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Convergence Without Comparability: Challenges of Implementing IFRS in Emerging Markets

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Abstract

The International Financial Reporting Standards (IFRS) have become the de facto global language of corporate financial reporting, with the IFRS Foundation reporting complete jurisdictional profiles for 169 jurisdictions as of 2025, the majority of which mandate the Standards for domestic publicly accountable entities. Yet the transplantation of IFRS into emerging markets has produced outcomes markedly different from those observed in the developed-market contexts in which the Standards were substantially developed. This paper argues that IFRS implementation in emerging economies is best understood not as a binary adoption event but as a continuum of convergence strategies—ranging from full adoption (South Africa, Nigeria, Brazil) to selective convergence (India's Ind AS, China's Accounting Standards for Business Enterprises)—shaped by institutional capacity, enforcement infrastructure, and the fair-value orientation of the Standards themselves. Using World Bank Reports on the Observance of Standards and Codes (ROSC), IFRS Foundation jurisdictional data, and the comparative accounting literature, the paper identifies four recurring implementation challenges: inadequate valuation and audit infrastructure for fair-value measurement, weak enforcement and monitoring mechanisms, the high cost of professional retraining, and tension between IFRS's principles-based approach and the rules-based regulatory traditions common in many emerging economies. A research gap is identified: much of the adoption literature measures formal (de jure) adoption without adequately assessing de facto compliance quality, leaving the practical implementation gap in emerging markets under-theorized. The paper's critical evaluation weighs harmonization benefits against these implementation costs and concludes that convergence, rather than full adoption, may represent a more institutionally realistic pathway for many emerging economies, provided it is paired with sustained investment in audit oversight and valuation capacity.

Keywords

IFRS adoption; emerging markets; financial reporting harmonization; fair value accounting; Ind AS; enforcement infrastructure; comparative accounting; institutional theory

1. Introduction

The globalization of capital markets has intensified pressure on national accounting systems to converge toward a single reporting language. The International Accounting Standards Board (IASB), operating under the IFRS Foundation, has positioned IFRS as that language, and formal adoption has proceeded at a scale with few parallels in international economic regulation: complete jurisdictional profiles now exist for 169 jurisdictions, with mandatory IFRS use for domestic publicly accountable entities the norm across most regions surveyed. However, the accounting literature has increasingly distinguished between de jure adoption—the formal legal requirement to apply IFRS—and de facto compliance, the extent to which financial statements genuinely reflect the measurement and disclosure principles the Standards intend. This distinction is especially consequential in emerging markets, where the institutional infrastructure IFRS implicitly assumes—deep capital markets, independent audit oversight, active valuation professions—is frequently underdeveloped relative to the jurisdictions in which the Standards originated. This paper examines the structural and institutional challenges that generate the gap between formal and substantive IFRS compliance in emerging economies, using India, China, Brazil, Nigeria, and South Africa as illustrative comparative cases.

2. Research Objectives and Research Questions

2.1 Objectives

1. To map the range of IFRS adoption strategies pursued by major emerging markets.
2. To identify the institutional preconditions IFRS implicitly assumes and assess their availability in emerging-market contexts.
3. To analyze the specific technical and enforcement challenges of implementing fair-value-oriented, principles-based standards in these contexts.
4. To evaluate whether full adoption or selective convergence is the more institutionally realistic strategy.
5. To propose policy measures to narrow the de jure–de facto compliance gap.

2.2 Research Questions

- RQ1: What institutional factors explain divergence in emerging markets' IFRS adoption strategies (full adoption versus convergence)?
- RQ2: What specific implementation challenges arise from IFRS's fair-value and principles-based orientation in these contexts?
- RQ3: To what extent does formal adoption correspond to substantive compliance quality?
- RQ4: What regulatory and capacity-building measures could narrow the implementation gap?

