FINANCIAL REPORTING CHANGES IN THE CONTEXT OF THE INTERNATIONAL ACCOUNTING CONVERGENCE[1]

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Abstract:
The extent to which globalization manifests itself into the world, leads to widening the efforts to achieve international convergence of accounting. Signing the agreement in 2002 on the convergence of international accounting standards and U.S. accounting standards, represents a milestone in this endeavor. In addition, many of the countries have implemented or intend to apply International Financial Reporting Standards. International accounting convergence is a process that eventually leads to the application of IFRSs worldwide (Wong, 2004). The paper attempts to establish the obstacles to international accounting convergence and analyze the effects of IFRSs on financial reporting worldwide

Key words: *financial reporting, IFRS, international convergence, comparability*

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The impact of globalization on the world economy is enormous. In terms of accounting, globalization emphasizes the need for standardization and "forces us to leave the convenience of national referential" (Fekete, 2008). Expanding capital markets involves an analysis of financial statements in accordance with different accounting standards. For investors, a lack of comparability of financial statements increases investment risk and affects the free flow of capital in the world. In addition, major financial conflicts have demonstrated the weakness of financial information and their negative effect on the functioning of the markets. In this context, of the need for complex financial transparent and comparable information, the importance of a single set of accounting standards of quality is being noted.

Fekete (2008) argues that to meet globally the current information need, accounting has only one solution, the convergence of international accounting. This is an irreversible underway process, and a new stage in the development of accounting, with the purpose of implementing international financial reporting standards worldwide.

The paper's aim is to identify the most important barriers to international accounting convergence and to discuss the consequences of applying IFRSs on financial reporting. Although the adoption of high standards is expected to determine an improvement in the quality of financial reporting, the study reveals that their implementation is crucial in this regard. Current international efforts, made to achieve convergence and the fact that financial reporting is significantly affected by globalization[2], are signs of the relevance of the chosen theme. To achieve the proposed objectives, a review of the literature regarding the implementation of IFRSs in the world

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[2] A testimony to this effect is the decision to rename the IASB accounting standards as financial reporting standards

and the regulations issued by the international accounting standardization will be performed.

2. General aspects of international accounting convergence

Accounting represents "a technology practiced in the political, economic and social variety, which has always been national and international". However, since at least the last quarter of the twentieth century, globalization of accounting rules and practices has become so important, that a national vision limited to the accounting and financial reporting cannot be maintained (Nobes & Parker, 2008).

Relations between national, regional and international referential have evolved over time, from harmonization to convergence. Petris (2005) considers that the same shift was manifested primarily in the international referential context in which it was concluded that harmonization "has exhausted all resources of improvement". Qu &Zhang (2010) argues that the development and promotion by the IASB of a single set of global accounting standards "indicates a movement from the global harmonization to global convergence".

Considered a challenge of globalization, international convergence of accounting is a "comprehensive and definitive process in accounting" with a clear objective, the existence of "a universal, financial and accounting language". International accounting convergence implies moving towards the same point of accounting systems or accounting structures, by removing the differences between them (Ristea et al., 2006). This way they expect comparability consolidation, increased comparability of the financial reporting, an improved efficiency of capital markets and improved business accountability.

Larson & Street (2004) gives IASB most important role in achieving international convergence. IASC Foundation and IASB's objective[3] is to develop a single set of global accounting standards of high quality. To achieve this objective, the IASB is working in close cooperation with stakeholders across the world, including investors, national bodies that issue standards, regulators, auditors, academics and others, who are interested in obtaining worldwide high quality standards.

The decision of the European Union regarding the enactment of regulation of the European Parliament and Council on the application of International Accounting Standards no.1606/2002 (The IAS Regulation or IFRS 2005), in July 2002, is an important step in the process of convergence. This regulation requires the Member States listed companies to prepare consolidated financial statements in accordance with international standards as were adopted by EU from 1 January 2005. The EU's objective was to provide a greater guarantee of transparency and comparability of financial statements and a well-functioning capital market in the Community. Feleagă & Feleagă (2006) deem that EU decision to adopt IFRS „is an European answer" to US referential domination in the perspective of global financial markets. Since 2001, more than 100 countries have requested or allowed the use of IFRSs, while the remaining major economies have established time for convergence with international standards and their adoption.

