

Chapter 1

The Need for Global Adoption of International Financial Reporting Standards: Post–Enron Consequences and the Restoration of Confidence to Capital Markets Following the 2008 Financial and Stock Market Crises

Marianne Ojo
George Mason University, USA

ABSTRACT

Many questions have been raised as to whether financial accounting has become more conservative. The value relevance and qualitative characteristics of accounting information have become topics of particular relevance given the role they have assumed in influencing the value judgment of investors in deciding whether or not to invest in a certain market. Given the quality of accounting information – which has resulted in misleading and inaccurate information, it became evident, particularly following Enron’s collapse, to adopt improved, enhanced, better quality standards: namely, International Financial Reporting Standards. This chapter considers the background culminating in the adoption of IFRS – as well as the need for the adop-

DOI: 10.4018/978-1-5225-1900-3.ch001

The Need for Global Adoption of International Financial Reporting Standards

tion of IFRS. It also highlights why the value relevance of accounting information is also of vital significance in certain emerging economies and why the successful implementation of IFRS in these jurisdictions may be crucial in restoring investor confidence – particularly in the aftermath of stock market crashes in these economies.

INTRODUCTION

Post Enron consequences such as the introduction of various legislation – most notable of which is the Sarbanes Oxley Act, as well as the need for embracing International Financial Reporting Standards (IFRS), have certainly had immense impact, not only within the United States, but also globally.

Part of the problems attributed to Enron's collapse is considered to have originated from the use of off balance sheet instruments. One consequence of the global adoption and implementation of IFRS will be the operation of larger balance sheets since a lot of financial instruments which had not previously been accounted for on the face of the balance sheet, will now be brought under the scope of the balance sheet.

IAS 32 and IAS 39 address off-balance sheet instruments. Off balance sheet instruments created problems in the Parmalat and Enron cases as they were not reflected in the balance sheet – even though sizes could have been as large as two to three times global GDP. The standards bring the financial instruments under the balance sheet. One of the biggest challenges facing the IASB constitutes reconciling IAS 32 and 39 globally – with the US in particular. Other debates relating to IAS 32 and 39 include the distinction between debt and equity as this distinction does not exist in the markets. Bond converts to equity under certain circumstances and vice versa. Under IAS 32 what you could call equity may not be permitted under banking regulation.

There are currently four standards in issue by the International Accounting Standards Board (IASB), which relate to financial instruments. These are: IAS 32¹ financial instruments: presentation; IAS 39 financial instruments: recognition and measurement; IFRS 7 financial instruments: disclosures, and IFRS 9 financial instruments.

As well as being a replacement for IAS 39, IFRS 9 will not be mandatory until 2015 (although early application is permitted).”²

IAS 32 deals with all types of financial instruments, both recognized and unrecognized and should be applied to contracts to buy or sell a non-financial item that can be settled net

- In cash,
- By another financial instrument, or

8 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/the-need-for-global-adoption-of-international-financial-reporting-standards/173094

Related Content

Dividend Policy and Smoothing Behavior of the Southeast Asian Countries Including Japan

Faisal Khan (2020). *International Journal of Corporate Finance and Accounting* (pp. 62-82).

www.irma-international.org/article/dividend-policy-and-smoothing-behavior-of-the-southeast-asian-countries-including-japan/258728

Tourism Demand Forecasting Based on a Neuro-Fuzzy Model

George Atsalakis, Eleni Chnargiannakiand Consantinos Zopounidis (2014). *International Journal of Corporate Finance and Accounting* (pp. 60-69).

www.irma-international.org/article/tourism-demand-forecasting-based-on-a-neuro-fuzzy-model/107005

Emerging Auditing Perspectives in the Age of the Fourth Industrial Revolution

Mahmut Sami Ozturk (2019). *Organizational Auditing and Assurance in the Digital Age* (pp. 172-187).

www.irma-international.org/chapter/emerging-auditing-perspectives-in-the-age-of-the-fourth-industrial-revolution/222625

The Robustness of Portfolio Optimization Models: An Empirical Comparative Analysis

Antonis Pavlou, Michalis Doumposand Constantin Zopounidis (2018). *Perspectives, Trends, and Applications in Corporate Finance and Accounting* (pp. 210-229).

www.irma-international.org/chapter/the-robustness-of-portfolio-optimization-models/207124

Islamic Banking in North Africa: Emergence, Growth, and Prospects

Yomna Daoudand Aida Kammoun (2020). *Growth and Emerging Prospects of International Islamic Banking* (pp. 78-98).

www.irma-international.org/chapter/islamic-banking-in-north-africa/249033