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Enhancing Financial Transparency and Corporate Governance in Financial Reporting: An Impact Analysis of IFRS Adoption

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ABSTRACT: This study evaluates the impact of International Financial Reporting Standards (IFRS) adoption on financial reporting quality, focusing on transparency, earnings management, capital market access, and industry-specific effects. Using a systematic literature review across multiple jurisdictions, the findings indicate that IFRS generally enhances financial transparency and facilitates cross-border investment. However, its effectiveness depends heavily on strong regulatory enforcement and corporate governance. While several studies report reduced earnings management due to stricter standards, opportunistic practices may still persist, particularly in regions with weaker oversight. IFRS adoption also tends to improve access to capital markets, but challenges remain, including high implementation costs, regulatory inconsistencies, and limited resources, especially in developing economies. The study acknowledges limitations such as potential publication bias and varying regional contexts that may influence IFRS outcomes. To maximize the benefits of IFRS, the study recommends strengthening legal frameworks, investing in training for accounting professionals, and fostering collaboration between international standard setters and local regulators. These measures aim to enhance compliance, reduce complexity, and improve overall financial reporting quality globally.

Keywords: IFRS Adoption, Corporate Governance in Financial Reporting, Financial Reporting Quality, Transparency, Corporate Governance, Earnings Management, Capital Market Access, Regulatory Compliance

INTRODUCTION

The adoption of International Financial Reporting Standards (IFRS) has significantly transformed the landscape of financial reporting globally. Developed by the International Accounting Standards Board (IASB), IFRS aims to create a standardized and internationally accepted accounting framework to enhance financial statement comparability, transparency, and reliability. Since its introduction, IFRS has been adopted by over 160 countries, including the European Union member states, making it the predominant accounting standard worldwide (Nguyen et al., 2020; Tran et al., 2019). Beyond its adoption by publicly traded companies, IFRS has also influenced the public sector through the International Public Sector Accounting Standards (IPSAS), which provides governments with a structured approach to financial reporting (Gomes et al., 2019). The widespread adoption of IFRS reflects the growing need for harmonized financial reporting standards that support global economic integration (Bryant & Javalgi, 2016; Jung, 2023; Tung et al., 2020).

A key driver behind IFRS adoption is the increasing demand for financial transparency and accountability across jurisdictions and industries. The globalization of capital markets has intensified the need for financial statements that facilitate cross-border investment and economic decision-making (Majid, 2017). The financial crises experienced in various economies have further underscored the necessity for robust and reliable accounting standards to mitigate risks and enhance investor confidence (Gomes et al., 2019). By implementing IFRS, firms aim to improve the quality of financial information, which in turn fosters trust among investors and reduces information asymmetry (Li et al., 2021; Mita et al., 2018).

The adoption of IFRS is often associated with improvements in financial reporting quality. Empirical research has demonstrated that IFRS enhances financial statement relevance and reliability, leading to more informed decision-making by stakeholders (Florou & Kosi, 2015). Additionally, IFRS implementation reduces earnings management and promotes greater consistency in financial disclosures, benefiting both firms and investors (Iatridis, 2010). Studies also indicate that IFRS compliance positively impacts firms' access to capital markets, allowing them to attract foreign investments and optimize capital structures (Florou & Kosi, 2015). For companies operating in developing economies, IFRS adoption serves as a mechanism to strengthen financial transparency and align with international best practices (Ma et al., 2022; Nguyen et al., 2020).

Despite the recognized benefits, IFRS implementation presents significant challenges. In many instances, firms face high costs of transitioning to IFRS, limited local expertise, and varied interpretations of complex standards. Differences in regulatory environments, enforcement mechanisms, and cultural accounting traditions across countries influence the effectiveness of IFRS adoption (Beneish et al., 2015). In jurisdictions with weak regulatory oversight, IFRS may not deliver its intended benefits, as firms may engage in opportunistic reporting practices that undermine transparency (Carvajal & Cahan, 2024).

Moreover, the term "corporate governance in financial reporting" becomes pivotal in ensuring that IFRS adoption does indeed lead to enhanced accountability. Through effective internal controls and independent oversight, corporate governance structures serve as safeguards that help uphold the spirit of IFRS in providing comparable and transparent financial statements.