The trend of achieving a common language, used to present financial statements of companies from many countries, manifested by signing The Norwalk Agreement - Memorandum of Understanding between IASB and FASB, at its meeting on 18 September 2002 in Norwalk, Connecticut, USA. The agreement confirms the start of collaboration IASB - FASB, in consultation with other national and regional bodies in

[3] To strengthens the independence and competence of international normalization body, in 2001, the IASC has turned after the American model, a foundation that finances and appoints members of the IASB, the operational activities being IASB tasks.

order to achieve convergence between international accounting standards and US accounting standards. The importance of this event is increased by the fact that they will be brought to a common two different philosophies, the one of normalization of the international accounting body, which is a general guide, easy to understand and use, based on principles, guidelines and where professional reasoning plays an important role, and the one of the of U.S. accounting normalization body, based on very detailed accounting rules and laws.

Convergence requires "an alignment of national reference to the IFRS standards", in this context IASB makes some agreements this with accounting normalization bodies in different countries (Ionaşcu & Ionaşcu, 2008), the most recent being the agreements with Japan, China, India, Brazil, Canada. Accountability of national standard setters consist in continuing involvement in the convergence process by actively participating in IASB projects and communicating the issues discussed at the IASB meetings

International convergence effort is also supported by the G20 group, which meet in Pittsburgh, in September 2009 and made an appeal to the standardization bodies to redouble their efforts towards this objective in the context of the independent development of standards and to complete their convergence project, by June 2011.

3. Impediments in achieving international accounting convergence

International accounting convergence objective cannot be achieved without difficulty. Obstacles are generated, on the one hand, by the international accounting differences still existing between the various systems, as a result of factors that maintain them, and on the other hand by the difficulties in implementing international financial reporting standards in countries with different accounting traditions (for example: the complexity of international standards of language difficulty, terminology, interpretation, etc.).

Nobes (1998) examined several factors considered over time to influence a country's national standards and to promote the maintenance of international differences: the legal system (written law - customary law), the dominant financing system (through the stock market - financial institutions), taxation, inflation, colonial legacy, invasions, education level, age and size of the accounting profession, the stage of economic development, culture, history, geography, language, economics, political system, social climate, religion and history of accidents. Investigating the role of cultural values and legal system in terms of differences between national regulations in various countries and international accounting standards since 2001, Ding et al. (2005) showed that cultural values justify to a greater extent than legal system the divergences between national accounting standards and IFRSs. Ristea et al. (2006) considers, however, that the environment, including culture, have an indirect effect on the emergence of differences between accounting systems, a direct role being played by the financing system of enterprises, to which a political factor can be add up.

Regardless of the factors that generate them, differences in accounting standards reduce the quality and relevance of accounting information (Ding et al., 2007). The measurement of the remaining differences between international accounting standards and national accounting standards, allows assessing the progress level, made by the international accounting convergence.

Larson and Street (2004) considers that two of the most significant barriers to convergence, identified by the study, carried out the complex nature of IFRSs (including financial instruments) and guidance for national tax accounting systems. To these are added disagreement with some international financial reporting standards (for example, standards for financial instruments have raised various issues), limited support offered by the IASB for the first time adoption of IFRS, reduced experience with regard to

certain categories transaction (for example, pensions), the translation difficulties and satisfaction with national standards among investors and users of financial statements (about one fifth of the countries), the existence of underdeveloped domestic capital markets.

Jermakowicz and Górnik-Tomaszewski (2006) considers the complexity of IFRSs, the lack of guidance regarding their implementation and interpretation, "key challenges" in the process of convergence.

Epuran & Megan (2006) notes that most companies names the complex nature of each standard, in particular those concerning matters of financial instruments, or at fair value, this being the most important obstacle to achieving convergence. Another equally important obstacle is the strong relationship existing between accounting and taxation, manifested mainly in continental European countries, where one of the main objectives of accounting rules aimed the determination of taxable income. However, financial statements prepared in accordance with IFRS are mainly oriented to meet the information needs of capital markets, which differ significantly from those of tax authorities.

