



## NATIONAL LEGISLATIVE SYSTEMS AND FOREIGN STANDARDS AND REGULATIONS: THE CASE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS' ADOPTION

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### ABSTRACT

This study is focused on the linkages between the legislative families as descriptors of national legislative systems and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). We consider such analysis as a case study for the more general issue of explaining the preferences of national regulators in the adoption of foreign norms, rules, standards and practices. By using a dataset of 162 jurisdictions and dummy variables designed to capture the current stage of IFRSs adoption and, respectively, the taxonomy of their legislative systems, we find that a full IFRSs adoption is more likely to occur in countries which have principles-based on legislative mono-systems. In addition, we observe that a strong rule of law, with an effective mechanism of property rights reinforcement, as well as the pre-adoption existence of a pro-growth set of public policies can contribute to the encouragement of IFRSs adoption.

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## I. INTRODUCTION

In the context of the existence of transnational regulatory entities and of deepening globalization processes, the national regulators face several problems in the adoption of exogenous norms, rules, standards and practices. The preferences of such bodies for accepting / rejecting or adjusting them vary according to a complex set of institutional behaviour determinants. Among them, the constitutive and functional characteristics of the domestic legislative structures and institutions have an important role. This study is focusing on the possible linkages between the adoption of the International Financial Reporting Standards (IFRSs) and the national legislative taxonomy. There are several advantages in analysing the IFRSs adoption as a case study for foreign standards assimilation mechanisms and influence factors in different autochthonous economic, politic, social and cultural systems. A list of such gnoseological advantages that can be achieved by studying the particular case of IFRSs adoption in order to provide some insights about the acceptance mechanisms for international regulations, standards and practices, far to be exhaustive, can include: the specific approach of IFRSs as principles-based standards; the fact that IFRSs are issued and promoted by transnational entities but reflect some national practices from developed economies; the heterogeneity of individual adoption situations; the eventual conflicts between these international standards and national regulations and practices; the existence of an ongoing process of international accounting harmonization driven by globalization forces etc.

Currently, there is a growing literature studying the possible interrelations between IFRSs adoption and the distinctive features of national legislative institutions and mechanisms: Hope et al. (2006) find that those countries which have weaker investor protection mechanisms are more likely to adopt IFRSs; Krivogorsky et al. (2010) provide compelling evidence that jurisdictions and national levels of bureaucratic formalities in business are factors that modify company likelihood to adopt IFRSs early; Armstrong et al. (2008) find that the reaction market reactions to IFRSs adoption is less positive for firms resident in code law countries; Ball (2000) provides some empirical evidence that code law countries links accounting income directly to current payouts; Ball (2006) identifies some problems associated with transferring accounting standards from common law to code law, especially with regard to countries that have less respect for protecting shareholders value and minority rights; Burgstahler et al. (2006) document that earning management is more pronounced in countries with weaker legal systems and enforcement; Leuz et al. (2003) concludes that weak outsider protection and private control benefits create incentives to manage earnings.

This paper seeks to provide two contributions to the existing literature. Firstly, it adopts a more detailed perspective in defining the legislative families based on Faculty of Law, University of Ottawa with the help of the Supreme Court of Canada Library data on “world’s legal systems”. Secondly, it checks the robustness of our findings by considering other possible explanatory variables as well for the countries’ relative preferences in IFRSs adoption for listed companies.

Our arguments can be resumed as follows: 1) the relative preference for professional decisions of legal authorities based on precedent customs and practices versus detailed regulations can be seen as separation criteria between different types of legislative families adopted by individual countries and 2) a major feature of IFRSs consists in the fact that these are a set of principles-based standards, promoting professional judgment. Thus, the IFRSs will be easier adopted in countries in which the general legislative framework is more oriented toward the practices-based decisions, being guided only by a simplified set of principles, and less toward detailed written norms, rules and regulations. In order to avoid the costs of *institutional dissonances*, the decisional bodies will tend to adopt that set of standards which is more compatible with the general philosophy of the national regulatory framework. More detailed written rules are more efforts are required to

incorporate exogenous standards based on a different approach. Due to the costs of institutional adjustments, supplementary obstacles for IFRSs adoption can appear if the legislative systems are characterized by a higher degree of complexity with various regulations issued by different channels and subjects of frequent changes.

