costs in implementing IFRS (3) in Europe, it is uncertain whether there is such thing as "IFRS effects" in capital market, as other factors outside accounting standards can affect capital market, in particular financial reporting enforcement. Comparing the difference result in Australia and Korea, it might be an indication that there are cultural-related factors that contribute to the IFRS implementation.

Financial Reporting Global Language: More than Just IFRS Adoption

This section discusses 4 issues that may affect the IFRS adoption and implementation process: the political aspect of accounting standard-setting, translation issues surrounding IFRS adoption, the US position and the complexity of financial reporting.

Political Aspect of Accounting Standard-Setting

In an ideal world, standard-setting process should be independent and free from political interference; however, the fact that standard setting affects many interested parties cause it to be influenced by political factors (Godfrey, et al. 2010: 63-64; Golden 2015). Therefore, political aspect is inherent in the standard-setting process, including accounting. Political influence over standard-setting can be defined as (Gipper, Lombardi, and Skinner 2013):
"purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve some other self-interested purpose inconsistent with the FASB's mission". Some forms of this political influence may include intervention from Congress/ government agencies or lobbying by managers, companies (preparers), industry associations and accounting firms that are motivated by self-interests.

There are many stakeholders affected by accounting standards, such as investors, preparers, auditors, citizens, donors and lenders, thus developing standards that can meet their particular needs is very challenging, if not impossible (Golden 2015). Hence, to arrive at a consensus, a political process is somewhat inevitable (Gerboth as cited in Deegan and Unerman 2006: 75): "When a decision making process depends for its success on the public confidence, the critical issues are not technical; they are political … . In the face of conflict between competing interests, rationality as well as prudence lies not in seeking final answers, but rather in compromise – essentially a political process.” Standard-setter bodies are usually structured in such a way to help stakeholders achieve a consensus through due process mechanism; they carry a responsibility to balance various possibly competing interests, while keeping in mind the social and economic consequences of accounting standards (Deegan & Unerman 2006: 75-76; Godfrey, et al. 2010: 63-64; Scott 2006: 434).

Some examples of this political influence over accounting standard-settings are bad debts expense, employee stock options, financial instruments, leasing, and the most current example is IFRS 15 Revenue from Contracts with Customers. There have been some adjustments made on IFRS 15, from the deferral of effective date to amendments of topics on identifying performance obligation, principal versus agent considerations and licensing, as well as transition relief (Deloitte 2016b). Several parties question whether the motive behind the amendments was actually politically-related, as this particular standard is a joint project between IASB and FASB. It remains unanswered whether actually there has been too much interference from the US. Regardless, the political nature of standard-setting process may trigger the question of whether accounting standard-setting process can be completely objective and neutral (Deegan and Unerman 2006: 75-76).

Translation Issues Surrounding IFRS Adoption

As we are all aware of, IFRS is written in English language. For countries that use English as their native language, this should not be a problem. However, language differences can be an issue for non-English-speaking countries. A joint research project on this topic was conducted by the KASB and AASB (KASB and AASB 2016), where they studied accounting judgments on different terms of likelihood used in IFRS. There are several terms used to portray probability, such as ‘remote’, ‘likely’, ‘virtually certain’ and ‘probable’, which are often found in IFRS. In the joint research project, there were 13 likelihood terms used, i.e. ‘virtually certain’, ‘substantially all’, ‘highly probable’, ‘reasonably certain’, ‘reasonably assured’, ‘probable’, ‘likely’, ‘reasonably possible’, ‘possible’, ‘unlikely’, ‘highly unlikely’, ‘extremely unlikely’ and ‘remote’. There were some difficulties faced when translating certain English words into Korean. The research instrument used was questionnaire which was distributed to accounting professionals that consist of auditors and preparers. The key finding of the project was that differences in cultures and languages can lead to different interpretations of terms used in IFRS. Therefore, they suggest that standard setters should thoroughly consider translation and interpretation issues when developing a standard, as well as develop guidelines that can be referred to when needed.