Zeff (2007) sets out three reasons that may affect international accounting convergence process: interpretation problems, language problems and terminology problems. Interpretation of IFRS standards represents an important step towards their effective implementation. If this is not done consistently, then the comparability of financial information cannot be ensured. Issues of language are determined by translating standards from English into other languages (for example, when the Fourth Directive was approved in 1978, the concept of true and fair view - specifically British accounting, although it was translated into various languages EU countries with equivalent expressions, could not be properly understood and applied only by British companies). It thus appears that the problem is not necessarily linked to the establishment of an equivalent term, but understanding and implementation of a specific concept from one culture to another accounting environment. The same thing can happen, at least for a time, for specific elements of IFRS, which are new concepts, or which address issues that have rarely or never appeared in many national cultures, though the words are translated into their national language. In addition, some terms may be defined or interpreted differently from country to country. For example, many discussions arose around the concept of probability, defined by the expression- more likely than not. Terms of probability or likely, occur many times in the IFRS standards, but it is unknown exactly where this represents 60%, 80% or 90%. Interpretation is done differently depending on how conservative the country makes.

The presence of many differences between countries, which also involves high costs for their disposal (Nobes & Parker, 2008), the existence of some very little developed capital markets (Larson and Street, 2004, Ding et al., 2007) and sustainability of local traditions (Burlaud & Colas, 2010), are difficulties very hard to overcome.

Cultural and political differences, and the way of doing business, can also continue to impose unique barriers in the financial communication system, because a single set of accounting standards cannot reflect differences in national business practices, which arise from differences in institutions and cultures (Armstrong et al., 2010).

To those cases that hinder the convergence process the political factor is also added, through his involvement in the process of adoption of IFRS standards. In this context can be cited the intervention of French President, who has publicly criticized the IAS 39 standard on financial instruments, which disadvantage the banking sector, even with damage to financial stability, resulting in rejection of a first phase of its implementation within the EU. Nobes & Parker (2008) states that, "the influence of

government can reduce the speed of change, of an accounting system in response to a growing capital market".

4. Effects of applying international financial reporting standards worldwide

Application of IFRS globally is one undeniable reality of our days. Most of the consequences of this process are reflected in financial reporting.

Analyzing the implementation of IFRSs in European companies, Jermakowicz and Gornik -Tomaszewski (2006) find that most respondents believe that changes in financial reporting, especially complex disclosure requirements should enhance comparability between listed companies, to improve the quality of financial information and financial transparency.

Horton et al. (2010) considers that two of the most common effects associated with the mandatory application of IFRSs are higher quality and more comparable information. The authors indicate that the effect of mandatory adoption of IFRSs on the quality of the information is questionable, if the financial reporting of the company does not change for achieving transparency. In terms of comparability, Zeff (2007) notes that, although there is a widespread opinion that the application of IFRSs has resulted in high growth global comparability, compared with the past when each country used its own national different standards, must "found a note of caution" because further progress in enhancing comparability may be difficult. The author considers the culture, which varies from one country to another, a factor that could prevent or interfere with the promotion of global comparability.

The problem of comparability has been much debated because of accounting standards may be implemented differently. The existence of differences in practice limits the comparability across countries and affects the credibility of IFRSs. Nobes and Parker (2008) warns that to the extent, that there are different versions of IFRSs implementation, and some implications arise, users should be aware that financial statements prepared in accordance with IFRSs in different countries or comparable companies may be less than expected, the SEC agreed to delay the recognition of financial statements applying IFRSs for U.S. listed companies, "Comparative International Accounting" still exists as a subject including the use of IFRSs. The authors consider that "national accounting traditions will likely continue to affect the financial reporting in the consolidated accounts, where there is room for them on the IFRS rules". Despite the spread of globalization, political and economic influences on financial reporting practices remain local (Ball, 2006).

