

IFRS and Fair Representation in Banking and Insurance

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Abstract

International Financial Reporting Standards (IFRS) have existed since 2001 to enhance Transparency, Accountability, and Efficiency for financial markets all over the world. But while progress has been made concerning national GAAP (Generally Accepted Accounting Principles) before IFRS, it appears that the criteria of transparency were limited. In this study, the fair representation of IFRS is developed through the Transparency criteria. The results showed a rising relevance of the Fair Representation of the IFRS and the limits that mitigate it. New interrogations arose regarding the market effects of IFRS as well as access to the knowledge needed to analyze the information under IFRS.

Keywords

Bank, Insurance, IFRS, Financial Reports, Value Relevance, Diversity, Grey Areas

1. Introduction

In the contemporary business landscape, transparency has emerged as a paramount expectation. From political discourse to economic transactions, individuals increasingly demand clear and accessible information. The proliferation of digital technologies, particularly the internet, has amplified this trend. This study delves into the realm of International Financial Reporting Standards (IFRS) to investigate its transparency levels and its potential to provide a fair representation of financial information. We will explore the factors that have driven the pursuit of transparency in IFRS, the mechanisms that aim to ensure fair representation, and the potential challenges that may hinder these objectives.

Historically, accounting practices were deeply rooted in the specific legal and cultural contexts of individual countries, leading to a patchwork of national

Generally Accepted Accounting Principles (GAAPs). This diversity created disparities in financial reporting, making it difficult to compare and assess the performance of businesses operating across borders. To address these inconsistencies, a global effort emerged to develop a unified set of accounting standards. This culminated in the establishment of the International Accounting Standards Committee (IASC) in 1973, which later evolved into the International Accounting Standards Board (IASB) in 2001.

The European Union (EU) played a pivotal role in the adoption of IFRS, mandating its use for all listed companies within its jurisdiction starting in 2005. While IFRS adoption was not widespread before this point, early adopters, primarily based in Europe, were often motivated by the desire to access new markets and enhance their international credibility. However, the initial stages of IFRS adoption were met with some resistance, as many companies found their existing national accounting standards to be adequate for their needs.

The IASB operates through a structured governance framework, comprising the IFRS Foundation, the IFRS Interpretation Committee, and the IFRS Advisory Council (IFRS, 2018). These bodies work collaboratively to develop and issue new IFRS standards, ensuring that they align with evolving business practices and regulatory requirements. A key aspect of the IASB's process is the solicitation of public input through discussion papers and exposure drafts, which provide opportunities for stakeholders to comment on proposed standards.

While IFRS aims to provide a level playing field for financial reporting, the extent to which it achieves this goal remains a subject of debate. Some argue that IFRS can be manipulated by companies to present a more favorable financial picture. Christensen (2012) and Christensen et al. (2015) suggest that early adopters of IFRS were often motivated by strategic considerations, such as accessing new markets or improving their creditworthiness. And he observed that those adopters were predominantly European-based companies, and the overall adoption rate was low, suggesting that national accounting standards were perceived as sufficient for many businesses.

The IASB's standard-setting process involves a series of steps, including the publication of discussion papers and exposure drafts to solicit feedback from stakeholders. This consultative approach aims to ensure that IFRS reflect the needs and perspectives of the global business community. However, the influence of various stakeholders, including companies, regulators, and professional bodies, can also raise questions about the potential for bias or conflicts of interest.

Duverne & Le Douit (2007) highlight the role of companies in shaping the development of IFRS, particularly through their involvement in the consultation process and their ability to influence the interpretation of standards. The case of IFRS 14, which was significantly influenced by the European Insurance CFO forum, demonstrates the potential for industry-specific interests to shape the final form of standards.

Ozdemir (2018) further highlights the potential for strategic behavior in the context of risk management. IFRS 9, which introduced a new impairment model,

has shifted the focus from accounting-based to risk-based assessments. This allows companies to exercise some discretion in determining the level of expected credit losses (ECLs), potentially affecting their financial performance.

Given the potential for strategic behavior and the complexity of IFRS standards, this study seeks to answer the following research question: **To what extent do IFRS standards effectively balance the objectives of transparency and fair representation, and what factors may limit their ability to achieve these goals?**

2. Theoretical Framework

Balancing Transparency and Fair Representation under IFRS

The shift to International Financial Reporting Standards (IFRS) is a direct result of the disparities among national Generally Accepted Accounting Principles (GAAPs). Nobes & Parker (2008) and Gray (1988) have outlined these differences along two axes: transparency versus secrecy and conservatism versus optimism (implying risk-taking).

