

Challenges of IFRS in GCC Countries: Issues of Adoption and Compliance

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Numerous efforts have been made to harmonize accounting standards around the world. Most countries all over the world have adopted the International Financial Accounting Reporting Standards (IFRS) [1] to enhance the transparency and comparability of financial information that they produce. This makes the IFRS adoption mandatory for listed companies in most of these countries. The IFRS Backgrounder (AICPA) states that, "Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports". This has been described as a "watershed" in financial reporting [2] and is generally considered a necessary step towards reducing the variation in financial reporting and disclosure, and enhancing recognition and measurement practices worldwide.

Researchers have shown a great deal of interest in studying IFRS issues related to disclosure [3,4]. In addition, the relevant literature includes other studies that address the value relevance of IFRS disclosure [5-7]. However, there is a gap in the literature in relation to compliance with IFRS [8]. The empirical work has not focused enough on compliance with IFRS recognition and measurement requirements and the practice of Fair Value Accounting, especially in GCC countries.

The literature provides empirical evidence that the overall disclosure levels of firms in developed countries are higher than those in developing countries. The latter generally experience inadequate levels of corporate financial disclosure. Al-Shammari et al. [3] test the extent of compliance with International Accounting Standards (IASs) for the 2 period 1996 to 2002 using the GCC region. They state that, "The adoption of IASs in the region is de jure but not de facto, that is, IFRSs are adopted by law but not in practice, as substantial noncompliance is observed". This suggests that the adoption of IFRS is a function of the presence of an effective legal framework for the accounting profession, organized financial markets, and a supply of qualified accounting professionals. The absence of all or any of these hinders effective adoption.

In short, IFRS has been developed by the International Accounting Standards Board (IASB) and is to be implemented without regard for differences in socio-economic and political environments between

different countries. IASB has no power in any country and the adoption of IFRS depends on national regulatory bodies [7]. These bodies are supposed to enforce and monitor IFRS adoption to ensure and maintain full IFRS adoption. The listed companies in most countries claim to operate according to IFRS. There is the danger that, unless regulatory bodies have enforcement and monitoring mechanisms, adoption of the IFRS will be partial, especially if there is no motivation for managers to implement it [9]. This may indicate that IFRS adoption in countries which have weak regulatory frameworks and enforcement mechanisms may still lack quality in their financial reporting [9]. This may apply in the case of GCC countries because accounting, as a profession, and in particular as a financial reporting and disclosure system, lags behind the development and growth of the economy and business sector [10].

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