Another category of studies have highlighted the economic consequences of mandatory adoption of IFRS: growth of volatility income, growth equity presented by the companies (Jermakowicz and Gornik-Tomaszewski, 2006, Soderstrom and Sun, 2007; Daskal et al., 2008, Callao Gastón et al., 2010).

Soderstrom and Sun (2007) considers that the adoption of international standards appears to reduce information asymmetry between managers and shareholders.

Ionaşcu et al. (2010) argues that, at least in theory, the application of IFRS accounting referential regarded as a high quality "should lead to increased transparency of financial information, reduce information asymmetry and risk, therefore, reduce the cost of capital".

Decrease the cost of capital is a controversial effect of applying IFRSs worldwide, meaning that some studies have shown that the transition from national to international standards has generated capital cost reduction (Jermakowicz and Gornik-Tomaszewski, 2006; Daskal et al., 2008), others have found that this change did not lead to lower cost of capital (Daskal, 2006, quoted by Ionaşcu et al., 2010) and some

have failed to establish a clear relationship between IFRS adoption and modification of the capital cost (Bruggerman and Homburg, cited by Ionaşcu et al., 2010).

Ball (2006) considers that the adoption of IFRSs in the world offers investors a variety of potential benefits, thus increasing comparability and reducing information costs and information risk, of course provided that the rules should be implemented consistently. "The implementation of IFRSs is the Achille's heel" of international norms. Because of the existence of different reasons, especially economic or political, it is expected that implementation of IFRS will be unequal in the world, including Europe. Significant international differences in financial reporting practices and financial reporting quality are inevitable. The main concern that arises from the widespread adoption of IFRS relates to the situation investors, who will be misled into believing that there is more uniformity in practice than in reality. Such a situation reduces the uneven benefits of adopting uniform standards that should benefit investors, such as reducing the cost of information and obtain information without risk.

Armstrong et al. (2010) examine the investors' reactions to IFRS adoption in Europe. The findings indicate that investors expect from IFRS implementation benefits consisting in increasing the quality of accounting information, reduce information asymmetry and therefore the cost of capital. It is indicated that these benefits may be lower in countries where the implementation of IFRS may be less rigorous. It remains to be seen in future research whether these expectations will be achieved.

There were also research that failed to find strong evidence to support the application of IFRS that improves the information provided by companies and believes that the benefits of capital market is limited or even not exist (Daskal et al., 2008) . Callao et al. (2010) concluded that the first application of IFRS has adversely affected the relevance of financial reporting in the two analyzed countries, Spain and Britain. In the study, the authors have identified that by adopting international standards, the objective of ensuring a useful financial reporting decisions, which involve reducing the difference between book value and the market, has not been reached.

Although the application of IFRS is not done without difficulty, involving in the short term, significant additional costs and the level of compliance is not expected, most studies indicate an improvement in the quality of accounting information from the period before adoption.

Conclusions

This study emphasizes that regardless of the nature of the obstacles which hamper the implementation process of IFRS, making international accounting convergence difficult, different ways must be found to remove them. This requires joint efforts of governments, securities regulators, standardization organizations, preparatory and users of tradable financial statements and the accounting profession.

The convergence process introduces several significant changes. IFRS implementation in a country where there are many differences between national and international standards should be achieved gradually, being prepared in advance and absorbed by users. Most countries have adopted IFRSs, first at a small number of enterprises (large enterprises listed on stock exchange), companies in need of an adjustment period.

Despite the obstacles, especially in countries with a tradition different from the one created by international standards, IFRSs implementation extends to more countries in the world, resulting in different consequences. The results of several studies have shown higher quality financial reporting, higher comparability and transparency of financial statements as advantages of the mandatory globally IFRS application. The limits are mainly related to costs and low level of conformity with international standards in various aspects highlighted by some research at a country or company.

In the context of accepting globalization as a current, active and long-lasting phenomenon, and which includes the entire planet, the question emerges: what are the implications of globalization in accounting plan? The answer to this question is clear and unanimous: the consequence of globalization in the field of accounting is the process of implementing international financial reporting standards worldwide.

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