The decision to adopt a unified accounting system has created a new landscape for European and other global companies that have chosen to use IFRS. According to the IFRS Foundation, IFRS standards promote transparency, accountability, and efficiency. Coupled with their principle-based nature, these standards have positioned European accounting as highly transparent with a balanced conservatism-optimism approach.

The research of Ozdemir (2018) and Gordon et al. (2017) suggests that the level of transparency achieved through IFRS can be influenced by the degree of flexibility afforded to companies. This is particularly evident in the banking and insurance sectors, where IFRS principles are incomplete. To address this, countries, commissions, and professional alliances have established complementary safeguards, such as the Basel Accords for banks and the European Insurance CFO Forum for insurers.

The selection of the banking and insurance sectors as the focus of this thesis is closely tied to the evolving scope of IFRS. IFRS 9, introduced in 2018, generated significant debate and had a profound impact on the banking industry (Manganaris et al., 2016). Similarly, IFRS 17, the successor to IFRS 4 for insurers, has been the subject of much discussion, providing valuable insights into the industry.

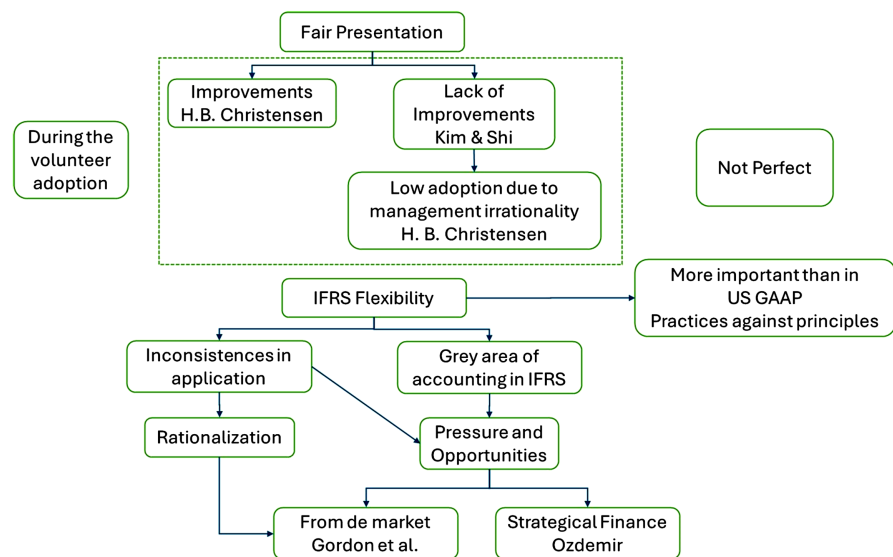
To examine the effects of IFRS on these sectors, the study period extends from the inception of IFRS in 2001 to 2018. This timeframe encompasses several key events that influenced both industries and IFRS:

- **Mandatory Adoption:** The mandatory adoption of IFRS by European countries in 2005 marked a significant shift in the accounting landscape.
- **Economic Crisis:** The global economic crisis of 2008 prompted companies and the International Accounting Standards Board (IASB) to re-evaluate IFRS standards, leading to changes in industry strategies and IFRS objectives.

The period prior to 2005 was characterized by voluntary early adoption, with limited participation. The mandatory adoption in 2005 provided a valuable

opportunity to assess the effects of IFRS. Furthermore, the economic crisis highlighted the need for adjustments to both industry practices and IFRS standards. By analyzing the period up to 2018, we can identify emerging trends, amendments to IFRS, and the ongoing impact of the crisis.

The crisis had a significant impact on the regulation of banks, particularly in relation to IFRS 9 (Manganaris et al., 2016). The standard's impairment provisions, implemented in 2018, were a direct response to the crisis. However, the effectiveness of other regulatory measures, such as Basel III, which focused on liquidity risks, remains a subject of inquiry. This leads to the **Figure 1** below:



Source: Authors.

Figure 1. Fair representation issues in IFRS in accordance to theoretical studies.

