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IFRS Adoption and Capital Markets

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Abstract The need to deregulate financial markets has created a unified goal geared towards having uniform standards of accounting in order to help in the smooth flow of capital across economies and across the various global capital markets. Through a review of relevant literature, the study aimed at studying the theories related to financial disclosure, analyze to, by a review of literature, review the various theories related to financial disclosure, critically analyze various empirical studies on the IFRS adoption effects on the functioning and operations of capital markets, identify knowledge gaps and point out areas of further studies on IFRS and capital markets. The review observed significant efforts geared towards the harmonization of the standards of accounting globally as evidenced by the many countries which have since adopted and incorporated IFRS in their regulatory reporting requirements. Further, while IFRS adoption was expected to result in accounting reporting quality improvements and other capital market benefits, the benefits have not been realized uniformly throughout the globe, this is due to factors inherent in firms, cultural, economic and political variations among different nations. From the review it was noted that majority of the studies reviewed were mainly drawn from the developed nations, that is, European Union, United States and other developed countries fewer studies are available for developing countries like Kenya. The studies indicate mixed results as to the benefits of IFRS adoption which can be attributable to the political, economic and legal differences among nations. The review further noted that the studies reviewed did not consider the effects of other variables such as political, institutional, legal, firm specific and macroeconomic factors despite the fact that they are likely to affect IFRS adoption, contributing to varied results across nations. Majority of the studies reviewed used regression analysis, however, the test to ascertain the robustness of the regression models like linearity; multicollinearity; normality and heteroscedasticity were not performed casting doubts on the reliability of the models used. The findings of the review indicate tremendous benefits arising from IFRS adoption to capital markets, this include, enhance liquidity of markets, higher following by analysts, minimized information asymmetry, lower costs of capital, increase of cross listings by firms, improved foreign holdings and higher turnover of capital markets. At formulation of IFRS by IASB there were expectations of enhanced usefulness of accounting reports to capital markets, attainment of this objective however, is dependent on the legal and institutional framework related to financial disclosures which when weak, the achievement of this objective may not be guaranteed. As a result the IASB should have in place measures to ensure nations having weak enforcement of laws are assisted to improve IFRS enforcement so as to reap maximum benefits of IFRS adoption benefits. Further, nations should include IFRS into their laws in order to make it mandatory for firms to adopt IFRS. In conclusion, more country and region specific studies should be conducted in order to analyze the unique variation across countries in relation to IFRS adoption benefits.

Keywords: *IFRS, liquidity, comparability, cross listing, integration*

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1. Introduction

The efforts to converge accounting standards started in the 1950s as a result of the need to integrate economically and also due to the movement of capital across countries post World War II. Initially, the harmonization efforts were meant to close the variations in the principles of accounting used in various capital markets globally. Harmonization efforts were replaced by convergence which relates to the formulation uniform higher quality set of accounting standards which are international and applicable across capital markets globally. The International Accounting standards committee was formed in the year 1973, and began issuing International Accounting Standards the same year. The International Accounting Standards Board was formed in the year 2001 in order to develop the International Financial Reporting Standards [1].

IFRS adoption is expected to improve accounting quality. Accounting quality is a term, though applied widely, there is no specific definition of it, it is proposed that accounting quality should be applied in relation to the interests of the shareholders and accounting information usefulness in assisting in helping them in making decisions [2]. A financial report gives users information they need to use in making decisions concerning their engagements with a given firm. The disclosure of timely and relevant financial reports helps to lower asymmetry of information [3]. Due to high variations relating to the economic efficiencies of various nations and the quality of financial reporting, the international accounting standards offer a great opportunity in evaluating the consequences arising from the reports prepared on the basis of IFRS. Adopting IFRS enables users of accounting reports to understand the financial statements even in jurisdictions out of their home nations. From the 1980s deregulation of financial markets out of efforts by the IMF structural adjustment programs for developing nations which vouch for minimal intervention by governments in financial markets. As a result of globalization of financial markets necessitates the need to have uniform standards of accounting and practice. The harmonization of the standards enable investors to make better informed choices especially for diversified international portfolios through comparison of financial results of the various companies drawn for various jurisdictions. The integration of financial markets has enhanced access to overseas capital markets as a result inflow of FDI to various markets, thereby aiding in the growth of capital markets globally. IFRS adoption helps to avoid restatement of financial reports and further minimizing accounting reporting diversity across nations therefore helping to promote cross-border flow of capital and the integration of capital markets globally [4].

In Africa, Kenya was among the first countries in adopting IFRS in the year 2005. Consequently, listed firms are supposed to prepare financial reports based on IFRS, non-listed companies can choose to adopt IFRS for SMEs or the normal IFRS. Specifically, IFRS framework for reporting is part of the Kenyan regulations and laws enforceable by regulators like CBK, RBA, IRA, NSE and CMA. Adoption of amendments to IFRS is not enforceable in law since the guidance on the adoption timelines for amendments is the mandate of ICPAK which determines the date of implementation in the nation [5].

The first International Accounting Standard publication was in 1975 by the International Accounting Standards Committee (IASC), having been formed in the year 1973. From 1973, IAS has undergone significant changes since first publication. The IASC was late restructured to become the International Accounting Standards Board in the year 2001. The US Financial Accounting Standards Board and the IASB signed the Norwalk Agreement in September, 2002 helping to boost the implementation of IFRS. The bodies in the agreement undertook to closely work in developing high quality and compatible standards of accounting to be applicable both locally and internationally to guide financial reports preparation. As a result the joint project which covering principle based IFRS and the rules-based US GAAP, both bodies agreed to develop a new joint Conceptual Framework, which will form a basis of preparation of accounting standards.