3. Literature Review and Research Gaps

Zeghal and Mhedhbi (2006) provided one of the foundational empirical analyses of the factors influencing developing countries' decisions to adopt international accounting standards, finding that the presence of an active equity market and a common-law legal tradition were significant predictors of adoption. Ball (2006) offered an early and influential assessment of IFRS's costs and benefits for investors, cautioning that formal adoption of high-quality standards is not sufficient to produce high-quality reporting where enforcement institutions are weak—a caution that subsequent emerging-market experience has substantially corroborated. Zeff (2012) traced the institutional evolution of the IASB itself, documenting the standard-setting body's own recognition that global consistency in application, not merely adoption, would be the harder achievement.

The World Bank's Reports on the Observance of Standards and Codes (ROSC) program has produced country-level assessments of accounting and auditing practice in numerous emerging markets, frequently identifying gaps between adopted standards and enforcement capacity, including limited audit oversight infrastructure and shortages of professionals trained in fair-value measurement techniques.

Research gap: The dominant strand of adoption literature (exemplified by Zeghal & Mhedhbi, 2006, and subsequent large-sample cross-country studies) measures adoption as a binary or categorical de jure variable, correlating it with macroeconomic and legal-origin predictors. This approach is analytically useful for explaining why countries adopt but offers limited insight into how adoption unfolds in practice—that is, whether financial statements produced under a nominal IFRS regime achieve the comparability and reliability the Standards are designed to produce. This paper addresses that gap by examining the specific technical and institutional mechanisms that separate formal adoption from substantive compliance.

4. Research Methodology

This paper adopts a comparative case-study methodology, drawing on IFRS Foundation jurisdictional profile data, World Bank ROSC country assessments, and the peer-reviewed comparative accounting literature. Five emerging markets—India, China, Brazil, Nigeria, and South Africa—were selected to represent variation in adoption strategy (full adoption versus convergence), geographic region, and legal tradition. The analysis is qualitative and document-based rather than a primary statistical study; where regional adoption statistics are cited, they are drawn directly from IFRS Foundation published data, and any figures calculated by the author from that underlying data are explicitly identified as such.

5. Detailed Analysis

5.1 The Global Adoption Landscape

As of 2025, the IFRS Foundation reports complete jurisdictional profiles for 169 jurisdictions worldwide. Regional mandate rates for domestic publicly accountable entities vary meaningfully: Europe (43 of 44 jurisdictions, 98%) and the Middle East (12 of 13, 92%) show the highest mandate rates, followed by Africa (37 of 40, 92.5%), Asia and Oceania (28 of 35, 80%), and the

Americas (27 of 37, 73%). These regional differences are consequential because Africa's high formal mandate rate coexists with some of the weakest enforcement infrastructure among the regions surveyed, reinforcing the paper's central claim that formal mandate rates alone are a poor proxy for implementation quality.