Figure 1 presents a compilation of key theories derived from theoretical papers and research conducted since the introduction of IFRS. The aim is to demonstrate that while IFRS generally promotes fairer financial reporting, it is not entirely transparent. In addition to the implementation challenges, another theory can be considered: the potential influence exerted on the drafting of IFRS standards may affect their specific outcomes and application, potentially favoring certain companies or parties.

3. Theoretical and Empirical Review

Early research on the extent of fair representation under IFRS focused on the characteristic of transparency, often comparing IFRS with national standards, particularly US GAAP. Studies by Kim & Shi (2012) and Gordon et al. (2017) generally concluded that IFRS would offer more benefits to companies than costs.

However, the practical application of IFRS during the pre-mandatory period revealed some challenges as presented by Christensen (2012) and Benetti et al. (2023). Christensen (2012) questioned the extent to which IFRS could truly deliver

transparency, exploring whether the low adoption rate was due to shareholder or management misunderstanding. While he did not identify specific reasons, he suggested that the costs associated with IFRS might have been underestimated and that certain national GAAPs offered comparable benefits in some areas. He also noted that some companies might have adopted IFRS early to access new markets, indicating additional motivations beyond transparency. His research implied that IFRS did not necessarily provide more transparency than existing accounting practices.

More recent studies (Gordon et al., 2017; Grant Thornton, 2012) have raised concerns about the flexibility afforded by IFRS, which can lead to both risky applications and non-applications of the standards. This can manifest in two ways:

- **Inconsistent Application:** Companies may engage in “cooking the books” by misapplying IFRS standards. Gordon et al. (2017) identified inconsistencies in the application of IAS 7, particularly regarding the classification of items in cash flows. Their research revealed that a significant number of companies, especially those in the services sector, were aggressively classifying interest received as a financing cash flow, potentially distorting their financial performance.
- **Creative Accounting:** Companies may adhere to the letter of the law while deviating from the spirit of accounting rules. This practice, known as “creative accounting,” can obscure the true financial picture.

These two situations differ in terms of their legality. The first, inconsistent application, is clearly outside the bounds of the law. The second, creative accounting, operates in the grey area between legal and illegal practices.

While aggressive accounting practices may not always result in immediate and severe consequences, they pose significant risks to both companies and shareholders. Such practices can erode transparency, making financial statements more difficult to understand. Companies with higher financial distress, leverage, equity issues, and lower profitability are particularly vulnerable to the negative effects of inconsistent accounting.

Investors’ judgments can be significantly impacted by these inconsistencies, especially when considering the close relationship between cash flows and performance measurement (Barton et al., 2010). Investors often analyze entities from an operational perspective to assess free cash flows. The accounting rules applied to a company influence the initial steps of this analysis and the calculation of profitability. Biased information about cash flows can lead investors to make incorrect investment decisions, potentially resulting in significant losses.

The financial crisis underscored the importance of transparency in financial reporting. Risk management has become a more prominent concern for companies seeking to maintain a positive image and comply with regulations. Ozdemir (2018) highlighted the growing importance of financial functions within companies, including the increasing number of CEOs with financial backgrounds (Savitz, 2019). New regulations have provided companies with more flexibility in

using models to manage their risks. However, the subjective nature of these models can create incentives for financial optimization, blurring the lines between legal and illegal practices.

Decision-makers are not merely passive followers of accounting rules but active interpreters. They have the discretion to choose models and can adapt their accounting practices to suit their company's situation and strategy without necessarily making mandatory changes to financial statements. This flexibility allows them to influence the company's results and align them with market expectations.

Inconsistent accounting practices can also lead to rationalization of wrong behaviors. Countries with higher levels of non-compliance tend to have more frequent changes in their accounting practices. These changes may be driven by efforts to optimize accounting or correct errors. Further analysis is needed to verify the specific reasons behind these changes. The combination of market pressure for results, the flexibility of IFRS, and the rationalization of non-compliance creates an environment where companies can more easily engage in fraudulent activities.

The subjective interpretation of IFRS standards is influenced by various factors. While the IASB plays a central role in developing IFRS, other parties, including companies, regulators, consultants, and auditors, can also exert influence. The dual roles of auditors as both auditors and consultants raise questions about their independence and potential influence. Influencing the drafting of IFRS standards can be a powerful way to shape the accounting landscape and create or expand gray areas. Various parties can participate in the process through exposure drafts and commentaries, advocating for specific exceptions or less stringent principles.