IAS's mission is to come up with a single set of financial reporting standards which are going to have worldwide acceptance in order to help capital markets participants as a result of globalization. Therefore, investors in capital markets cannot be limited to their home countries capital markets [6].

Accounting Standards provide for recognizing items which are being disclosed either as expenses, assets, income or liabilities; the criteria of measuring the above items; the manner of presentation of the items in financial reports; and the related disclosure concerning the above items [6]. IFRS adoption is linked to better decisions on investments by the investors due to lower cost of acquiring information as a rest of mandatory adoption of IFRS.

Accounting information is considered useful if its relevant and faithfully represent what it purports to represent, the board further posit that the usefulness of accounting information increases with comparability, verifiability, timeliness and understandability. Information is relevant if it can make a difference on the decision to be made by users. To be useful, financial information must not only present relevant information but also represent faithfully what it purports to represent. Information that is represented faithfully should be complete, that is, includes all the necessary details, neutral and should be free from error [7].

Use of harmonized standards should significantly improve accounting information quality which should also result in significant benefits to the capital markets like: reduction of information asymmetry; lower cost of capital; higher market liquidity among other benefits. At the formulation of IFRS, the expectation was that the standards will lead to high quality financial reporting; however, empirical findings indicate that the improvement in the quality of financial reporting is not guaranteed post adoption due to the influence of factors such as the legal differences across nations, the above findings were confirmed by studies of: [8] and [9]. According to [10] establish that the IFRS adoption benefits are not uniform across countries due to the influence of country specific factors that may affect financial reporting.

The effect of adopting IFRS on the accounting information quality prior and post IFRS adoption periods were studied by [11] and [12]. The results of the above studies establish no conclusive evidence on accounting information quality improvements post IFRS adoption. A review of the economic benefits of mandatorily adopting IFRS in the EU was conducted by [13], the results of their review indicate that the consequences of IFRS adoption need to be analyzed further so as to ascertain benefits and costs of IFRS adoption in order to assess the effectiveness of IFRS. The review however only considered the EU; as a result the results of the study may not be applicable for countries out of the EU.

Comparability of financial statements and IFRS adoption on in the UK was studied by [14], the IFRS adoption benefits are only limited to nations whose domestic standards were had big difference as compared to IFRS or for firms which were reporting lower quality information pre IFRS adoption. In Kenya, IFRS adoption impact on accounting information quality for listed firms was studied by [15]. The study's results report mixed findings, in that, three of eight metrics applied indicate marginal improvement in quality while five show reduction in quality. Further, share turnover was found to have a positive association with IFRS compliance levels, but a negative association with foreign ownership and holding percentage of a given company's largest foreign shareholders.

Another kenya study to find out the effect of IFRS adoption on accounting quality in Kenya's listed companies was done by [16]. The study used accounting quality measures such as; earnings management, timely loss recognition and value relevance to find out if IFRS adoption has improved accounting quality in Kenya. The study established that three out of the eight measures of quality had marginally increased while five had declined marginally. The results of the study further adds to the existing debate on the effect of IFRS adoption on accounting quality since it does not provide conclusiveness on the impact of IFRS adoption.

A meta-analysis of the effect of IFRS adoption studies by [17] observed that research to find out the economic impact of IFRS adoption is gaining relevance with the increasing global acceptance of IFRS, further the study established that value relevance of book value earnings did not increase post IFRS adoption, Accounting quality is determined by factors such as the corporate incentives, a country's political and legal system and the quality of the standards adopted [3]. This therefore implies that the adoption of the IFRS is not a straight forward from one country to another due to the various political and legal differences that exists between countries.

From the above studies cited, the research on the impact of IFRS adoption has had mixed findings on the benefits of IFRS adoption. The different findings can be attributed to the differences in measurement of variables, contextual differences between countries and the models adopted by the various studies reviewed. The study, therefore, sought to answer the following questions: What is the effect of IFRS adoption on the Quality of Accounting information? What are the consequences of IFRS adoption on market liquidity, share price movements, cross listings and other Capital Markets attributes? This study by way of literature review, synthesized the results of previous studies, with a view of coming up answers to the above research questions.

2. Theoretical Framework

Financial disclosure is founded on several theories including agency, information asymmetry, decision usefulness theory, and stakeholder theory. For this review, I consider agency theory and the information asymmetry paradigm the most important in explaining financial reporting. The two are discussed in the section below.

2.1. Agency Theory

Agency theory is founded on the economic theory. It was developed [18] was further advanced by [19]. Agency theory is defined in the context of the relations between the principals (shareholders) and agents (company executives and managers). In this theory, shareholders who are the owners or principals of the company, hires the gents to perform work. Ownership and control separation leads to agency problems since the managers who act as agents may at times not act in the principals' interest's [19]. This is attributable to the non-alignment interests of the agent and the principal. Agency problem leads to agency costs to firms due to the sum of expenses related to monitoring activities by the principals, agents bonding expenses and the related residual costs. The agency problems arise when the agent is not solely acting towards maximization of shareholders wealth. They may act to protect their personal interests and growth of the firm in place of earnings.