## II. LEGISLATIVE FAMILIES

The IFRSs adoption is a complex process involving public authorities, professional bodies or joint structures. The preferences of these entities to adopt the standards depend on a complex set of factors, including *inter alia* the general preferences for formal codification of the legislative systems. Thus, the nature of the regulatory societal framework, being synthesized by the characteristics of the “legislative families” is expected to influence the context, amplitude and effects of IFRSs adoption.

The concept of „legislative families” was introduced within the comparative law at the beginning of the 19th century. Subsequently, different criteria have been suggested in order to perform a typology of the judicial systems, their classification being essentially an academic instrument, but also useful to any person wanting to capitalize it as a comparative argument. The estimation criteria regarding the affiliation of a jurisdiction to a legislative family or another, have varied along history, starting from those of geographical and religious type (Esmein, 1905) to those which had in view race (Sauser-Hall, 1913), historical origins (Sarfatti, 1933), the contents of the law (Arminjon et al. 1951), and the judicial style (Zweigert and Krotz, 1998). These have proven to be useful instruments leading to the identification of a number of legislative families in which the judicial systems could be integrated.

Among the criticism critically upon the old classifications, Mattei (1997), starting from the judicial theory and sociology of Max Weber, suggests a classification distinguishing between rule of professional law, rule of political law and rule of traditional law. Similarly, Vanderlinden (1995) looks emphasize five law systems: common, doctrinarian, jurisprudence, legislative law and the system of revelation.

Although the identified judicial systems are somehow similar to one another, being based on similar cultural and operational traditions within the context of certain similar social, economic and political conditions, the approached legislative families did not answer absolutely to the challenges generated by the judicial culture and mentality, within the context of a lack of cooperation with areas such as judicial sociology, history of law or anthropology (Gessner et al. 1996). Thus, a more recent evolution is the so-called “third judicial family” and the idea of mixed judicial systems. The term “mixed” must be construed restrictively, so that this category defines the case in which two or more systems apply cumulatively or interactively. For instance, Palmer (2001) underlined the idea that mixed jurisdictions represent in fact the third major judicial family alongside of common law and Roman-German law. Currently, there are some attempts of creating an approach referring to the “family trees”- Örüçü (2004) - the main object being the attempt of demolishing the conventional model of the judicial systems and creating their reconstruction in which the judicial systems should be classified according to their filiations and constitutive elements. However, there are other attempts of renewing the old tradition of the judicial families as well (Reyntjens, 1991 and Heiss, 2001).

Our view is that the analysis of the various concepts met in literature allows us to conclude that each judicial system tends to acquire special characteristics in accordance with the respective jurisdictions and populations, despite the affiliation to the same judicial family.

Hence, civil law is currently the judicial system met in most of the world countries, its primary source being legislation, the normative judicial acts (especially codifications). These codes are mainly characterized by a high level of generalization which allows judges to construe and analyze the whole practical circumstances, either by applying the law or by completing the gaps through extrapolation.

What differentiates the essential judicial system of common law from other judicial systems is the explicit recognition of the decision ordered by legal courts as a primary source of law; being a system based on induction in which the judicial concepts are the result of a consequent jurisprudence which defines the application areas. Within the context of the express recognition of the judicial precedent as a legal source, the decisions ordered by the higher courts become compulsory for the inferior courts. However, in certain jurisdictions, the state reserves the right of proceeding to the annulment of the judicial decisions and the performance of a codification, taking into consideration that there are multiple conflicting or ambiguous judicial decisions.

Regarded as a complex of traditions and customs which, in time, have become law, common law can develop based on religion, ethnicity or cultural identity. It has sometimes an important significance in the matter of the personal state in a significant number of countries with mixed judicial systems which tend to apply to “common laws” under the shape of the codes. This is specific to a number of African countries but it’s also the case of China or India, for instance, but in very different conditions. The Islamic judicial system is an autonomous system of religious nature, explicitly based on religious principles, predominantly on Koran. One of the distinctive characteristics of the Islamic law is the fact that the rights of the community are above those of the man, the individual rights and freedoms being restricted by moral, religious and divine imperatives. The system is used in countries with Islamic tradition where moral norms recently tend to be interpreted in a broader sense, in order to adapt them to the contemporary realities.