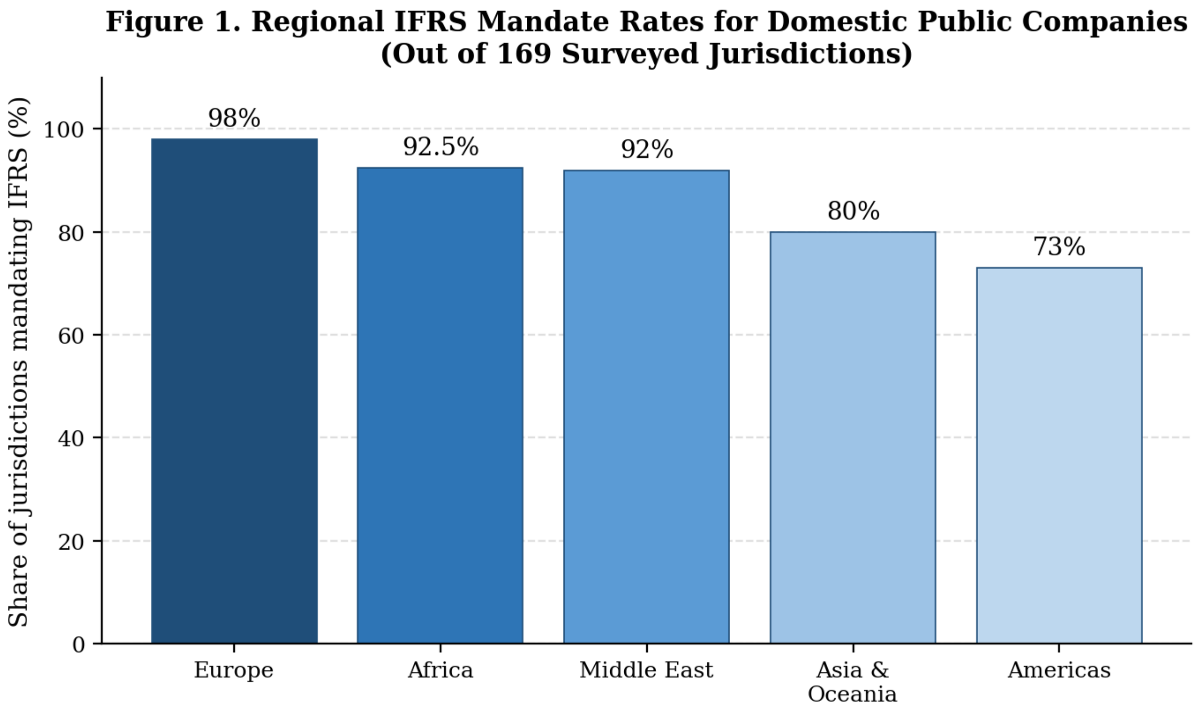

Figure 1. Regional IFRS mandate rates for domestic public companies (169 surveyed jurisdictions). Source: Author's calculation from IFRS Foundation jurisdictional profile data (IFRS Foundation, 2025).

The trajectory of adoption over the past two decades shows sustained growth in mandate rates, from 84% of 150 surveyed jurisdictions in 2017 to an estimated 87% of 169 jurisdictions in 2025 (author's calculation from IFRS Foundation regional data), following the European Union's foundational 2002 regulation mandating IFRS for listed company consolidated accounts.