Inefficiencies may reduce as the management incentive to take value maximizing decisions increases [19]. Agency costs result from divergent interests of owners and the firm's managers, agency costs include: costs of monitoring; costs bonding; residual losses, free cash flow and debt costs. A monitoring cost is incurred by the principal so as to observe and control the agent's behavior. Asymmetric information also contribute to the agency problem, managers of a firm being more knowledgeable on the firm as compared to the lenders and shareholders, if outsiders are unable to make sound judgement over a firm's financial results, and they term the performance of a firm as being moderate. This results in a firm's shares being either undervalued or vice versa. Such asymmetry among the insiders and the outsiders of a firm create the need to incur monitoring costs which includes: costs to undertake financial audits; preparing reliable accounting reports; contracts for executive compensation and the costs of replacing managers if there's need.

The shareholders who are the principals delegate the running of the business to the directors or managers who are agents' of the shareholders' [20]. A survey of the theory's application to the conflict of interest between managers, shareholder and the creditors establish that the analyzing such conflicts and their resolution increase the knowledge of survival of various contractual practices which may have been taken for granted or with great suspicion. It also demonstrates that often close relation between organizational and financial practices [21]. According to the theoretical model, value of the institutions to the shareholders arises from regulations and agency costs. Indicators of governance are a reflection institution's ability in effectively supporting agency costs minimization which has to be borne by the shareholders. These governance indicators consist of measures of government's stability, regulations of financial markets and corruption levels. The above factors help shape the abilities of institutions in governing the operations of financial markets. A well governed environment increases returns to shareholders through reduction of both agency costs and transaction costs [22].

Agency theory, reestablish the importance of self-interests and incentives in organizations [23]. Agency theory brings to light the fact that much of organization's life is founded on the self-interests. Agency theory emphasizes the common problems structure across various research topics. As [24] describe it, organizational based research is now an important topic, rather than a theory centered. Agency theory reminds us that common structural problem exist in different areas of research, as a result there is variation of results from various research areas.

Agency theory makes specific contribution to organizational research and thinking. First, is treatment of information, under agency theory, information is treated like an item with a cost and capable of being purchased. This therefore assigns an important role to information systems like management by objectives (MOB), budgeting and the board of directors and the informal ones like supervision. The effect of this is that an organization is able to invest in systems so as to control for agency opportunism. Agency theory also generates predictions which widely differ from what one may observe externally from an individual's behavior and in the structures of an organization. A positive theory therefore arises, which is falsifiable since the potential problems identified by the theory are genuine. The criticism of this theory is based on the fact that while an agent is expected to work in congruence to the principal's interest, this is not the case always. An agent may pursue their own goals different from the principal's, worsening the agency problems. Further, the view that agency problems between the principal and the agent is the main basis firms incur monitoring costs is not factual due the existence of other parties interested in the financial statements.

2.2. Information Asymmetry

Information asymmetry is founded on Akerlof's paper about the market for lemons [25]. The paper examined traded commodities quality in markets. Results of the paper indicated that the traded goods quality reduce in the presence of informational differences between the buyer and the seller, thus, creating lemon problems. In America, this relates to newly bought cars which are faulty. It exists when a buyer is unable to distinguish a higher quality car and a lemon. In such a case, the customer pays for a car they perceive to be of high quality when in reality it is not. It is only the seller who knows whether the car is a lemon (faulty) or not (high quality). This presents a problem of adverse selection which arises when buyers make decisions on incomplete or incorrect information.

This paradigm considers financial markets as imperfect and parties intending to get into a financial contract are believed not to have sufficient information useful to conclude transactions in their own [26]. Accounting through financial reporting is expected provide links to parties both inside and outside the organization in relation to access to financial information of the firm through disclosure. Financial reports may be viewed as intermediaries between internal and external parties to an organization. Non–disclosure of material financial information leads to an imbalance on informational position of the insiders and the outsiders to an organization. Financial reporting therefore helps reduce the asymmetry through prescription of minimum acceptable disclosure as provided by the accounting standards. Such requirements facilitate the disclosure of all the useful information for decision making by the user of financial statements. Accounting standards harmonization therefore helps in lowering the information asymmetry between insiders and outsiders [27].

Information asymmetry arises in accounting out of the fact that the firm managers are involved in the daily operations of the firm including preparation and presentation of operational results through financial reports. Parties external to the firm are not likely to know the true state of affairs of the firm if incorrect or incomplete financial reports are prepared by the managers. This presents an adverse selection problem to investors as they are likely to base their investment decisions on inaccurate information. In view of the above, accounting standards were formulated so as to ease informational differences in financial reporting through provision of the minimum information disclosure requirements, though it does not totally eliminate the problem fully due to the discretion provided by the accounting standards. This presents an opportunity to the preparers of financial statements with options when it comes to financial reporting. This discretion may create opportunities for the management of earnings by the firm management furthering the information asymmetry with the outsiders to the firm

The criticism of this paradigm is that it is heavily dependent on the regulation of financial markets this is due to the fact that the regulations provide the minimum information to be disclosed and in some cases dictate the quality of disclosure. Further, the paradigm is founded on the market for new cars yet there exists strong markets for second hand vehicles. Additionally, the fact that, the buyers may have their own way of assuring themselves of quality for their purchases is not considered.

2.3. Decision Usefulness Theory

This theory was formulated in 1950s [51]. In the 1950s accounting reports offered little help in relation to making economic decisions [52]. Due to this, there was need for information that is useful for decision making [53]. Decision making basis in relation to economic matters relates to information obtained in the financial reports relevant to decision making [52]. This theory relates to provision of sufficient and useful information to investors so as to make judgement about the future performance of the firm [55]. The quality of financial information influence the user's ability in the evaluation of performance of the firm [54].The objective of preparing a financial report is to provide information to users to make an informed choice [55].