No doubt, the existence of the mixed judicial families allows the prominence of more law systems which can find applicability simultaneously regarding the same political entity. These include two or more legislative systems interacting in a multicultural and multi-religious society, being sometimes applied complementarily. The judicial systems from various countries in North Africa or Middle East are strongly influenced by the civil law tradition but, in certain fields - especially in those affecting the individual and family rights and the property rights - the structure of this system tends to follow the Islamic tradition. Taking into account these distinctive features of legislative families, our research hypothesis is:

*H: The preference of regulators from an individual country to adopt IFRSs will increase as the autochthonous legislative system is closer to Common Law and Civil Law mono-systems.*

### III. DATA AND METHODOLOGY

In order to test our hypothesis, we have constructed two dummy variables: *IFRSs* dummy and, respectively, *legislative families* dummy for 162 jurisdictions according to current available information (see Table 1). The first dummy is designed to reflect several stages of IFRSs adoption. In our dataset, for 37% of the included countries, IFRSs are not required nor permitted for quoted companies. For 4.9%, IFRSs are permitted while for 10.5% of cases, IFRSs are required for some companies. Only in 47.6% of cases, the international standards are required for all companies.

TABLE 1. DEPENDENT AND EXPLANATORY VARIABLES

<i>Variable</i>	<i>Description</i>	<i>Source</i>
IFRSs dummy	Dummy taking the next values: <ul style="list-style-type: none"> <li>• “0” - IFRSs are not permitted/ not mentioned by the relevant legislation and no de facto compliance can be observed;</li> <li>• “1” - IFRSs are permitted for listed companies (individual and consolidated financial statements) but the international standards are not compulsory;</li> <li>• “2” - IFRSs required for some listed companies (e.g. large companies, financial institutions and so on);</li> <li>• “3” - IFRSs required for all listed companies both for individual and consolidated financial statements.</li> </ul>	Since the identification of different intermediary situations is sometimes difficult, data are compiled from various sources, mainly Deloitte (2010), PriceWaterhouseCoopers (2010), Ernst&Young (2010), Financial Standards Foundation (2010), World Bank (2010b), International Monetary Fund (2010), ISAR/ UNCTAD (2010), OHADA (2000) data
Legislative families dummy	Captures the typology of the legislative families	Coded by authors based on University of Ottawa (2010)
Rule of law	Captures perceptions to the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	World Bank (2010a)
Real GDP per capita	Real GDP per capita (log) (US dollars at constant prices and exchange rates-2000)	UNCTAD (2010)

Source: Author calculation

On the website of the Faculty of Law, University of Ottawa with the help of the Supreme Court of Canada Library on “world’s legal systems”, the categories of legal systems are divided into: civil law, common law, customary law, Muslim law and mixed law (University of Ottawa, 2010). We find, in these categories, countries in which two or more legal systems apply concurrently or interactively, as well as those in which systems are rather juxtaposed because they apply to more or less clearly distinct fields. According to this source, “mixed systems” appear in the following categories: Thus, our dummy variable for *legislative families* can take values from 1 to 27 (see Table 2). The number of jurisdictions that fall into the “mixed systems with civil law” category is 65 (19.12% of the world’s legal systems), “mixed systems with common law” are 53 (15.59 %), “mixed systems with customary law” are 54 (15.88%) and “mixed systems with Muslim law” are 33 (9.70 %).

**TABLE 2. LEGISLATIVE FAMILIES**

<b>Codification</b>	<b>Description</b>
Simple legal families	
1	Civil Law (mono-system)
2	Common Law (mono-system)
3	Muslim Law (mono-system)
4	Customary Law (mono-system)
Mixed legal families (Hybrids with civil law, common law, Muslim law or customary law in different combinations)	
5	Hybrids with Civil Law and Muslim Law (3.14% of world population)
6	Hybrids with Civil Law and Customary Law (28.54% of world population)
7	Hybrids with Civil Law and Common Law (3.47% of world population)
8	Hybrids with Civil Law, Common Law and Customary Law (0.8% of world population)
9	Hybrids with Customary Law and Common Law
10	Hybrids with Customary Law and Civil Law
11	Hybrids with Common Law and Customary (2.94% of world population)
12	Hybrids with Common Law and Civil Law
13	Hybrids with Common Law and Muslim Law (5.25% of world population)
14	Hybrids with Muslim Law and Common Law
15	Hybrids with Muslim Law and Civil Law
16	Hybrids with Muslim Law, Civil Law and Customary Law
17	Hybrids with Muslim Law, Common Law and Customary Law
18	Hybrids with Muslim Law, Civil Law, Common Law and Customary Law
19	Hybrids with Civil Law, Muslim Law and Customary Law (3.62% of world population)
20	Hybrids with Civil Law, Customary Law and Muslim Law
21	Hybrids with Common Law, Muslim Law and Customary Law (19.17% of world population)
22	Hybrids with Civil Law, Common Law, Jewish Law and Muslim Law (0.09% of world population)
23	Hybrids with Customary Law and Muslim Law
24	Hybrids with Common Law, Civil Law and Customary Law
25	Hybrids with Muslim Law, Customary Law and Civil Law
26	Hybrids with Civil Law, Common Law and Customary Law
27	Hybrids with Civil Law, Customary Law and Common Law

