



The Effect of International Financial Reporting Standards (IFRS) Adoption on Financial Transparency

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Abstract

The adoption of International Financial Reporting Standards (IFRS) has become an important milestone in the process of improving the comparability and transparency of worldwide financial transactions. Evaluating the influence that the adoption of IFRS has had on the quality and reliability of financial reporting, as well as the effect that it has had on the financial transparency across various areas. The study investigates how the standardisation of financial reporting might improve the uniformity, accuracy, and comprehensibility of financial statements. This is accomplished by analysing the experiences of nations that have implemented the International Financial Reporting Standards (IFRS). Concerns pertaining to training, legal frameworks, and the cultural acceptance of new financial reporting procedures are among the challenges and benefits associated with the move from local accounting standards to International Financial Reporting Standards (IFRS). In this study, the influence of International Financial Reporting Standards (IFRS) on investor confidence, corporate governance, and market efficiency is evaluated through the use of case studies from both developed and emerging markets. The findings indicate that although the implementation of IFRS results in a significant improvement in financial transparency, the effectiveness of this improvement is contingent on a number of conditions, including the degree of market maturity and the robustness of enforcement mechanisms. In order to maximise the potential of the International Financial Reporting Standards (IFRS) to promote financial openness and global market integration, policy ideas are being offered to improve the implementation of IFRS, particularly in emerging economies.

Keywords: Financial Transparency, Financial Reporting, Global Standardization, Accounting Practices, Investor Confidence

Introduction

In a global economy that is becoming more interconnected, financial transparency is an essential component for efficient business operations, decisions about investments, and regulatory monitoring. International Financial Reporting Standards (IFRS) have arisen as a global solution to solve the issues of uneven and fragmented financial reporting procedures across different countries. These practices might be found in a number of different countries.

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Standardising financial reporting is the goal of the International Financial Reporting Standards (IFRS), which provides a framework that is generally acknowledged and assures transparency, comparability, and accountability in financial disclosures. In the past few decades, there has been considerable support for the adoption of International Financial Reporting Standards (IFRS). As a result, numerous countries all over the world have transitioned from their local accounting standards to IFRS. Therefore, this move is considered to be an important step towards aligning financial reporting methods with international regulations, which will ultimately allow for improved comparability of financial statements across international borders. The International Financial Reporting Standards (IFRS) offer a consistent set of rules that companies that operate in numerous countries can use to decrease the complexity that is involved with dealing with different local standards. Additionally, it is anticipated that the adoption of IFRS will promote investor trust by providing financial data that is more dependable and comparable. This, in turn, can improve corporate governance and market efficiency. With that being said, the transition to IFRS is not without its difficulties. The adoption of International Financial Reporting Standards (IFRS) has been making substantial progress in established economies, while emerging markets frequently confront challenges linked to the implementation of these standards. A shortage of experienced professionals, weak regulatory frameworks, and opposition to change within domestic financial reporting systems are some of the issues that are now being faced. In spite of these obstacles, the potential advantages of adopting IFRS are widely acknowledged. These advantages include increased market liquidity, higher investor protection, and improved financial transparency. The impact that the adoption of IFRS has had on the transparency of financial transactions, with a particular emphasis on the ways in which it affects the quality and dependability of financial reporting across different countries. The purpose of this study is to determine the extent to which the International Financial Reporting Standards (IFRS) promote financial transparency and foster more trust in financial markets by analysing the experiences of nations that have utilised these standards. In addition to the difficulties that are related with the transition to IFRS, there are also broader consequences for the integration of global financial activities.

The Impact of IFRS Adoption on Financial Transparency

In particular, the implementation of International Financial Reporting Standards (IFRS) has had a significant impact on the transparency of financial reporting. This is especially true in terms of improving the comparability, reliability, and accuracy of financial statements across a variety of countries. In order to establish a fair playing field for businesses and investors alike, the International Financial Reporting Standards (IFRS) intends to replace a patchwork of national accounting standards with a single set of principles. Below are the primary ways in which the implementation of IFRS has helped to increased financial transparency in international financial markets.

1. Improved Consistency and Comparability of Financial Statements

Adopting the International Financial Reporting Standards (IFRS) has a number of major goals, one of which is to guarantee that financial statements are comparable and consistent across



international borders. Because of the usage of several national accounting standards, financial reporting was notably variable from country to country prior to the broad application of the International Financial Reporting Standards (IFRS). Because of this lack of consistency, it was difficult for investors, regulators, and analysts to compare the financial performance of companies that were operating in multiple jurisdictions. Through the use of IFRS, financial reporting is standardised, which makes it simpler for consumers of financial statements to compare the financial data of companies located all over the world.

For instance, the International Financial Reporting Standards (IFRS) mandate that businesses report essential financial information in a manner that is user-friendly and easy to comprehend for all stakeholders. Users of financial statements are able to make educated judgements based on comparable financial data because of the universal application of IFRS standards. These principles include the treatment of revenue recognition, lease accounting, and financial instruments, among others.

2. Enhancing Disclosure Quality and Accuracy

The International Financial Reporting Standards (IFRS) have not only helped to improve comparability, but they have also increased the quality and accuracy of financial disclosures. By mandating that businesses give comprehensive disclosures concerning their financial condition, performance, and risk exposures, the International Financial Reporting Standards (IFRS) highlight the significance of openness in the reporting of financial information. It is essential for investors and other stakeholders to have access to more comprehensive information on off-balance-sheet arrangements, related party transactions, and potential liabilities in order for them to make decisions that are based on accurate information.

