

**THE IMPACT OF LEGAL ORIGIN AND HARMONISATION
ON IFRS FINANCIAL REPORTING OF
JAPANESE SUBSIDIARIES IN AUSTRALIA**

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ABSTRACT

This study examines the impacts of (1) the adoption in Australia of globally accepted accounting standards, International Financial Reporting Standards (IFRS), and (2) the legal tradition on financial reporting for Japanese subsidiaries in the Australian intra-county setting. Currently by March 2017, IFRS had been adopted across 126 jurisdictions. In Australia, since 2005 all reporting entities, including foreign-owned subsidiaries, have been required to implement Australian IFRS, whereas Japan have not yet adopted IFRS. Australia, one of the common-law countries, is viewed as having an investor-orientated, efficient accounting environment. In contrast, Japan is categorised as a code-law country with a bank-centred society. Financial reporting behaviours in code-law countries, which resolve information asymmetry through insider communication networks, are regarded to be dissimilar to those in common-law countries, which publicly disclose information. The adoption of the Anglo-American model of IFRS for the Japanese subsidiaries operated businesses in Australia is expected to lead to a decrease in diversity and earnings management in financial reporting, resulting in an increase in reporting quality for the reporting entities.

This study investigated financial reporting diversity, earnings management and timely loss recognition during 2000–2010 and the reconciliations at the IFRS transitional period for the Japanese subsidiaries and their peer companies in the Australian context. The results show that financial reporting diversity increased after IFRS adoption, but frequencies of earnings management decreased, indicating that the sample companies, specifically for the Japanese subsidiaries, generally improved their financial reporting quality in the post-adoption period. This study found that the foreign-owned subsidiaries, which were strictly monitored by multiple parties, such as regulators, competitors, professionals and customers in the local market, tended to have the shareholder-oriented model under more market pressure, compared with the local firms which were more likely to have the insider access model. Although the financial reporting for the Japanese subsidiaries were not in line with their Australian peer companies, their financial statements in accordance with IFRS started to disclose a wide range of items and became more useful for the users' decision-making. During the observed period, the IFRS financial statements were still heterogeneous across companies, so IFRS were not

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always effectively standardised. Nevertheless, there is enough room for IFRS financial statements to show some form of homogenisation in the business community in the future under the Australian effective regulatory systems.

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LIST OF ABBREVIATIONS AND ACRONYMS

A-IFRS	Australian Equivalents to IFRS or Australian Accounting Standards
AARF	Australian Accounting Research Foundation
AASB	Australian Accounting Standards Board
ADR	American depositary receipt
AGAAP	Australian generally accepted accounting principles
AICD	Australian Institute of Company Directors
APCs	Australian locally-owned peer companies
ASA	Australian Society of Accountants
ASBJ	Accounting Standards Board of Japan
ASIC	Australian Securities and Investments Commission
ASRB	Accounting Standards Review Board
ASX	Australian Securities Exchange
BAC	Business Accounting Council
CAANZ	Chartered Accountants Australia and New Zealand
CESR	Committee of European Securities Regulator
CLERP	Corporate Law Economic Reform Program
CODE	code-law peer companies
COMMON	common-law peer companies
CPA	Certified Practising Accountants (Australia) or Certified Public Accountant (Japan)
CV	coefficient of variation
DBO	defined benefit obligation
DIISR	Department of Innovation, Industry, Science and Research

List of Abbreviations and Acronyms

EC	European Commission
ED	exposure draft
EU	European Union
FASB	Financial Accounting Standards Board
FASF	Financial Accounting Standards Foundation
FDI	foreign direct investment
FRC	Financial Reporting Council
FSA	Financial Services Agency
G20	Group of Twenty countries
GAAP	generally accepted accounting principles
GDP	gross domestic product
GHQ	General Headquarters of Allied Powers
GPFR	general purpose financial report
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
I/B/E/S	Institutional Brokers Estimate System
ICAA	Institute of Chartered Accountants Australia
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Standards Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPA	Institute of Public Accountants

List of Abbreviations and Acronyms

J-IFRS	Japanese version of IFRS. The official name as “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”
JICPA	Japanese Institute of Certified Public Accountants
JIT	just-in-time
JSCs	Japanese subsidiary companies which operated businesses in Australia
M&A	mergers and acquisition
MNC	multinational corporation
NIA	National Institute of Accountants
NSW	New South Wales
NYSE	New York Stock Exchange
OTC	over-the-counter
PAT	Positive Accounting Theory
PPE	property, plant and equipment
R^2	coefficient of determination
RDR	Reduced Disclosure Regime
SEC	Securities and Exchange Commission
SME	small- and medium-sized entity
SPE	special purpose entity
SPFR	special purpose financial report
SSE	Sydney Stock Exchange
TSE	Tokyo Stock Exchange
UK	United Kingdom
US	United States of America
WWII	The Second World War