Source: Author calculation

The main statistic properties of the data are listed in Table 3.

**TABLE 3. SUMMARY STATISTICS OF LEGISLATIVE FAMILIES AND IFRSS ADOPTION**

	<i>Legislative families dummy</i>	<i>IFRSs adoption dummy</i>
Mean	5.45	1.69
Median	2.00	2.00
Maximum	27	3.00
Minimum	1	0.00
Std. Dev.	5.86	1.39
Skewness	1.32	-0.26
Kurtosis	3.87	1.22
Jarque-Bera	52.31	23.43
Cross-section observations	162	162

Source: Author calculation

The values of dispersion, the non-normal distribution and the presence of the *fat tails* effects suggest that there is an important degree of data heterogeneity. Thus, it is necessary to employ an estimation method robust to such heterogeneity. We appeal to the *Generalized Linear Models* (GLM) estimation framework. This methodology allows flexible specifications of the model and “for non-normal data without clustering, generalized linear models are an appropriate alternative to linear models” (Tuerlinckx et al., 2006).

#### IV. RESULTS AND ROBUSTNESS CHECK

Column 1 of Table 4 reports the standalone GLM estimation. It appears that the type of legislative families exercises a significant influence of 1% to IFRSs adoption. The negative sign suggests that this influence is more in favour of boosting up the adoption as the legislative structures are closer to simple civil and common law systems.

TABLE 4. IFRSS ADOPTION AND LEGISLATIVE FRAMEWORK

		<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
		<i>(Generalized Linear Model-constant included)</i>	<i>(Generalized Linear Model-BHHH)</i>	<i>(Generalized Linear Model-Quadratic )</i>	<i>(Quantile Regression)</i>	<i>(binary equation-dependent: binary IFRS)</i>
Legislative dummy	families	-0.09*** (5.27)	-0.05*** (4.22)	-0.05*** (3.68)	-0.07*** (4.34)	-0.07*** (3.68)
Rule of law			0.23*** (2.78)	0.23*** (3.23)	0.54*** (7.22)	0.63*** (4.28)
Real GDP per capita (20 years moving average)			0.08*** (7.08)	0.08*** (7.74)	0.21*** (11.30)	0.09*** (4.15)

Notes: \*\*\*, \*\*, and \* represent statistical significance at 1%, 5%, and 10% level. Figures in bracket represent the t- statistic; For the Generalized Linear Model estimations: a) Family: Poisson; b) Link function: Log; c) Optimization algorithm: BHHH (Model 2) and, respectively, Quadratic Hill Climbing (Model 3); For Quantile Regression estimation: a) Coefficient covariance: Bootstrap (10000 replications); b) Sparsity estimation: Siddiqui (mean fitted) - bandwidth method: Hall-Sheather (size parameter: 0.05); c) Random generator: Knuth; d) Bootstrap method: Markov Chain Marginal (as modified by Kocherginsky, He and Mu, 2005); for Binary equation: binary choice- extreme value model; Included observations: 162.

A first way to check the robustness of these results can consist in taking into account some control variables. We first consider the “rule of law” variable as this is captured in the methodology proposed by Kaufman et al. (2010) and reported by *Worldwide Governance Indicators* World Bank’ project (WGI) (2010a). There are several transmission channels through which the rule of law can support the IFRSs adoption. For instance, we may argue that the investor’s demand for fair value information and a company’s commitment to transparency increase the likelihood of providing such information by taking into account the requirements of IFRSs. There is some recent empirical evidence to support this thesis (see Muller et al., 2008). One possible argument is that increased disclosure as a consequence of IFRSs adoption can enforce the corporate reputation (Espinosa et al., 2004), improves the market liquidity (Verrecchia, 2001), and lowers company’s cost of capital (Healy and Palepu, 2001, Core, 2001) and so it can provide an *informational rent* for owners.

