International Convergence of Financial Reporting Standards and Accounting Modernization in Germany

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Declaration

The work presented in this thesis is my original work and has not been submitted for a higher degree to any other university or institution. The source of information used and the extent to which the work of others has been utilized is acknowledged in the thesis. I am the main author of all co-authored papers included in this thesis. Final approval from the Human Research Ethics Committee has been obtained (HE30MAY2008-D05887).

Sydney, January 17, 2011

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Andreas Hellmann

Acknowledgments

July 26, 2007 was a nice and sunny day, and for many people in Sydney it was just another day. For me, however, the day was very special. A new chapter in my life was going to begin, and I still remember how excited I was joining my fellow PhD candidates at commencement day. Despite all the efforts of the Higher Degree Research officers to scare the new candidates on commencement day with declarations such as "It will be a very long and difficult journey, and not everyone will finish it" I was very motivated and could not wait to start with my research. It turned out that writing this thesis was indeed a long and challenging process, but I was very fortunate that I had many people supporting me during my candidature.

My family, especially my parents Peter and Irene Hellmann, supported me throughout my candidature. They have been my first teachers and have taught me to work independently and to examine issues critically. I am deeply grateful to them for their dedication and commitment to my education. My supervisors and mentors Professor Hector Perera and Professor Chris Patel taught me everything I need to know to work as an academic. Their valuable feedback on all aspects of my PhD work, their corrections, and their advice is greatly appreciated. Both are co-authors of all papers included in this thesis (my contribution is 80 percent) and I suspect that they still keep the early drafts of the papers. Comparing them with my final thesis would reveal how much my writing style changed. I am a German native speaker and I thank my supervisors for teaching me how to write papers and, importantly, how to do this in academic English. I would also like to thank Dr. Lisa Lines who copyedited my thesis.

Collecting data can be quite difficult, especially if much of the data are qualitative in nature and the potential interviewees are living approximately 10,000 miles away. I would like to thank Liesel Knorr (German Accounting Standards Board), Professor Bernd Joers (Hochschule Darmstadt), Professor Max Göttsche (Wissenschaftliche Hochschule Lahr), and Dr. Bernd Stibi (KPMG) who helped me

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List of Abbreviations

ARC	Accounting Regulatory Committee
BilMoG	Bilanzrechtsmodernisierungsgesetz
BMJ	Bundesministerium der Justiz
DPR	Deutsche Prüfstelle für Rechnungslegung
DSR	Deutscher Standardisierungsrat
EFRAG	European Financial Reporting Advisory Group
EStG	Einkommenssteuergesetz
EU	European Union
GAAP	Generally Accepted Accounting Principles
GASB	German Accounting Standards Board
GASC	German Accounting Standards Committee
GDP	Gross domestic product
GFREP	German Financial Reporting Enforcement Panel
GoB	Grundsätze ordnungsmäßiger Buchführung
HGB	Handelsgesetzbuch
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IDW	Institut der Wirtschaftsprüfer
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
KMO	Kaiser-Meyer-Olkin
LRT	Linguistic relativism theory
SDT	Semantic differential technique
SEC	Securities and Exchange Commission
WPK	Wirtschaftsprüferkammer

Abstract

The subject matter of this thesis focuses on the implications of globalization for accounting in Germany. In particular, it aims to critically examine the issues related to the adoption of International Financial Reporting Standards (IFRS) in Germany. The worldwide adoption of IFRS has been supported by the notion that a single set of high-quality global accounting standards is an important means of enhancing comparability of financial statements and reducing the cost of their preparation. However, the broad aim of comparability in financial reporting depends upon both the adoption and consistent application of IFRS across countries. The thesis questions the simplistic assumption that the worldwide adoption of IFRS will automatically lead to comparability in financial reporting because unique social, political, economic, and cultural environments in countries are likely to undermine the consistent interpretation and application of IFRS across countries.

As the accounting environment of a country would influence the interpretation and implementation of accounting standards, it is particularly interesting to examine the accounting environment of Germany that is considered different from that in which IFRS have been developed. Germany has an accounting regime that traditionally has a reputation of being focused on meeting the needs of creditors and insiders. In order to achieve its aim, this study has the following objectives: (1) to examine the factors in the German accounting environment that influence accounting practices; (2) to examine the relevant issues related to the differences in the German and English language versions of IFRS; (3) to provide empirical evidence on judgments of German professional accountants on fair values; and (4) to examine the effect of IFRS adoption on accounting modernization in Germany.

Four papers were completed for this thesis. The first paper entitled "Contextual Issues of the Convergence of International Financial Reporting Standards: The Case of Germany" shows that accounting as the language of business is deeply embedded in a country's social, political, and economic environment and that these contextual

factors cannot be ignored in the process of convergence. Specifically, by invoking the accounting ecology framework and interviewing selected stakeholders, this study critically examines the unique features of the accounting environment in Germany.

The second paper "Linguistic Relativity of Accounting and Global Convergence of Financial Reporting Standards" provides an in-depth discussion of issues related to the use of language in accounting. It reviews studies that examined the impact of language on the application of various accounting techniques and the interpretation of selected accounting information. This paper clearly shows that accounting is not neutral and value-free, and that accounting information is influenced by the language through which that information is conveyed and interpreted.

The third paper is entitled "Adoption of IFRS in Germany: A Case of 'Lost' in Translation?" and it investigates the issues related to the use of language in accounting. In particular, based on a comprehensive review of the relevant literature, this study measures the meanings attributed to the prominent concept of IFRS, i.e. "fair value", in English and German languages, using the semantic differential technique (SDT) and similarity judgments of German professional accountants.

The fourth paper "Realities of Globalization of Financial Reporting Standards: Evidence from Accounting Modernization in Germany" offers a critical examination of the recent reforms of the regulatory environment in Germany. Data for the study were collected through a document survey and from interviews with a selected group of key individuals and an online focus group that had an influence on and/or interest in accounting regulation in Germany.

The four papers provide valuable insights into the issues associated with the adoption of IFRS in Germany. The findings of this study provide evidence of the importance of considering the contextual influences in understanding accounting standards and practices in a country. It develops a framework that can be used to analyse linguistic relativism in the context of IFRS. Specifically, this framework

divides IFRS into two groups, namely, lexicon and grammar, and it depicts various dimensions of linguistic influence on both groups, such as connotative meaning, denotative meaning, readability, understandability, and translation. It also provides empirical evidence that the meaning of "fair value" varies between German and English languages. Importantly, it demonstrates that differences in meaning associated with accounting terms affect accounting judgments and may hinder a consistent application of IFRS in Germany. Findings of this study raise some interesting issues related to international financial reporting, as they suggest a shift in the German accounting system away from the Continental European model of accounting. Findings of this study have implications for the International Accounting Standards Board's (IASB) push for international convergence toward IFRS as well as other institutions such as German accounting standard setters.