Industry-specific recommendations can also influence the development of IFRS. For example, IFRS 17, which was originally developed as IFRS 4, was heavily influenced by the recommendations of the Insurance CFO Forum (Duverne & Le Douit, 2007). While the IASB made some changes, the core principles proposed by the forum were largely retained.

The long development process for IFRS 17, which took over a decade, reflects the challenges and complexities involved in creating a new standard. The final version of IFRS 17 has generated tensions due to its flexibility, which allows for different accounting methods for similar transactions. This can reduce transparency within a sector, making it more difficult to compare financial information across companies.

4. Methodology

In this paper, we used an exploratory approach with a qualitative method. The database used come from 10 in depth interviews. The objective of this study related to the fair representation can be split over two axes: a) The accounting quality that refers to the Relevance of the financial information and the Faithful

representation by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. b) The transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions. These two axes are linked by the financial information as presented at the Conceptual framework of IFRS (IFRS, 2018).

The qualitative test is run using a semi-structured interview to allow more flexibility in the interview, promoting the comparative and cumulative analysis of the different information obtained. Another interest is that it would enrich the interview guide with emerging themes as the interview proceeds. The interviewees were selected related to their knowledge and background in IFRS and the industry that they belong, as Banks, Insurers, Research, Audit, Advisory, Regulatory entity, or Accounting entity.

The interviews were made either face-to-face, by call, or by Skype and their duration was between 30 minutes and 45 minutes. For confidentiality, the identities of the interviewees may not be disclosed in case of chosen anonymity following personal information and regulations over the GRPD. In this sense of data privacy, the discussions may not be recorded for transcription which may result in the loss of data. This loss of data will be limited by notes taken and transcription on the day of the interview. In this case, notes will solely be taken and proofread by the interviewee at his/her demand.

Regarding the coding of the interviews, it was done on excel considering the status of the interviewee (e.g.: he/she was giving a statement, an opinion...), the meaning of his/her message as to shorten the sentences and to take out the ideas and coding over the links in his message: separation of 2 aspects (Origins and Affects) with the link between both. A lexicometry analysis was applied. This was done to find patterns and relevant correlations between all the interviewees as well as to present the main trends in the opinions they had.

Four open questions were proposed to participants:

1) How do some companies look for grey areas in accounting while others are trying to avoid it? Possible necessity to define grey area as: Follow the letter of the law while deviating from the spirit of accounting rules (creative accounting).

2) Can you outline motives for non-application of IFRS while adoption has been made? E.g.: IAS 32 does not allow companies to amortise advertisement, but several does so while knowing they risk penalties.

3) The IFRS and regulation are made by the IASB and IFRS foundation, but companies do also have an interest in the standard setting. How may the company act to participate in the creation of the standard, and can its actions affect the standard setting process? Do you think other parties also have a meaningful role in this process?

4) In your opinion, is Transparency in IFRS sufficiently clearly set? Is there deficiencies that should be addressed and what could be the solutions to these axis if they do exist?

5. Result Analysis

The first question asked to participants was “How do some companies look for grey areas in accounting while others are trying to avoid it?” and it was also asked to them define the “grey area”. **Figure 2** presents the examples given by participants of grey areas. The grey areas presented a negative correlation to transparency but also act in correlation to secrecy, results and toward non-application of IFRS.

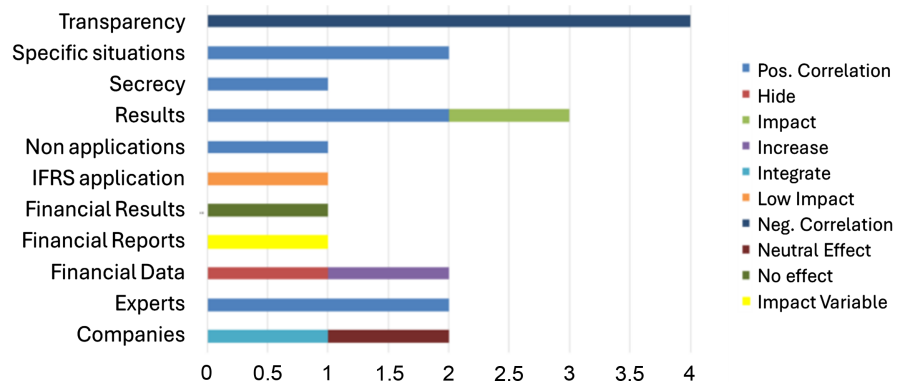


Figure 2. Analysis of relations based on the grey areas.