The pre-existence of a sound legal system, with effective mechanisms of reinforcement for property rights and investors protection, can also support higher net inflows of foreign investments (Hewko, 2002). Furthermore, the presence of foreign investors will exercise a supplementary pressure on local decisional bodies to adopt IFRSs, since such an adoption benefits them as well as foreign debtors due at least to: a) reducing the information processing cost of foreign investors and b) lowering the effect of other barriers on cross-border investments such as the geographic distance (Beneish et al. 2009). Such channel applies both for direct and equity foreign investments (Brüggemann et al., 2009; DeFond et al., 2009).

Besides the rule of law, we also consider the economic growth as a possible key determinant of IFRSs adoption. Archambault and Archambault (2009) document that less economically



developed countries are more likely to allow IFRSs. Ramanna and Sletten (2010) argue that as more jurisdictions with economic ties to a given country adopt IFRSs, benefits perceived from lowering transactions costs to foreign financial-statement users come to outweigh institutional differences.

Our main argument is that, in a pro-growth oriented policy framework, the adoption of IFRSs can appear as a “natural” solution considering its various potential benefits. Among others, the adoption: a) can improve the activity of capital markets especially in relation to small companies in insider economies (Schleicher et al., 2010; Daske et al., 2008); b) can contribute to a decrease in companies’ cost of capital and an increase in equity valuations (Daske et al., 2008); c) can strength the authorities’ responsiveness to risks, prudential oversight of capital, liquidity and risk management (Financial Stability Forum, 2008). All these effects can largely contribute to economic growth and, so, decisional bodies can support the IFRSs adoption as a growth engine. Thus, we are expecting that both rule of law and economic growth to have a positive impact on adoption processes.

The outputs of a covariance analysis between IFRSs and legislative families’ dummies and, respectively, World Bank proxy for *rule of law* and real GDP per capita are displayed in Table 5 (*Spearman rank-order covariance*) and Table 6 (*Kendall's tau*). According with these outputs, it can be concluded that as long as the considered transmission channels between the control variables, IFRSs adoption and legislative structures can be sustained theoretically, they are also empirically valid.

**TABLE 5. COVARIANCE ANALYSIS OF IFRSS ADOPTION DUMMY AND EXPLANATORY VARIABLES - SPEARMAN RANK-ORDER COVARIANCES**

		<i>Covariance</i>	<i>Correlation</i>	<i>t-Statistic</i>	<i>Probability</i>
Legislative families dummy	IFRSs adoption dummy	-839.82	-0.43	-6.08	0.00
Rule of law	IFRSs adoption dummy	979.93	0.49	7.03	0.00
Rule of law	Legislative families dummy	-417.69	-0.20	-2.55	0.07
Real GDP per capita	IFRSs adoption dummy	849.58	0.42	5.87	0.00
Real GDP per capita	Legislative families dummy	-607.15	-0.29	-3.79	0.00
Real GDP per capita	Rule of law	1820.79	0.83	18.64	0.00

Notes: Included observations: 162; Dunn-Sidak multiple comparison adjusted probabilities; the test statistics and associated p-values reported are meant to test the hypothesis that a single correlation coefficient is equal to zero; degree of freedom adjusted.

**TABLE 6. COVARIANCE ANALYSIS OF IFRSS ADOPTION DUMMY AND EXPLANATORY VARIABLES - KENDALL'S TAU MEASURES OF ASSOCIATION**

		<i>tau-b</i>	<i>tau-a</i>	Score (S)	Concordance	Discordance	Probability
Legislative families dummy	IFRSS adoption dummy	-0.37	-0.26	-3357.00	1766.00	5123.00	0.00
Rule of law	IFRSS adoption dummy	0.37	0.30	3873.00	6027.00	2154.00	0.00
Rule of law	Legislative families dummy	-0.14	-0.13	-1636.00	4335.00	5971.00	0.08
Real GDP per capita	IFRSS adoption dummy	0.32	0.26	3333.00	5757.00	2424.00	0.00
Real GDP per capita	Legislative families dummy	-0.21	-0.18	-2378.00	3964.00	6342.00	0.00
Real GDP per capita	Rule of law	0.64	0.64	8355.00	10698.00	2343.00	0.00

Notes: Included observations: 162; Dunn-Sidak multiple comparison adjusted probabilities; the test statistics and associated p-values reported are for testing the hypothesis that a single correlation coefficient is equal to zero; degree of freedom adjusted.