For financial information to be useful it should be easy to understand, reliable, relevant and should aid users make comparisons [56,57]. These qualities are critical in decision making such that when one misses the information of the accounting reports usefulness reduces [58]. Financial information needs to bias-free, be objective and presented timely. Information is objective if at least two independent professional persons examine same data set will get the same conclusions [52]. Information is free of bias, if it is prepared and presented impartially. Delays in financial reports diminish their relevance in decision making [59]. Financial information needs to be verifiable [57]. Williams (1987) as cited by [52] observed that the fundamental objective of financial reporting is aiding in making decisions.

Decision usefulness theory generally is divided into two: those focusing on the decision makers and those focusing on decision making models [60,56]. Studies focusing decision makers analyze what decision makers need, further it makes an assumptions that users know what they consider useful [55]. This approach's criticism is based on the fact that there is different information need for different [61]. In decision model approach the information preparer view user needs as secondary [62,63]. Decision model is founded on the perception that the preparer perception of what information is useful to make effective decisions therefore the preparers determines the information to be disclosed [64]. Decision model however, results to a bias in research bias by focusing on preparers of the information and the assumption that there is uniform information needs by the various parties.

Adoption of IFRS makes financial information more useful by providing a basis for comparing through application of a uniform base. IFRS adoption reduces biasness by production of high quality information relevant for making decisions [52]. IASB further strengthen the need to have higher quality information through specification of requirements of useful accounting information [65]. This theory has been applied by the studies of [66,67] which analyze IFRS. Decision usefulness theory has gained acceptance by accounting researchers due to the lack of a viable alternative, it is also the most important theory in explaining development of accounting theory [68].

This theory has been criticized, for instance, [69] observes that few accounting professionals believe accounting information primary aim is the provision of information that is relevant to make decision. Also the theory doesn't clearly specify the interested groups of users in evaluation of the relevance of information [70].

2.4. Stakeholder Theory

Stakeholder theory proposes that a firm possess implicit and explicit contracts drawn from various stakeholders and they are responsible for all the contracts [71]. Due to these contracts, companies develop reputation which helps in determining its trading terms and negotiations with its stakeholders. The relationship between firms and their stakeholders is defined legally by explicit contracts while implicit contracts lack legal standing as a result they are self-enforcing contracts. Implicit contracts may be breached from time to time, they are self-enforcing if a firm's present value increases as a result of its reputation being higher than losses if the firm were to renege on its contracts.

Empirically, this is deemed factual due to the fact that organizations' stakeholders influence organizations both positively and negatively. An organization's activities impact on various individuals for whom their interests are affected adversely or favorably. According to [71] stakeholder theory is fundamentally a pragmatic concept due effective management of important relationships regardless of the purpose. The theory is normative since it conveys a notion of important moral principles capable of influencing activities of corporates [72].

The balancing of diversified needs of the various stakeholders create challenges to accountants in preparing financial reports; the pressure to satisfy various interests may result in omission of important information due to the fact that a lot of effort is directed to the needs of stakeholders. The need for organizations to meet the interests of all stakeholders creates opportunities for creative accounting and corruption in firms due to offering its agents an opportunity of diverting wealth from shareholders of a firm to others [73]. The management of organizations should benefit all stakeholders regardless of whether it results to good financial results or not [74].

2.5. Positive Accounting Theory

This theory was put forward by [75] in order to predict and explain the choices by a firm on its accounting policies and practices. The application of this theory in accounting research explains the choices made by the managers' influence on reported profits and financing [75]. The theory is founded by the fact that management being self-centered has no advantage of information and as a result there exist conflicts between the principals and agents. The self-interest is a function of the management's fixed effect and accounting policy choices. This theory focuses on the relationship among the various stakeholders providing various resources to organizations.

Discretionary accounting choices and conservatism continue to be utilized in the financial statements despite the accounting standards considering them undesirable [65]. This theory is explains the motive of management in making an accounting choices. [76] Argues that the central idea of the positive approach is to develop hypothesis about factors that influence the world of accounting practices and to test empirically the validity of these hypothesis. According to Watts and Zimmerman (1990), a sole accounting choice can reduce the explicative power of tests.

Accounting choices may be applied to help manage firm relationships [77]. Managers are responsible for choices of accounting through decision making about when and how to apply specific accounting choices therefore influencing the performance of a firm. The theory explains and predicts accounting practices as opposed to just describing practice. This theory is critical in determination of the effects of accounting choice on the quality of accounting. It can be subdivided into the following hypothesis:

a) Bonus Hypothesis

Managers find opportunities in which they can manage the net income so as to maximize their bonuses if income is either bogey or cap [78]. In these conditions managers find incentives to adopt income increasing accounting policies and as a result increasing the bonus of the managers. This scenario is lacking for companies which don't base compensation plan on incomes. Managers of a firm having bonus schemes are likely to use accounting methods increasing or maximizing the current year's reported incomes [79].

b) Contractual Motivation Hypothesis

Debt contract can trigger the choice of discretionary accounting policies [78]. Firms that defy debt covenants obligations undertake choices geared towards implement measures to increase income through changes in accounting policies [80]. Managers are motivated to adapt new policies due to the obligation to report higher incomes. Managers of firms with high debt to equity ratios utilize income-increasing discretionary choices [75].

c) Political Motivations Hypothesis

The fact that firms are in the public eye and are subject to government regulations, firms uses earnings management to reduce their reported incomes in order to circumvent regulatory bodies from making a visible firm report lower profitability[81]. This hypothesis assumption creates an incentive to exercise discretionary choices over its financial reporting.