For example, the International Financial Reporting Standards (IFRS) emphasis on fair value accounting has resulted in an increase in the transparency of asset and liability assessments. Fair value accounting is a method that corporations are obligated to employ for certain financial instruments and other assets in accordance with IFRS. This method takes into consideration the current market worth of the assets rather than their past price. A more realistic depiction of a company's financial position is provided as a result of this transition, which also reduces the likelihood of assets and liabilities being undervalued or overstated.

3. Building Investor Confidence

In addition, the implementation of IFRS has been a significant factor in the development of investor confidence. By standardising the procedures of financial reporting, the International Financial Reporting Standards (IFRS) ensures that investors have access to financial data that is of high quality, comparable, and dependable. This is vital for making decisions regarding investments. The information asymmetry that occurs when investors have less information than corporate management is reduced as a result of the openness that is offered by IFRS, which ultimately leads to an improvement in market efficiency.

For instance, international investors are more inclined to put their money into businesses that comply to International Financial Reporting Standards (IFRS) since this decreases the possibility of incorrectly interpreting financial statements and raises the level of trust in the financial information that is presented. Additionally, it has been demonstrated that the use of



IFRS can improve the credibility of financial statements. This is especially true in emerging economies, where conventional methods of financial reporting were frequently regarded as being opaque or inaccurate. As a consequence of this, businesses that implement IFRS are more likely to garner a greater amount of investment and to reach higher valuations in the market.

4. Improved Corporate Governance

The adoption of International Financial Reporting Standards (IFRS) has several important repercussions for corporate governance, notably in terms of promoting more responsibility and supervision. Boards of directors, auditors, and regulators are able to more efficiently monitor and analyse the financial performance of a firm when there is greater financial transparency, which is strengthened by the International Financial Reporting Standards (IFRS). This helps to guarantee that management is held accountable for its activities and that shareholders and other stakeholders are well informed. The International Financial Reporting Standards (IFRS) provide financial reporting that is both clear and uniform.

By making it more difficult for businesses to engage in creative accounting techniques, the International Financial Reporting Standards (IFRS) have also been found to minimise the number of instances of financial fraud and manipulation. With regard to revenue recognition and the reporting of contingent liabilities, for instance, the more stringent standards that have been implemented have reduced the number of opportunities for financial misreporting. As a consequence of this, the adoption of IFRS is frequently linked to enhancements in corporate governance norms, particularly in areas where governance procedures were previously lacking.

5. Challenges and Limitations of IFRS in Enhancing Financial Transparency

The implementation of IFRS has not been without its difficulties, despite the fact that it has proven beneficial. The move from local accounting standards to International Financial Reporting Standards (IFRS) has proven difficult and resource-intensive in many instances. For instance, in order to guarantee compliance with International Financial Reporting requirements (IFRS), businesses frequently have to make investments in training and system upgrades. This is especially true in nations where the local accounting requirements are significantly different from IFRS. Furthermore, the efficacy of IFRS in promoting financial openness is strongly dependent on the strength of the mechanisms that are used to enforce the standards. There is a possibility that the full benefits of adopting IFRS will not be realised in markets that have inadequate regulatory monitoring or limited resources. This phenomenon might result in anomalies in financial reporting and transparency.

Concerns have been expressed in certain instances, despite the fact that the International Financial Reporting Standards (IFRS) have made financial reporting more transparent. Certain IFRS standards, particularly those that pertain to fair value accounting, have been criticised for their potential to be subjective and to cause volatility in financial statements, according to critics. When it comes to industries that experience considerable variations in asset values, such as the banking or real estate sectors, this presents a particularly difficult challenge. There is a possibility that the utilisation of fair value accounting could result in disparities between the values that are reported and the actual market values, particularly during times of economic unpredictability.

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Conclusion

The implementation of International Financial Reporting Standards (IFRS) has resulted in a significant and profound change in the level of financial transparency that exists all over the world. The International Financial Reporting Standards (IFRS) have made it possible for investors, regulators, and other stakeholders to make better decisions by facilitating improved consistency, comparability, and dependability of financial statements made possible by the standardisation of financial reporting. Not only has the transition towards a single accounting system improved the quality of financial disclosures, but it has also helped to cultivate a stronger level of trust in the financial markets, which has eventually led to an increase in investor confidence and participation. There have been considerable benefits brought about as a result of the broad implementation of IFRS. These benefits include the improvement of the accuracy of financial reporting, the enhancement of corporate governance, and the promotion of market efficiency. The International Financial Reporting Standards (IFRS) allow businesses to publish more transparent financial data, which makes it simpler for customers to compare the financial performance of different countries and industries. Furthermore, the emphasis placed on transparency and disclosure has had a good impact on corporate governance procedures. This has helped to guarantee that corporations are held accountable for their financial actions and has reduced the likelihood of fraud and manipulation occurring. Nevertheless, in spite of these achievements, the shift to IFRS has not been without its share of difficulties. The process can be challenging, particularly in emerging markets, because to the complexity of applying International Financial Reporting Standards (IFRS) in countries that have different accounting traditions, as well as the requirement for extensive training and regulatory adaptations. A further point to consider is that although the implementation of IFRS has resulted in an increase in financial transparency in a number of regions, the efficacy of these standards is still dependent on robust enforcement mechanisms and the scrutiny of local regulatory authorities. There is a possibility that the full potential of IFRS to contribute to increased transparency will not be completely realised in markets where enforcement is poor. In conclusion, International Financial Reporting Standards (IFRS) have been instrumental in enhancing financial transparency on a worldwide scale; yet, the usefulness of IFRS is contingent upon the quality of its implementation and enforcement. Going forward, it will be vital to have continuing assistance from governments, regulators, and organisations in terms of resources, training, and enforcement in order to make the most of the benefits that come with the implementation of IFRS. The International Financial Reporting Standards (IFRS) will continue to be an essential instrument for fostering openness, accountability, and global financial integration within the financial markets.

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