In response to the joint research project, the Autorité des Normes Comptables (ANC, French standard-setter) agrees with the overall findings that translation can influence accounting judgment, both in terms of translation between languages as well as expressions used in different cultures (ANC 2016). Dealing with intercultural differences is one of the major challenges of applying IFRS consistently across jurisdictions. Further, cultural differences identities are determined by many factors, such as language, race, colour, sex, religion, political opinion, national or social origin, property, birth or other status. With regards to KASB and AASB recommendation to develop guideline, ANC gives caveat of balancing between giving guidance and keeping the principles-based standards approach. In summary, the ANC emphasises that having standards that are homogenous and consistently implemented is very challenging; the international standard setter should manage this issue of cultural bias by taking into account other research in related areas, such as linguistic, anthropology and psychology.

Prior to the release of KASB and AASB joint research project result in July 2016, the issue of IFRS translation in European context was already studied by Baskerville and Evans (2011). They came to a conclusion whereby translation is possible, but exact equivalence is not. Translation is a difficult process; not only there are problems in accounting technical terms, but also in different syntax, grammar, style and lexicon. In other words, translators must possess relevant knowledge in both source and target languages as well as accounting subcultures in both jurisdictions. They also found that the research respondents (Europeans) did consult the IFRS original version (in English), which may indicate that the current translation version in their own languages might have weaknesses. The topic of KASB and AASB joint research project, i.e. different likelihood terms, was also found to be one of five main translation problems in Baskerville and Evans', hereby identified as uncertainty/ probability expressions. The remaining four are complexity of syntax/ sentence structure or length of sentences, concepts with a wider or different meaning in everyday language, terms denoting different concepts or multiple meanings and undefined/ indefinable concepts. Finally, they argue that cultural differences are the major cause of accounting differences, similar to that of ANC (2016).

Thus far, all three research discussed above give a similar tone, that IFRS translation process is a difficult and challenging one as it covers both the accounting and language aspects. Several suggestions as to how to manage this issue were already pointed out, however the question remains of whether this issue can be completely eliminated. Interpreting accounting terms is already a challenging process, as it may involve judgment and subjectivity; let alone translating them into various languages. Therefore, standard setters are expected to consider this difficulty as early as possible since the drafting stage (Baskerville & Evans 2011).

US Position

As previously discussed earlier, there are two approaches in developing accounting standards, rules- and principles-based. Many consider the US GAAP as more rules-based than IFRS, so in general people tend to polarise accounting standards into IFRS and US GAAP. There has been convergence movement towards IFRS in the US, which was started from the Norwalk agreement in 2002 (Godfrey, et al. 2010: 76; White 2015). At the early stage, it seemed that the US convergence process to IFRS would be foreseeable in the future. In 2007, the US SEC (Securities and Exchange Commission) permitted foreign private issuers to file in accordance with IFRS without reconciliation to US GAAP; in 2012 there was a work plan issued by SEC staff on the transition of US domestic financial reporting system that would incorporate IFRS (Piwowar 2015; White 2015). Undoubtedly, US leadership in making IFRS as the global reporting language is very much anticipated.

While at the early stage it seemed that the US convergence process to IFRS would be foreseeable in the future, there have been little improvements since then. The SEC staff report paper stated that no decision has been made of whether or not IFRS would be incorporated into the US financial reporting system, which resulted in disappointment from IFRS Foundation as it would affect negatively to the goal of having a single set of global reporting language (McEnroe and Sullivan 2014). Piwowar, currently serves as Acting Chairman of the US SEC (appointed by President Donald Trump on January 23, 2017), once stated that it is investors that should drive the need of having IFRS-required financial reports, not regulator (Piwowar 2015). Jim Schnurr, former SEC chief accountant, had an idea to allow IFRS financial reports as a supplement to the US GAAP one, without any reconciliation needed (Piwowar 2015). These statements seem to suggest that the US convergence process to IFRS may not be happening soon, as there has not been any formal progress on IFRS convergence and lack of US leadership (Hoogervorst 2015).

One major impediment to IFRS convergence in the US is that there have been criticisms pointed out to the IFRS adoption in the US, such as both standards are not comparable, high transition costs, the extent to which IASB is independence, the IFRS nature to be more principles-based and perception that IFRS is considered superior to US GAAP (McEnroe and Sullivan 2014). Although there are benefits that can be utilised from converging to IFRS, apparently many consider the costs still outweigh the benefits. With the new elected president, it is interesting to see the US direction on this matter. With the protectionism policy adopted by the new president, does it mean that the US will abandon the joint projects with IASB and stick to its US GAAP, or will the convergence process be facilitated?