3. Methodology

The study was purely based on desktop research and library based research. The articles reviewed were sourced from top journals and top papers on accounting. The articles selected were reviewed and their findings presented in the study so as to help synthesize and understand the impact of IFRS on the capital markets. The papers reviewed were significantly related to the relative IFRS impact on the functioning and development of capital markets. The papers reviewed mainly relate to the post IFRS adoption period, that is, from 2005 to 2015. A critique of the papers is also presented.

4. IFRS Adoption Benefits

The IASB acknowledges that there are differences in the preparation and presentation of financial statements across the world; this is due to different social, legal and economic situations across countries. In addition the diversity of the users of accounting information also means that financial statements will never be exactly the same across nations. IASB seeks to narrow the differences in reporting by harmonizing regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. Such harmonization the board expects to have financial information relevant for making economic decisions. Harmonized statements are expected meets the needs of most users; this is why the IASB developed the IFRS to help achieve uniform reporting [7].

The adoption of IFRS elicited a debate as to what impact it has on the quality of accounting information. Use of a common set of accounting base is associated with higher levels of comparability, transparency, relevance and reliability of financial reporting thus enhancing the quality of the reported accounting information [28].

By analysis of data from 2003 to 2011, [8] established a great improvement the accuracy of forecasts as well as in the forecast variances after the mandatory adoption of IFRS in France, Sweden and Switzerland.

The adoption of IFRS by firms across the globe has an effect of improving comparison and transparency of financial information thereby aiding to lower the cost of preparation of financial statements by firms globally has the potential to lower the costs of production of financial statements. Rigorous application of accounting standards guarantees capital market players have access to high quality information and therefore able to make better investment decisions. Due to IFRS adoption capital markets efficiently allocate funds as a result firms have lower costs of capital [29,31].

The demand for accounting standards of high quality that helps to improve the comparability and quality of financial reports promotes the development of local financial markets and also helps boost the integration of international markets, since many investors including foreigners will be attracted to markets using IFRS [29]; [30].

4.1. IFRS and Share Prices

In Nigeria, a study conducted by [31], used descriptive statistics to determine the impact of IFRS adoption on the stock market movements in Nigeria for a period of two years from 2011 to 2012. They observed that the adoption of IFRS in Nigeria increases credibility of the financial reports, since IFRS generated credible reports, they further recommend that Governments should advocate for the adoption of IFRS. The study did not however make a distinction on the voluntary and mandatory adoption of the IFRS, which yield different results. The study duration was equally too short to draw any meaningful conclusions from it.

A study by [32] analysed data from 2,071 firms from 14 European Union Countries that mandatorily adopted IFRS. The study investigated the extent of an individual's stock returns movement in relation to the overall movements in the stock market prices (synchronicity) for firms that mandatoraly adopt IFRS in the European Union excluding Luxemburg. They used multiple linear regression model in their analysis to test the study's objectives. They concluded that the adoption of the IFRS results to revelation of new information about a firm, therefore reducing surprise element of the disclosed information in the future. The study did not look at the incentives for IFRS adoption. The study is premised on a strong and transparent enforcement mechanism therefore, the findings of this study may not be applicable for countries with less enforcement mechanisms.

A study to evaluate the impact of adopting IFRS on share prices and the trading volumes was conducted by [33]. They collected data globally from 16 countries that mandatorily adopted IFRS and 11 countries that retained their domestic standards in the period from 2002 to 2007. They used multiple regression analysis to test the study's objectives. They measured the information content of earning announcements based on abnormal trading volume and return volatility around firms' earnings announcements. The study used univariate and multivariate analysis to test the objectives of the study. They observed that the content of information on earnings announcements improved after the adoption of IFRS, through reduction of reporting time lags, increase in investments by foreigners and increased accuracy of analysts predictions, therefore, improved quality of accounting. The study however, did not make the distinction between mandatory and voluntary adoption of the IFRS.

4.2. IFRS and Integration of Capital Markets

A study conducted by [34], using regression analysis, corelation and cointegration anlysis, analysed the effect of adopting IFRS on integration of Gulf Countries capital markets. The study sampled data for the years' 2007 to 2013, drawn from the Gulf countries. The study observed that the adoption of the IFRS has no significant influence on the integration of the capital markets, they further observed that the capital markets do not have any longterm relationship between them. The results contest the common belief that adopting IFRS results to better capital markets integration. The study attributed this result to institutional elements which affect the influence of the accounting standards on capital markets integration. The study however left out Oman, Kuwait and Bahrain which are key gulf economies, therefore their conclusions may not be conclusive for all the gulf nations. Additionally, Gulf countries are predominantly muslim and religion influences the legal framework, the effect of this was not considered in the study.

The effects of adoption of IFRS on the integration of capital markets globally, focusing on the G8 Countries was examined by [35]. They used correlation matrix of stock returns as measured by the market index and the integration of markets to test their results. They sampled countries with IFRS as their required standards of financial reporting for their listed firms. The results of the study supported the belief that capital markets experience a higher level of integration post adoption of the IFRS adoption as compared to pre-adoption period. They further observed that the adoption of IFRS reduces accounting practices diversity which helps to facilitate efficient movement of capital. The study's main limitation is its failure to analyze the adoption as to whether it is mandatory or voluntary which is results to varying results. The incentives of IFRS adoption were also not considered by the study.