Few elements demonstrate a positive or neutral impact as clearly as the relationship between accounting practices and specific situations, as highlighted by a respondent: “In a healthier financial position, it’s advantageous to use accounting language effectively to pinpoint specific company details.” When we consider these grey areas therefore rather than a cause, we observe trends contributing to their creation:

- IFRS themselves: The standard’s inherent deficiencies can’t address all specific situations, leading to potential grey areas. Additionally, its interpretive nature can contribute to ambiguity.
- Companies: While not all companies may exploit grey areas, larger entities with greater resources and incentives are more likely to do so.
- Culture and Laws: National accounting practices, company behavior, and local penalties influence a company’s approach to accounting. These factors can push firms towards specific practices, as revealed by meta-analysis results.

Conversely, the low correlation between reputation risk and grey area usage suggests that companies may not fear aggressive accounting methods, indicating a diminished emphasis on morality. The second question asked was “Can you outline motives for non-application of IFRS while adoption has been made?”. The non-application of the standard is less impressive as shown in **Figure 3**.

The origins of non-compliance and non-application largely overlap with those of grey areas. However, the effects of non-application are less significant due to limited instances. The close relationship between grey areas and non-application stems from their similar nature (immoral) and the difficulty in distinguishing between them.

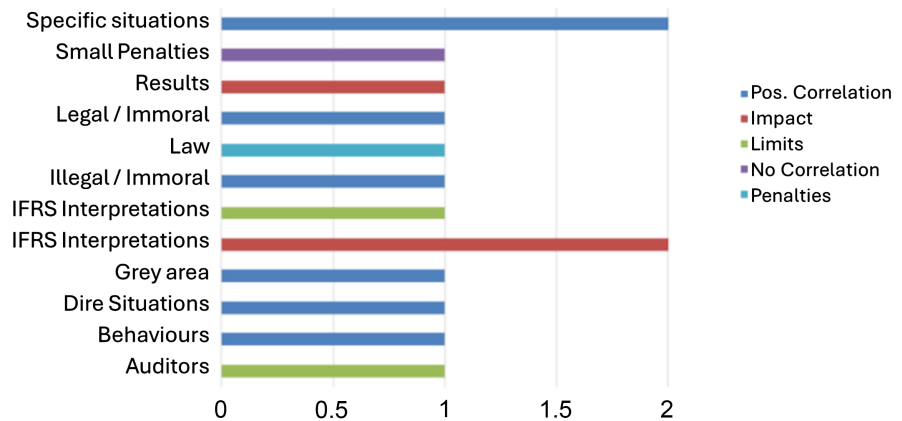


Figure 3. Analysis of relations based on the non-application of IFRS.

Both grey areas and non-application impact transparency in two ways:

- Reduced transparency: Immoral practices or optimization efforts can obscure financial information.
- Increased transparency: Companies might adopt practices that deviate from standards to provide a more accurate representation when those standards are unclear or inadequate.

When examining negative correlations and impacts related to transparency, companies initially appear less responsible for weakening transparency. However, a deeper analysis reveals that companies are directly involved in grey area practices. These practices can be used to maintain secrecy about strategic information or to navigate the complexities of IFRS, negatively affecting transparency.

Furthermore, the interviews consistently highlighted concerns about the clarity and accessibility of financial data. This issue aligns with the need for specialized knowledge to understand and utilize financial information. A lack of such knowledge can hinder end-users, IFRS interpretation, and application.

As a complement of question 2, **Figure 4** is presented. IFRS can yield positive returns when sufficient knowledge is acquired. However, if this knowledge is lacking, the opposite effect can occur, increasing risks to both transparency and the market itself. The relevance of the information may be misleading, potentially impacting individuals and end-users.

To what extent does transparency risk impact the market? And what factors can mitigate this risk? According to interviews, the market's susceptibility to transparency risks is considered low. Even if these risks were to reach end-users, the impact on them would likely be minimal. From **Figure 5**, the analysis also showed that IFRS is linked directly to risk as well as the Fair Value and the Results.