The Complexity of Financial Reporting: Seeing Financial Reporting from a Bird's Eye View

Financial reporting does not work in isolation, it is influenced by the legal, economic, political and social settings in which it operates (Godfrey, et al. 2010: 69-70). In other words, there is regulatory framework surrounding financial reporting, which commonly includes statutory requirements, corporate governance, auditors and oversight, and independent enforcement bodies (Godfrey, et al. 2010: 70-71). Therefore, the quality of financial reporting does not rely solely on accounting standards, rather it also depends on audit standard setters and securities regulator (Golden 2015). These parties need to work together to ensure high quality financial reporting. Having a set of globally-accepted accounting standards is not enough to reduce differences in financial reporting, moreover as there is no one-size-fits-all model for accounting standard-setters (Leuz 2010; Prada 2015).

In other words, as Leuz (2010, 2013) states, there is no guarantee that IFRS adoption would result in global convergence of financial reporting, as there are differences among jurisdictions in terms of enforcement mechanisms and institutional robust settings (capital markets, securities regulation, investor protection and economic development). Therefore, we cannot examine one of the many aspects of financial reporting, i.e. accounting standards, in isolation from others. Further, Leuz (2010) also mentions that there are firms' reporting incentives other than accounting standards that shape reporting practices, such as the country's legal institutions, strength of enforcement regime, capital market forces, product market competition, firm's compensation structure, ownership and governance structure, and operating characteristics. It may be questionable whether having a single set of global accounting standards would result in financial reporting comparability, given that other factors which affect firms' reporting incentives remain constant (Leuz 2010). This is in line with what Christensen, Hail and Leuz (2013) mention in their report, that it is very difficult and challenging to test the impact of IFRS adoption alone to capital market, due to other complicating factors, such as financial reporting enforcement, that can have a joint effect.

Thus, Leuz proposes the Global Player Segment (GPS) as an alternate perspective, whereby the focus is shifted to companies for which international comparability is relevant. These companies (Leuz 2013: 1-2): "… would be required to use the same reporting rules (i.e., IFRS), face the same enforcement mechanisms, and have similar incentives for transparent reporting. Joining this segment should be attractive to firms that operate in many countries and raise (or seek to raise) finance internationally. For these firms, comparability of reporting practices is important and real comparability would be easier to achieve." In this GPS scheme as proposed by Leuz, the attention is altered from reporting standards to enforcement, and since firms can apply themselves to join the segment, it will trigger greater transparency in financial reporting.

With regards to financial reporting comparability, one caveat should be put in mind. Comparability does not equal to uniformity, it simply means (Kabureck 2016): "… being close enough to draw conclusions and not needing to worry about underlying differences." This is also supported by ICAEW (2016) and Khomsatun (2016), which encourage the goal of international financial reporting should be on increased, not complete, comparability. The ICAEW report supports what Leuz stated, that improving financial reporting quality needs more than just having global accounting standards (technical aspect), rather, it is also essential to consider the preparers' incentives and other institutions surrounding the firm, for example auditing, corporate governance, enforcement, legal and educational system, among others (ICAEW 2016).

Besides the financial reporting complexity matter as discussed above, there are also some issues to having a high quality financial reporting, one of which is the relationship between financial reporting to broader issues, such as corporate reporting, integrated reporting, sustainability issue, and the impact of technology and big data on financial reporting (Hoogervorst 2015). This can be regarded as a challenge of how to view financial reporting from a broader perspective, not merely on the agreement of having accounting standards that can be applied globally.

CONCLUSION

The fact that financial reporting serves important roles, i.e. valuation and stewardship, results in much effort put to improve its quality, one of which is developing accounting standards that can be applied internationally. Over the past 15 years or so, there has been a positive trend in IFRS adoption globally. Some research have been conducted to evaluate the impact of IFRS adoption, some showed positive impacts while others do not. Despite this somewhat mixed result, financial report stakeholders must keep in mind that there are a number of factors which can influence the financial reporting global language, namely the political aspect, translation issues, the US position and the complexity of financial reporting. Accounting standard-setting is just one of the many factors that affect financial reporting practice, hence it should not be viewed in isolation from other relevant aspects, mainly the institutional settings and enforcement mechanisms. Care should be taken in viewing accounting standard-setting process so that it will not become an end in itself, rather, it is a part that makes up a much broader view.

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