4.3. IFRS and Market Liquidity

The study of [36] analysed firms adopting IFRS in a mandatory setting by collecting data from the year 1990 to 2005 obtained from 36 countries. Using the linear regression models to analyse the research objective. They concluded that liquidity of capital markets increased with the adoption of the IFRS, they further found out that the cost of capital reduced with adoption of IFRS. The study's limitation is that the data used was for the IAS, rather than the IFRS applicable at the moment.

A global study by [37] analysed the effect of mandatory adoption of IFRS on market liquidity attributable to comparability effect, quality effect or both. The study used share turnover, market depth and bid-ask spreads as proxies for market liquidity. The study used data sampled from 5045 firms in 22 countries across the world from year 1993 to 2007. Multiple regression models, Pearson and Spearman correlations were used to analyse the study's data. It was established that the mandatory adoption of IFRS results to increased market liquidity attributable to the enhanced comparability of accounting information. The study concentrated mainly on the mandatory adoption adoption of IFRS for which conclusions cannot be drawn for firms vouluntarily adopting IFRS. Further, the regression models adopted were not subjected to robustness tests therefore the findings cannot be relied upon since regression modelling is based on assumptions that need to be tested to confirm the findings.

4.4. IFRS, Cross Border and International Investments

The consequence of the adoption of IFRS, on investments by individual investors', in cross-border equity at the Frankfurt Stock Exchange‘s Open Market was done by [38], which is designed for trade by German investors in foreign stocks. The study sampled 4,869 firms drawn from 31 countries across the globe, using data from 2001 to 2007, using regression analysis. The study found that stocks experience increases in trading activity in the market after the mandatory adoption of the IFRS. This increase in trading was significant both statistically and economically. The results are in conformance to the belief that adopting IFRS leads to reinforced investments in foreign equity by investors and that it is not only limited to professional investors. They conclude that IFRS adoption promotes more foreign investments in equity by foreign investors. The study did not however consider other factors that can influence foreign investments.

Another study was done by [39] to examine the effect of mandatory IFRS adoption on firms' cross-listing activities. They sampled 1181 firms, from 50 countries collecting data from 2003 to 2007. They find that firms which mandatorily adopted IFRS have a higher likelihood to cross list together with a large increase in cross-listing target countries after mandatory adoption of IFRS as compared firms which do not adopt IFRS. They also establish that firms drawn from nations which mandatorily adopted IFRS are likely to cross list their securities in countries which mandate IFRS adoption and also characterized with high capital markets liquidity. The study also observes that mandatorily adopting IFRS varies in relation to the characteristics of the home country. They conclude that the adoption of IFRS facilitates cross border offering and listing activities. The effect of voluntary adoption of IFRS was not considered.

The relationship between mandatory adoption of IFRS and underpricing in IPOs and international capital sources was conducted by [40]. They used a design of difference-in-differences in their study. They observed that mandatory adoption of IFRS results in significant statistical and economical reductions in underpricing of IPOs. They further observed a high increase in the amount of funds raised in foreign markets, confirming the belief that mandatory adoption of IFRS increases the ability of firms to raise foreign capital through reduced information asymmetry which results to higher comparability of financial reports. The study further observes underpricing effects of IPOs in relation to foreign markets is higher for firms in countries with higher changes in accounting, which is more pronounced for countries with strong credibility on implementation. They noted that the effects of adopting IFRS depend on several factors such as: accounting differences between countries; country-level institutions; and credibility of implementation. They further posit that the underpricing in IPOs applies for both domestic and global IPOs, though underpricing was more for domestic IPOs. They conclude that foreign investor benefit more with adoption of IFRS since in pre-adoption they are faced with higher asymmetry than domestic investors. The effect of voluntary adoption of IFRS was not considered.

The study of [27] analyzed cross-border holdings in international portfolio holdings following mandatory adoption of IFRS accounting standards. The study sampled 4399 firms from 23 countries. The study used multivariate analysis to test the objectives of the study. The study observed that capital flows across borders have increased in last decade with portfolios remaining biased in favor of domestic portfolio investments due to information asymmetry. The study found that differences in local accounting standards lead to information asymmetry. Harmonization of accounting standards leads to reduced information asymmetry, which helps promote cross-border investment activities through the reduction of processing costs of information for public financial statements; it also results in reducing effects of private information barriers. It further found that the IFRS results in more mergers and acquisitions (M&A) often associated with higher premiums on takeover. The limitation of the study is that it did not consider the specific enforcement mechanisms across countries which differ.

The economic effect of IFRS adoption in Bangladesh (a developing country) was analyzed by [82]. They observed an increase in economic growth and international capital markets through an elimination of trade barriers in raising of capital across international markets. This is facilitated by the copatibility of the accounting standards adopted which help eliminate the need to prepare multiple financial statements so as to serve the various stock exchanges. These findings were confirmed by the study of [83] which analyzed relevance of IFRS implementation to the economy of Kazakhstan. The study establish that IFRS adoption leads to increased economic development in Kazakhstan, though the benefits are slow. Further, [84] document that the adoption of IFRS for a developing country leads to economic benefits to the developing country with weak IFRS enforcement.