The findings emphasized the crucial role of risk reducers, such as risk managers, auditors, and consultants, in IFRS application. Interviewees indicated that these professionals actively promote compliance within companies.

However, this perspective partially contradicts *Ozdemir (2018)*'s study, which positioned risk management as a strategic function for achieving company objectives, including fair representation. Additional initiatives, like increased dialogue

between regulators and IFRS bodies, can enhance companies' risk reduction capabilities.

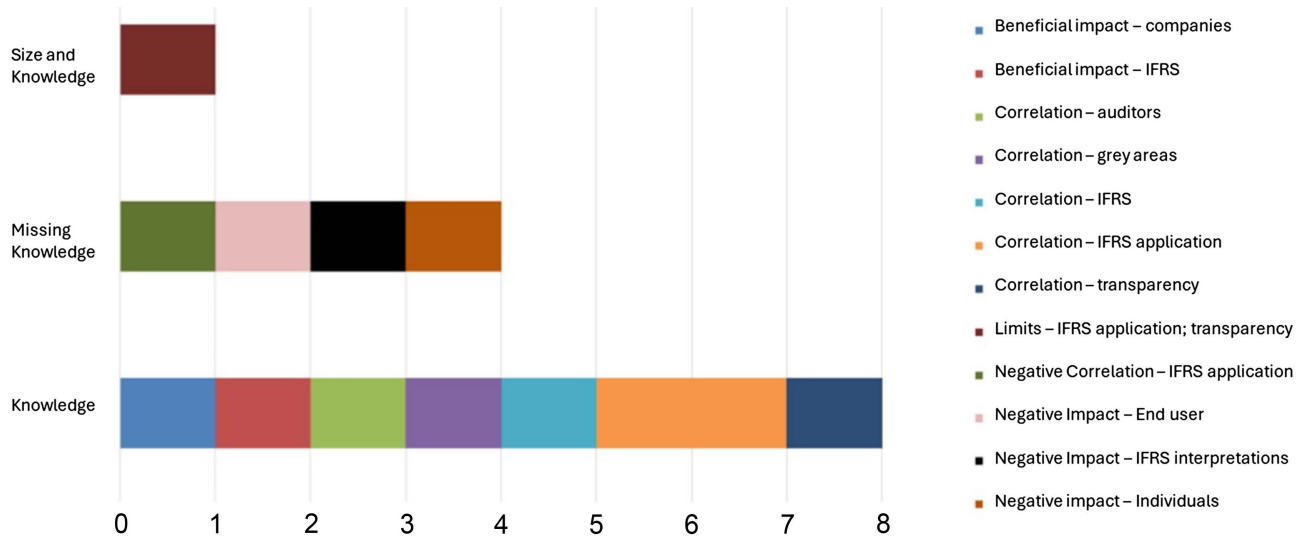


Figure 4. IFRS Knowledge analysis.

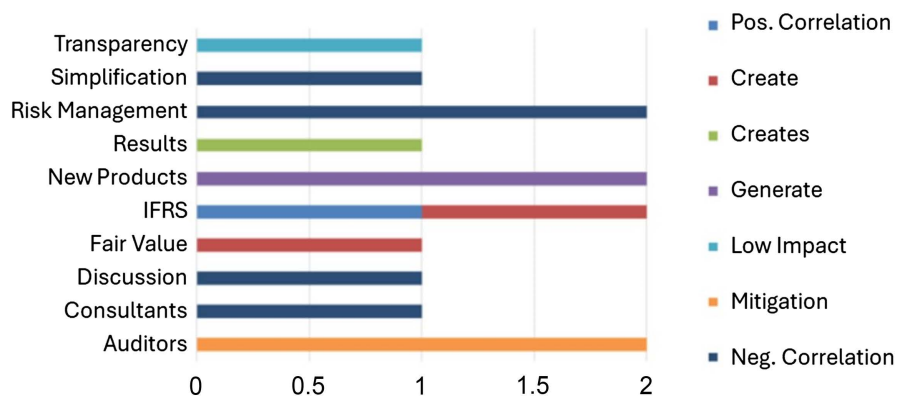


Figure 5. Risk generators and inhibitors.

Transparency, risks, and grey areas are interconnected with fair representation. Without proper enforcement, these risks and grey areas become more prevalent, diminishing the relevance of financial data.