Thus, column 2 of Table 4 reports our empirical evidences for the existence of a significant positive effect at 1% of better legislative framework and sustainable growth to adoption. Moreover, the robustness can be checked, for instance, by modifying the estimation procedure. The modifications might refer to: 1) changes in optimization procedure for GLM framework and 2) changes in methodology.

Thus, column 3 of Table 4 presents the results obtained when the optimization procedure shifts from *BHHH* algorithm to the so-called *Quadratic Hill Climbing* algorithm. With the exception of minor modifications in t-statistics, there are no significant changes in the relevance of considered variables with such shift. Column 4 displays the output of *quantile regression* estimation. Originally proposed by Koenker and Bassett (1978), *quantile regression* provides estimates of the linear relationship between regressors and a specified quantile of the dependent variable. One important special case of quantile regression is the *least absolute deviations* (LAD) estimator, which corresponds to fitting the conditional median of the response variable. Such method allows a more complete description of the conditional distribution than conditional mean analysis alone and, since it does not require strong distributional assumptions, it offers a distributional robust method of modelling the relationship between different percentiles of dependent and the explanatory variables. We employ a bootstrap estimation (10000 replications) based on the *Markov Chain Marginal Bootstrap* (MCMB) in the version developed by Kocherginsky et al. (2005). This version alleviates the autocorrelation problems that can appear in the standard version of MCMB by prior transforming the parameter space and after the performance of the MCMB algorithm, transferring

the results back to the original space. This methodology substantially improves the significance of the estimated parameters.

In addition, we have tested the capacity of our conceptual framework to predict the extreme cases (full adoption of current IFRSs). Such choice is justified by the fact that in our dataset only 48% of the observed cases represent the last stage of IFRSs adoption, whereas the others count for intermediary stages. Thus, it can be argued that, if our model is sound, it should be able to predict the situations of full IFRSs adoption and to discriminate between such situation and other stages of adoption. In order to perform such test, the IFRSs dummy is transformed in a binary variable according to the next rule:

$$Binary\_IFRSs_i = \begin{cases} 1, & \text{if } IFRSs = 3 \\ 0, & \text{otherwise} \end{cases} \quad (1)$$

The binary estimation is reported in column 5 of Table 4. All the variables are remaining significant at 1% after the transformation of the dependent variable. The binary equation also allows an estimation of the model predictor capacity through the so-called *classification table*. The fraction of observations that are correctly predicted is termed *sensitivity*, while the fraction of observations that are correctly predicted is labelled as *specificity*. The content of such classification is displayed in Table 7 with prediction results based upon expected value calculations.

TABLE 7. EXPECTATION-PREDICTION EVALUATION FOR BINARY SPECIFICATION

	<i>Estimated Equation</i>			<i>Constant Probability</i>		
	Binary_IFRSs dummy=0	Binary_IFRSs dummy=1	Total	Binary_IFRSs dummy=0	Binary_IFRSs dummy=1	Total
E(Binary_IFRSs = 0)	56.15	29.58	85.73	44.60	40.40	85.00
E(Binary_IFRSs = 1)	28.85	47.42	76.27	40.40	36.60	77.00
Total	85.00	77.00	162.00	85.00	77.00	162.00
Correct	56.15	47.42	103.57	44.60	36.60	81.20
% Correct	66.06	61.59	63.93	52.47	47.53	50.12
% Incorrect	33.94	38.41	36.07	47.53	52.47	49.88
Total Gain*	13.59	14.06	13.81			
Percent Gain**	28.59	26.80	27.69			
Hosmer-Lemeshov Statistic		3.05		Prob. Chi-Sq(8)		0.93
Andrews Statistic		8.04		Prob. Chi-Sq(10)		0.63

Notes: \*Change in "% Correct" from default (constant probability) specification; \*\*Percent of incorrect (default) prediction corrected by equation; For Goodness-of-Fit Evaluation tests: Grouping based upon predicted risk (randomized ties); Success if probability is higher than 70%.