4.5. IFRS and Mergers & Acquisitions

An examination on whether the variations on the accounting standards in different nations leads to information barriers which inhibit firm investments in foreign equity markets through mergers and acquisitions was conducted by [41]. Using database of mergers and acquisitions drawn from Security Data Corporation and from all the cross border announcements on mergers and acquisitions over the period from 1998 to 2004, they analyzed 32 countries, using univariate analysis to test the study's objectives. They establish that the Mergers and Acquisitions activity across the borders is higher in countries with higher similarity of accounting standards, and this increase in the volume of M&A activities is driven by strong enforcement of IFRS for the target countries, making the implementation of GAAPs more reliable. Their results supports the belief that the similar use of accounting standards together with strong enforcement mechanisms helps in reducing information differences helping to reduce underinvestment in foreign markets. The study however did not shed light on the total costs and benefits associated with harmonization of accounting standards.

The relation between institutional holding and mandatory adoption of IFRS was analyzed by [42]. They sampled data from the year 2003 to 2006 obtained from 10,852 firms drawn from 45 countries to explore the effect of mandatory IFRS adoption on institutional ownership of equity. The study used descriptive statistics and correlation analysis to test their research objectives. They considered the year of adoption of IFRS influences on the institutional ownership and concluded that adoption of IFRS influences the allocation of resources by institutional investors. They further observed that changes in ownership were higher in the value and growth seeking investors who are most likely to base their investment decisions on the financial statements. Their observation of increased resource allocation due to IFRS adoption only applied where there was strict application of laws and lower levels of corruption. Therefore, the conclusions may not be applicable where there are low legal enforcement mechanisms and corruption. The duration of the study was fairly short therefore inappropriate to draw meaningful conclusions since time series data would have been more appropriate.

4.6. IFRS and Comparability of Financial Information

A review to determine the main consequences of IFRS adoption between 2000 and 2013 was conducted by [43]. They reviewed 67 journal articles and observed that the generally, the adoption of IFRS leads to improved accounting quality, increased capital markets analysts ability to predict, improved comparability of accounting information and better use of accounting information. They further noted that the attainment of the above results is not automatic since country factors and company factors play a role. They concluded by positing that the use of common rules is not enough to create a common business language since management incentives and institutional factors influence the financial reporting. The study did not look at the developing markets and countries with low enforcement mechanisms, since most literature relates to countries with strong enforcement.

Market analysts have also been found to benefit from the adoption of IFRS since they are the most important users of financial statements; this is due to the improvements in relevance, transparency and comparability of accounting information. An examination of the impact of international GAAP differences on foreign analysts, was studied by [44]. They sampled 6,888 analysts drawn from 49 countries across the world in the period 1998 to 2004. They observed that the closeness of a nation's GAAP to IFRS, the higher the likelihood of following by foreign analysts and the analysts are therefore able to provide a more accurate forecast for companies. The limitation of the study is that the adoption of the new IFRS worldwide started in 2005, so the findings of the study may not be relied upon to make conclusions about the current IFRS regime.

The effect cross border investments and comparibility of accounting information under IFRS was undertaken by [45]. They sampled 14 EU country firms from 2003 to 2007 excluding 2005 which was the year of IFRS adoption in Europe. The study used regression analysis to examine the effects of comparability and cross border investments. The study surveyed foreign mutual fund investments using IFRS, they observed that the adoption of IFRS leads to comparability of financial reports only in countries that have credible implementation of of the standards. They further, noted that improvements is strong in firms with high degree of uniformity (which use same accounting standard for the same industry). They concluded that adopting IFRS mandatorily in nations having a strong credibility of implementation of standards, experience a higher level of foreign ownership in the mutual funds. The increase was however higher for firms with high level of uniformity. The study further observed that the adopting a uniform set of standards of accounting results to higher accounting information comparability which help in attracting cross border investments. The study however, was done in the context of the European Union has strong enforcement mechanisms therefore implying that the findings of this study may not be applicable for countries with less enforcement mechanisms like Kenya.

The impact of IFRS adoption on comparaility of accounting information in Europe was studied by [46]. They based their study on 17 European countries using data from commercial sources such as Worldscope, Datastream and IEBS. Data obtained was from 2002 to 2007, covering both pre-adoption and post-adoption periods. The study employed similarity of accounting functions, degree of transfer of information and similarity of content of earnings information and of the equity book value as measures of comparability. The study used regression analysis to analyse the research data. They observed that adopting IFRS improves comparability of accounting information across nations by having similar information. According to the study both the convergence of accounting and a higher quality of IFRS based information are the main factors for the improved comparison. Further, the study observed that the international comparability is subject to the institutional environment of the firm. The study's main limitation is that robustness tests were not performed on the linear regression models adopted. Further, the context of europe cannot be used to draw conclusions on a country like kenya due to legal and enforcement differences.

The effect of mandatorily adopting IFRS on the comparability of accountng infromation was done by [47]. The authors sampled panel data from 9848 firms drawn from Germany and Italy from the year 2001 to 2008 to determine the drivers of comparability effect of mandatory IFRS adoption. Regression analysis was used to test the study's objectives. The study results indicate that firms with high incentives for compliance experience a significant increase in comparability due to IFRS adoption. The study observes that adopting IFRS is expected to result in increased comparability of accounting information, such comparability they posited facilitates a level playing field for participants in the capital markets, by introducing a set of uniform accouting standards across countries. They further posit that the comparability of IFRS information declines in comparison with local GAAP information. The study however did not take into consideration the regulatory effect which influences compliance to the IFRS. In addition, the study only considered the mandatory adoption of IFRS which leaves out the voluntary adoptors of IFRS.