Five interviewees identified several other issues, including the failure of IFRS interpretations to improve IFRS quality. These interpretations can lead to non-application and negatively impact transparency.

The cost of IFRS compliance was a common concern among interviewees, with many indicating that it was too significant for some large banks to fully adopt the standard or to limit themselves to minimal requirements, as noted by Interviewee 3. 'Banks and insurance companies are often considered compliant by meeting certain thresholds based on IFRS interpretations.' This suggests that IFRS application prioritizes interpretation over strict adherence, as also discussed by Manganaris et al. (2016).

However, given that companies applying IFRS often develop their own interpretations, the final interpretation (after consideration by auditors, regulators, and experts) may diverge from the original intent of the standards. This can explain the variations in IFRS application across countries.

Interpretations at all levels, from regional and national to local, can create global differences in application due to varying regulatory interpretations. Consequently, companies may prioritize compliance with their local regulators over IFRS itself, as evidenced by their frequent interactions with national regulators and reporting to these entities.

The interpretation of IFRS can be influenced by management decisions, according to some interviewees, but not all. A key issue is the role of incentives, and the individuals involved in preparing financial reports. Some believe that incentives aligned with business objectives can impact the final reports, while others argue that these objectives are irrelevant to those preparing the reports, suggesting a lack of motivation for creative accounting.

Despite differing opinions, the analysis indicates that the primary trend is the impact of incentives on financial reports. The total earnings were not directly linked to end-users but rather to financial reports, non-application/grey areas, incentives, and risk.

Regarding the risk-reward balance, respondents indicated that the pursuit of higher results to maintain competitiveness often leads companies to compromise on regulatory compliance to a certain extent. This limit is typically determined by risk management and adjusted during audits based on the number of high-risk items.

However, companies may still face penalties for non-compliance with IFRS, even while reporting under the standard. These penalties can have two primary impacts:

- **Monetary:** While monetary penalties can be significant, they are often not the primary deterrent for IFRS-reporting companies. Interviewee 8 observed that “sanctions are typically low or ineffective in motivating companies to improve their policies”.
- **Reputational:** Reputational damage is a more complex and significant concern for both companies and their auditors. Interviewee 1 noted that “a client’s ability to choose and change auditors can incentivize breaches or a more lenient approach to specific issues”. Interviewee 4 emphasized the importance of reputation, citing the Enron-EY case as evidence of its greater impact on financial information compared to regulations. This complex relationship and the associated reputational risk, rather than monetary penalties, significantly influence the risk-reward balance.

The pursuit of higher results can also limit auditors’ independence, compromising their ability to ensure high-quality financial information.

6. Discussion and Results

As noted by Benetti (2011) and Benetti and Thiery (2024), the cost of implementing

IFRS is significant. Our study reinforces this finding while also highlighting the potential benefits of IFRS adoption, such as increased relevance of earnings and reduced earnings management.

While interviewees acknowledged the increased expenses and complexities associated with IFRS reporting compared to national GAAPs, the preference for national GAAPs was not conclusive in our qualitative study. Respondents expressed varying opinions, with some favoring IFRS and others preferring national GAAPs. Cultural factors and the pursuit of international transparency emerged as key considerations.

Our analysis suggests that cultural influences persist even after IFRS adoption, impacting both mandatory and voluntary adopters. This suggests a cultural reluctance to fully embrace IFRS across all countries, rather than a strong preference for national GAAPs.

Respondents identified challenges in aligning IFRS with company strategies due to low convergence between countries and varying levels of relevance for each standard. While the impact may be limited, the prevalence of grey areas and interpretive flexibility highlight the importance of this issue.

IFRS can enhance market comparability, particularly for end-users, due to the increased relevance of financial information. The use of fair value, while both praised and criticized, generally contributes positively to market representation. However, the calculation of fair value can be complex, as illustrated by the example of leasing.

The impact of competitiveness on non-application is multifaceted. Our qualitative study revealed that competitiveness can be influenced by:

- IFRS interpretations: Companies may use interpretations to maintain secrecy and avoid disclosing best practices.
- Company size: Larger companies have greater resources to invest in specialized expertise and navigate IFRS complexities.