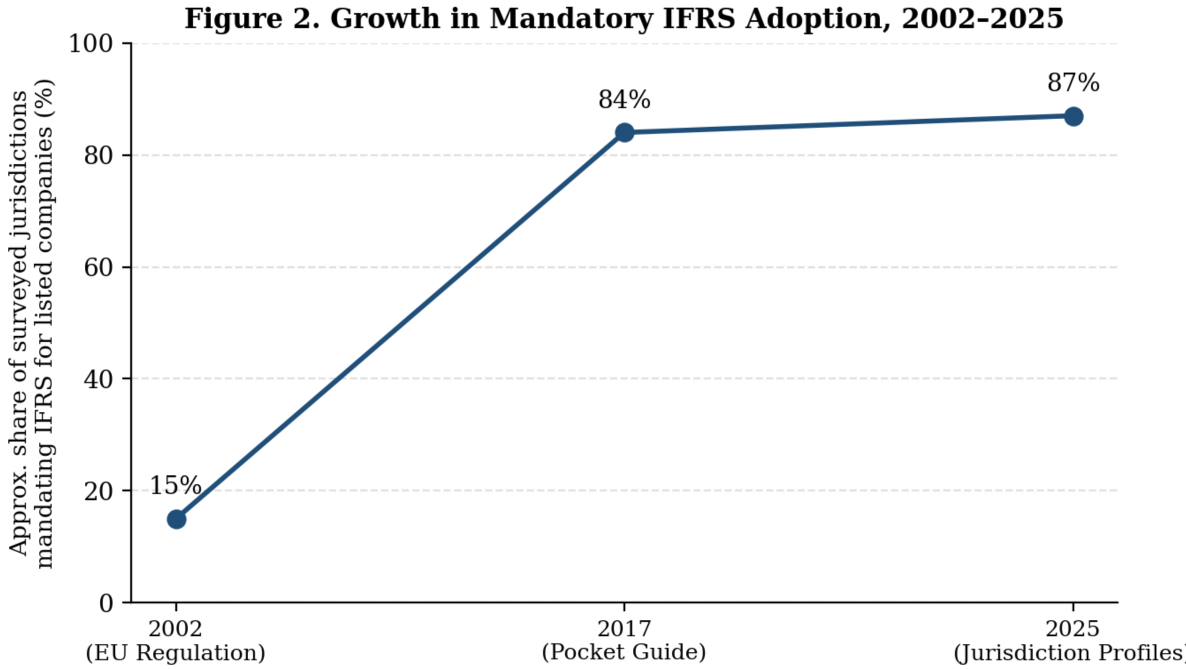

Figure 2. Growth in mandatory IFRS adoption, 2002–2025 (approximate). Source: IFRS Foundation Pocket Guide to IFRS Standards (2017) and IFRS Foundation jurisdictional profiles (2025); 2002 figure reflects EU Regulation (EC) No 1606/2002 coverage relative to the current 169-jurisdiction survey population.

5.2 Adoption Strategies Among Major Emerging Markets

Emerging markets have not adopted IFRS uniformly; rather, they have pursued strategies ranging from full adoption to selective convergence, reflecting differing assessments of domestic institutional readiness and sovereignty concerns over standard-setting authority.

Country	Adoption Model	Effective From	Key Regulatory Instrument
India	Convergence (Ind AS)	FY 2016–17 (phased)	Companies (Indian Accounting Standards) Rules, 2015
China	Substantial convergence (ASBE)	2007 (ongoing)	Accounting Standards for Business Enterprises, MOF
Brazil	Full adoption (consolidated FS)	2010	Law 11.638/2007; CPC standards
Nigeria	Full adoption	2012 (listed/PIEs)	Financial Reporting Council of Nigeria Act, 2011

South Africa	Full adoption	2005 (JSE-listed)	JSE Listings Requirements

Table 1. IFRS adoption models in selected emerging markets.

South Africa and Nigeria illustrate full adoption: South African JSE-listed companies have applied IFRS since 2005, while Nigeria mandated IFRS for listed and other public-interest entities from 2012 under the Financial Reporting Council of Nigeria Act, 2011, following a formal roadmap issued in 2010. Brazil similarly moved to full IFRS adoption for consolidated financial statements from 2010, implemented through Comitê de Pronunciamentos Contábeis (CPC)-issued standards under Law 11.638/2007. India and China, by contrast, illustrate convergence rather than full adoption: India's Ind AS, mandated in phases from FY 2016–17 under the Companies (Indian Accounting Standards) Rules, 2015, are substantially but not identically aligned with IFRS, retaining specific carve-outs; China's Accounting Standards for Business Enterprises (ASBE), in place since 2007, likewise achieve substantial but incomplete convergence with IFRS, reflecting the Ministry of Finance's continued retention of standard-setting authority.

5.3 Core Implementation Challenges

Four recurring challenges emerge across the comparative cases. First, IFRS's extensive reliance on fair-value measurement (for example, under IFRS 9 for financial instruments and IFRS 13 for fair value measurement generally) presupposes active, liquid markets or sufficiently developed valuation expertise to generate reliable Level 2 and Level 3 fair-value estimates; in emerging markets with shallow capital markets, this assumption frequently fails, producing fair-value estimates of questionable reliability. Second, enforcement infrastructure—independent audit oversight bodies, securities regulators with the capacity to review financial statements for compliance—remains underdeveloped in several jurisdictions, a gap World Bank ROSC assessments have repeatedly documented across multiple emerging economies. Third, the transition imposes substantial retraining costs on the accounting and audit profession, as practitioners accustomed to rules-based domestic standards must develop the professional judgment IFRS's principles-based approach demands. Fourth, this rules-based-to-principles-based transition itself creates interpretive uncertainty: principles-based standards depend on a mature professional and judicial infrastructure capable of adjudicating good-faith interpretive disputes, an infrastructure that took decades to mature in the jurisdictions where IFRS's conceptual approach originated.

6. Critical Evaluation and Counterarguments

Proponents of full and rapid IFRS adoption argue that harmonization benefits—lower cost of capital, improved cross-border comparability, greater foreign investor confidence—are maximized precisely when adoption is complete rather than partial, and that convergence strategies risk creating a false impression of comparability while preserving substantive divergence. This argument has empirical support: studies in the IFRS-adoption literature have associated full adoption with capital-market benefits in some contexts, particularly where complementary enforcement reforms accompanied adoption.