4.7. IFRS and Cost of Capital

The effect of IFRS on capital markets was examined by [48] in the post IFRS period in the EU by review of empirical evidence. They observed that the voluntary adoption of IFRS by firms leads to improved transparency through enhanced communication to the investors. This in turn gets appreciated through reductions in the cost of capital and increased following by foreign analysts. Further, they observed that the adoption of IFRS in the EU returned mixed results in Europe and therefore they found it not suitable to generalize that the adoption of IFRS will automatically lead to developments and improvements in capital markets. They attributed this to effects of country specific regulations. The conclusions about the EU may not be applicable to other contexts like developing countries.

A review was undertaken to determine the progress of adopting IFRS in the European Union by [49], the researcher observed that the ultimate goal of IFRS adoption and the harmonization of accounting is to deliver high quality information to financial markets and thereby helping to improve their efficiency which lowers the company's cost of capital and increases companies access to capital. The study further observed that mandatory adoption of IFRS leads to improved knowledge on investors and the companies' ability to utilize the IFRS, which improves the potential positive effects of IFRS adoption; this results to better accounting quality as the investors will demand for it. The main limitation of the study is that the review was done 5 years after the adoption, at that time there were a few studies being done on IFRS, thus a longer period would have been ideal.

The effect of IFRS on cost of capital was studied by [50]. They observe that adopting IFRS mandatorily leads to the reduction of the cost of capital for after the adoption period. The study sampled 1,084 firms drawn from the European Union for the years' 1995 to 2006, regression analysis, pearson correlation and descriptive statistics were used to analyse the objectives. The study found that the adoption of IFRS results to increase in the information disclosed and comparability of financial reports, therefore, lower cost of capital. It was however found that such reduction in the cost of capital only occurred for markets or economies with strong legal enforcements mechanisms. The main limitation of the study is that it was founded on countries with strong legal enforcement mechanisms and therefore the conclusions drawn from this study cannot be applied for countries with weak legal enforcement mechanisms like Kenya.

5. Discussion of the Review Findings

The adoption of the IFRS has had numerous impacts on the quality of accounting information and the general development, growth and performance of capital markets worldwide. Most of the research was done in the developed economies while from the reviewed literature fewer studies were from developing countries especially Africa despite countries like Nigeria and Kenya being among the earlier nations to adopt IFRS. Developed countries are characterized with strong legal enforcement mechanisms which guarantee full adoption benefits of the accounting standards, which ensures that the benefits of adoption. Developing countries have weak legal enforcement mechanisms and corruption which constraint full implementation of the IFRS, therefore, resulting in unrealized benefits of IFRS adoption.

Further, the study observes that adoption of IFRS results to the following capital market benefits: *first*, reduced information asymmetry this is due to increased disclosure in the financial statements; *secondly*, reduced cost of capital due to higher transparency post IFRS adoption and improved market efficiency [49,50]; *thirdly*, higher comparability of accounting information [37,46,47]; *fourthly*, increased market liquidity [10,13]; *fifthly*, increased cross listings and foreign investments [10,41]; *sixthly*, higher integration of financial markets [34,35] and *lastly*, improved foreign ownership and analyst predictions [44,45]. From the above observations, adoption of IFRS significantly influences the capital markets through the benefits listed above, arising therefore; the study recommends that capital markets regulators adopt IFRS in their legislations so as to make them mandatory in order to guarantee the benefits listed above.

It was observed from the reviewed literature that while the influence of IFRS on capital markets has been established, other country specific variables such as the legal and political systems, level of professional knowledge, the quality of the standards, board attributes, type of auditor, the government and ICPAK which is mandated to regulate accounting must have in place measures that promote adoption and full compliance to IFRS, one such way is through the FIRE (Financial Reporting awards) which recognize companies with good financial reporting practices.

6. Areas of Further Research

From the review of the literature the following areas are possible areas of study by future researchers. *First*, researchers in developing countries should consider the applicability of the empirical findings in other countries to their countries such as Kenya, since the applicability of the IFRS adoption variables changes from country to country. The contextual differences between countries need to be analyzed by way of a study to establish the true drivers of accounting quality especially in developing countries.

Secondly, the continuous review, development and application of specific IFRS provides a specific chance for researchers to analyze the current standards setting process and whether it incorporates the findings of previous research in order to arrive at better quality accounting standards in future. Therefore, a study on the factors considered in the formulation of accounting standards can be done, specifically to look at the effect of modifications of already issued standards by the IASB, and how such revisions affect the quality of accounting.

Thirdly, the applicability of the standards will vary between nations due to geographical and environmental diversity. The impact of these country and firm-specific factors should be analyzed by future research. This will be critical since the standards should help improve comparability of financial information. The influence of country specific factors on the adoption of the IFRS since it has been established that the effects and success of the adoption of the IFRS depends on environmental and institutional factors such as the legal framework and enforcement of the legal requirements. This would vary from country to country; therefore studies to review country specific factors will be viable.

Fourthly, as much as the current IFRS regime has existed from 2005, majority of the IFRS studies during this period have mainly studied the impact of IFRS adoption on capital markets and the quality of accounting information. Fewer of the studies have evaluated the ccompliance levels of IFRS and the related effects. This presents a research gap for future scholars since such studies will reveal the motives to compliance to standards and the ways to attain highest possible level of compliance to the standards. These findings will help inform policies and ensure better enforcement mechanisms are put in place to guarantee better results from IFRS adoption.

7. Conclusions

Based on the findings from the studies reviewed it can be concluded that the adoption of IFRS has significant benefits to capital markets through increased market liquidity; increased foreigners participation; increased cross-listings; increased market capitalization and general development of financial markets across the globe due to improved comparability of financial information.

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