The idea that accessing different markets requires flawless compliance was not supported by our respondents. Mandatory adopters seeking new markets may still exhibit lower earnings relevance, although the variation is not substantial. Moreover, respondents acknowledged that reputational risks can outweigh the concerns of non-compliance.

While all interviewees recognized the importance of balancing risk and reward, the level of emphasis varied. Interpretations, risk management, and auditor involvement influence these decisions. However, banks and insurers generally prioritize compliance.

Financial distress can also impact non-application. An empirical study focusing on economically struggling companies could provide further insights. Analyzing auditor opinions and accounting changes can help identify correlations between financial distress and non-application.

Our findings underscore the significance of transparency criteria for companies operating under IFRS. While companies may attempt to limit transparency by concealing competitive advantages and implementing opaque practices, the

transparency demanded by IFRS can be challenging to achieve. This is where grey areas become particularly relevant.

Regarding the sufficiency of IFRS transparency for other institutions, our analysis is inconclusive due to differing interpretations of transparency itself. Some believe that IFRS is sufficiently transparent and high-quality, while others argue that it lacks transparency due to factors like excessive data and the need for specialized knowledge. The internationalization of IFRS has only partially improved transparency between countries, as respondents noted that the perception of relevance can vary across cultures.

7. Conclusion

The research conducted during this thesis has provided insights into the impact of IFRS on fair representation. While [Christensen \(2012\)](#) initial findings suggested limited improvements, our analysis reveals a more nuanced picture.

IFRS has indeed enhanced the relevance of financial information to end-users, improving fair representation compared to national GAAPs. Additionally, the increased comparability of information at an international level indicates greater transparency. However, cultural and legal factors continue to hinder full transparency, as companies often retain elements of their previous national GAAPs and regulators interpret standards differently. Furthermore, the varying financial penalties and tax regimes across jurisdictions impact companies' strategies. Kim and Shi's research supports these findings, acknowledging the progress made while highlighting the need for further improvements in fair representation.

Contrary to the notion of managerial irrationality, the trends observed following IFRS adoption suggest that companies were strategic in their decisions. Early adopters likely anticipated the advantages of voluntary adoption and the potential consequences of mandatory adoption. By delaying adoption, they may have sought to maintain greater earnings management flexibility. Moreover, the cost-effectiveness of IFRS was another factor influencing companies' decisions, as implementing IFRS required significant investments in accounting and reporting functions.

The flexibility of IFRS, a key theme in [Graphic 1](#), has both positive and negative implications for fair representation. On the positive side, flexibility allows companies to tailor their financial reporting to their specific circumstances, potentially enhancing transparency. However, it also creates gray areas that can be exploited for less desirable purposes.

While the non-application of IFRS can negatively impact fair representation, the consequences for companies are often limited. The potential for fines may deter some companies from engaging in aggressive accounting practices, but the risk-reward assessment can vary. Future research could delve deeper into these factors and their influence on companies' decisions.

Internal controls, including risk management and internal auditing, play a crucial role in mitigating the risks associated with non-compliance. However, the

independence of these functions can be compromised, particularly for internal auditors who report to company-controlled audit committees. External auditors, while expected to be independent, may also face limitations due to factors such as client relationships and the financial pressures of a competitive market.

The pursuit of reputation is a primary driver of corporate behavior, influencing their approach to accounting practices. The Enron scandal serves as a stark reminder of the consequences of reputational damage. Auditors, too, are motivated by reputational concerns, which can lead them to set limits on companies' interpretations of IFRS.

While IFRS has made progress in enhancing fair representation, several challenges remain. The complexity of IFRS standards, coupled with the ongoing issuance of new standards and amendments, can make it difficult for companies and analysts to understand and apply the standards correctly. This can hinder transparency and create additional risks.

The market itself also faces evolving risks, as highlighted by the 2008 financial crisis. The use of fair value accounting, a core component of IFRS, can be both beneficial and problematic. While fair value can provide a more market-based valuation, it can also create cyclical effects, as the value of assets becomes increasingly dependent on market perceptions.

In conclusion, while IFRS has contributed to improved fair representation and transparency, it has limitations. The flexibility of the standards, coupled with the potential for managerial discretion and external influences, can create challenges in achieving these objectives. Ongoing efforts to enhance the clarity, comprehensiveness, and effective application of IFRS are essential to address these issues and ensure that financial reporting continues to serve the needs of investors and other stakeholders.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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