Such expected values are computed in the left-hand table. In the lower right-hand table, we can compute the expected number of *Binary\_IFRSs*= 0 and *Binary\_IFRSs*= 1 observations for a model estimated with only a constant. For this restricted model,  $E(\text{Binary\_IFRSs}= 0)$  is computed as  $n(1-p)$ , where  $p$  is the sample proportion of *Binary\_IFRSs*= 1 observations. A classification is labelled as “correct” when the predicted probability is less than or equal to the cut-off (70% in our estimation) and the observed *Binary\_IFRSs*= 0, or when the predicted probability is higher than the cut-off and the observed *Binary\_IFRSs*= 1. Overall, the estimated model predicts 63.93% of the observations (66% of the observations with dependent = 0 and 61.6% of the observations with dependent = 1) correctly. It appears that the levels of *sensitivity* and, respectively, *specificity* for our model are almost the same, implying that it can discriminate both „extreme” and „regular” cases. The gain in the number of correct predictions obtained by moving from the right table to the left table provides a measure of the predictive ability of our model. Roughly, there is an improvement of 27.69% over the constant probability model with our estimation. The Goodness-of-Fit tests, *Hosmer-Lemeshow* and *Andrews*, compare the expected fitted values to the actual values by group. If these differences are “small enough”, the model is fitting the data adequately. The values of these tests, also reported in Table 7, suggest that this is the case with the binary specification.

Overall, we view these results as providing some empirical support for our research hypothesis by highlighting the preference of Common Law and Civil Law countries to adopt in full the IFRSs.

## V. CONCLUSIONS

We hypothesize that countries which are characterized by principles and practices-based legislative systems are more likely to adopt IFRSs. In order to test such hypothesis, we have constructed, for a dataset of 162 jurisdictions, dummy variables designed to capture the current stage of IFRSs adoption and, respectively, the taxonomy of their legislative systems. We have tested the linkages between such variables inside a GLM framework and obtained robust evidences that the full adoption of IFRSs is more likely to occur for countries with mono-systems of Common Law and Civil Law types. Thus, we conclude that a flexible, homogenous and practices oriented general legislative system can be a prerequisite for a smooth and complete IFRSs adoption. We also find that a strong rule of law, with an effective mechanism of property rights reinforcement, can contribute to a faster IFRSs adoption. Such result does not necessarily contradict other findings in literature, since the IFRSs adoption can be viewed as an expression of the overview concern of decisional bodies to support the quality of contract enforcement, the property rights and the social order and not only as a tool for the compensation of the national legislative framework’ deficiencies. Similarly, it appears that the pre-adoption existence of a pro-growth set of public policies can facilitate the IFRSs adoption. Of course, the significance of our analysis depends on the relevance of the considered transmission channels which are far from being completely and consistently described on a conceptual level and perfectly robust empirically tested. However, the provided evidences can contribute to enhance a broader explanatory framework of the conditions in which there is a clear preference of regulatory bodies to adopt international standards.

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## **NACIONALNI ZAKONODAVNI SUSTAV I MEĐUNARODNI STANDARDI I PROPISI: SLUČAJ USVAJANJA MEĐUNARODNIH STANDARDA FINACIJSKOG IZVJEŠTAVANJA<sup>1</sup>**

### SAŽETAK

Ova studija je fokusirana na veze između zakonodavnih okvira kao deskriptora nacionalnih zakonodavnih sustava i Međunarodnih standarda financijskog izvješćivanja (MSFI), koje objavljuje Odbor za međunarodne računovodstvene standarde (IASB). Takve analize se razmatraju kao studije slučaja za šira pitanja u objašnjenju preferencija nacionalnih vlasti u usvajanju stranih normi, propisa, standarda i praksi. Korištenjem skupa podataka od 162 pravne i dummy varijable, osmišljene za dostizanje trenutne faze usvajanja MSFI-a, odnosno, taksonomije njihovih zakonodavnih sustava, smatra se da će se puna primjena MSFI-a vjerojatnije dogoditi u zemljama koje svoja načela temeljena zakonskim monosustavima. Osim toga, primjetno je da snažna vladavina prava, uz učinkovit mehanizam jačanja imovinskih prava, kao i prethodno donošenje skupa javnih politika rasta, može pridonijeti poticanju usvajanja MSFI-a.

Ključne riječi: usvajanje MSFI-a, zakonodavni okviri, vladavina prava, rast

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