However, this position understates the risk that premature full adoption, absent adequate enforcement and valuation infrastructure, may produce nominal compliance without genuine comparability—arguably a worse outcome than transparent convergence, because it creates a false signal of reporting quality to investors who reasonably assume IFRS-labeled statements meet a consistent global standard. India's calibrated, phased convergence strategy, which preserved limited carve-outs while building institutional capacity, may therefore represent a more institutionally honest strategy than jurisdictions that adopted IFRS formally without commensurate enforcement investment. The strongest version of the full-adoption argument applies where capital-market integration is an urgent policy priority; the strongest version of the convergence argument applies where institutional capacity-building has not yet caught up with formal legal commitment.

7. Recent Developments and Emerging Trends

Recent IFRS developments add further implementation complexity for emerging markets. IFRS 17 (Insurance Contracts), effective for annual periods beginning on or after 1 January 2023, introduces measurement complexity that strains actuarial and valuation capacity in markets with less developed insurance-sector expertise. Separately, the IFRS Foundation's launch of the International Sustainability Standards Board (ISSB) in 2021 has extended the harmonization project beyond financial reporting into sustainability disclosure, with 36 jurisdictions reported as adopting or moving toward IFRS Sustainability Disclosure Standards as of mid-2025—a parallel adoption challenge that risks compounding the same capacity constraints already documented for core IFRS implementation, particularly in jurisdictions still consolidating their financial-reporting transition.

8. Challenges, Limitations, Findings, and Recommendations

8.1 Challenges and Limitations

This analysis is limited by its reliance on published jurisdictional and cross-country data rather than original firm-level compliance testing, which would be necessary to rigorously quantify the de jure–de facto compliance gap this paper identifies conceptually. The five-country comparative sample, while illustrative of major adoption strategies, cannot represent the full diversity of emerging-market experience, particularly smaller economies with more limited capital markets than those examined here.

8.2 Findings

- Emerging markets have pursued a spectrum of IFRS implementation strategies rather than a uniform adoption model, ranging from full adoption (South Africa, Nigeria, Brazil) to calibrated convergence (India, China).
- Regional mandate rates do not reliably predict enforcement quality; high formal adoption rates in some regions coexist with documented enforcement capacity gaps.
- Fair-value measurement provisions pose disproportionate implementation difficulty in markets lacking deep capital markets or mature valuation professions.
- The principles-based character of IFRS presupposes a mature interpretive and enforcement infrastructure that many emerging markets are still developing.

8.3 Recommendations

6. Regulators in emerging markets should sequence IFRS implementation with parallel investment in independent audit oversight bodies, rather than treating standard adoption and enforcement capacity-building as separable phases.

7. Standard-setters and professional bodies should expand IFRS-specific fair-value and valuation training for practitioners, potentially through World Bank and regional development bank technical-assistance programs already engaged in ROSC assessment work.
8. Jurisdictions with shallow capital markets should consider India's calibrated convergence model, with clearly documented and limited carve-outs, as preferable to nominal full adoption unsupported by enforcement capacity.
9. The IFRS Foundation should expand post-adoption compliance monitoring—beyond its current jurisdictional profile project, which primarily tracks de jure adoption—to provide clearer signals of de facto implementation quality to investors and regulators.

9. Conclusion

The near-universal formal adoption of IFRS across 169 jurisdictions represents a significant achievement in international financial reporting harmonization, but formal adoption rates obscure substantial variation in implementation quality, particularly across emerging markets. The comparative evidence from India, China, Brazil, Nigeria, and South Africa demonstrates that adoption strategy, institutional capacity, and enforcement infrastructure interact to determine whether IFRS implementation achieves genuine comparability or merely nominal compliance. Future research and policy attention should shift from measuring whether jurisdictions have adopted IFRS toward more rigorously assessing how faithfully adopted standards are applied in practice—a shift this paper argues is necessary to realize the comparability benefits IFRS harmonization is intended to deliver.

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