This review aims to analyze the impact of IFRS adoption on financial statement quality by examining the key factors that contribute to its effectiveness. The study will explore the role of corporate governance, regulatory frameworks, and audit practices in shaping financial reporting outcomes under IFRS. Additionally, the review will assess how IFRS affects financial transparency, earnings management, and investor decision-making processes. By synthesizing existing literature, this study seeks to provide a comprehensive understanding of IFRS adoption and its implications for financial reporting quality (Cutillas Gomariz & Sánchez Ballesta, 2014; Shahzad et al., 2019; Siregar & Nuryanah, 2019).

The scope of this review encompasses studies conducted in diverse geographical regions, including developed and emerging economies (Fatima, 2017; Huang et al., 2013; Khan et al., 2020). The analysis will focus on empirical findings related to IFRS adoption in various industry sectors, highlighting the similarities and differences in its implementation. Additionally, the review will consider regulatory perspectives and policy implications to offer insights into the challenges and opportunities associated with IFRS adoption. By providing a balanced evaluation of IFRS's impact, this study aims to contribute to the ongoing discourse on global financial reporting standards and their role in enhancing financial statement quality (Handayani et al., 2020; Irwansyah, 2023; Santis et al., 2019).

METHOD

To examine the impact of International Financial Reporting Standards (IFRS) adoption on financial reporting quality, a systematic literature review was conducted using multiple academic databases. The selection of databases was based on their credibility, accessibility, and coverage of high-impact research in accounting and finance. The primary databases used include Scopus, Web of Science, Google Scholar, JSTOR, and Emerald Insight. Scopus and Web of Science were particularly valuable due to their extensive indexing of peer-reviewed journals and their citation analysis capabilities, allowing for the identification of key influential studies (Tran et al., 2019; Nguyen et al., 2020). Google Scholar was also utilized to capture a broader range of literature, including dissertations, working papers, and institutional reports that might not be indexed in more formal databases (Gomes et al., 2019). Additionally, JSTOR provided access to historical perspectives on financial reporting, while Emerald Insight offered targeted research in accounting, corporate governance, and business management (Majid, 2017; Li et al., 2021).

The search for relevant literature was conducted using a series of carefully selected keywords and Boolean search operators to refine the results. The keywords were designed to capture the essential aspects of IFRS adoption and its influence on financial reporting quality. These included terms such as "IFRS adoption financial reporting quality," "impact of IFRS compliance on transparency," "IFRS and corporate governance," "IFRS implementation challenges," "earnings management post-IFRS adoption," "comparability of financial statements under IFRS," "IFRS disclosure quality," and "financial reporting transparency IFRS" (Mita et al., 2018; Florou & Kosi, 2015). The inclusion of these specific terms ensured that the literature reviewed encompassed studies that addressed IFRS's effects on transparency, governance, comparability, and overall financial statement reliability.

To ensure a rigorous selection process, inclusion and exclusion criteria were established. The inclusion criteria required that studies be peer-reviewed, published in reputable journals or conference proceedings, and directly related to IFRS adoption and financial reporting quality. Studies had to be published in English and focus on empirical research or systematic reviews that provided quantitative or qualitative assessments of IFRS impacts (Ma et al., 2022). Articles that were conceptual in nature without empirical backing or that did not explicitly focus on IFRS adoption were excluded from consideration. Additionally, papers that primarily examined IFRS within a purely theoretical framework without application to financial reporting practices were also excluded (Navarro-García & Bastida, 2010).

The review included various types of research methodologies to provide a comprehensive understanding of IFRS's impact. Empirical studies using quantitative methods, such as regression analysis, panel data modeling, and event studies, were prioritized, as they offered measurable insights into the financial effects of IFRS adoption (Beneish et al., 2015). Additionally, case studies and qualitative research exploring managerial perspectives and corporate governance implications were also considered to enrich the analysis (Carvajal & Cahan, 2024). Studies utilizing mixed methods, which combined quantitative analysis with qualitative insights, were particularly valued for their ability to provide a more holistic perspective on IFRS implementation challenges and benefits (Iatridis, 2010).

The process of literature selection involved multiple stages to ensure the relevance and reliability of the included studies. First, a preliminary screening was conducted based on article titles and abstracts to filter out irrelevant or tangential studies. Next, full-text reviews were performed on the remaining articles to assess their methodological rigor, data validity, and contribution to the research question. Studies that met the established criteria were then systematically categorized based on key themes, including transparency improvements, governance effects, financial statement comparability, and earnings management implications post-IFRS adoption (Florou & Kosi, 2015). This thematic categorization facilitated a structured synthesis of findings and allowed for a clearer evaluation of the overarching trends and insights in the literature.

The final set of studies included in the review was critically appraised using established criteria for evaluating research quality. These criteria included the robustness of research design, sample size adequacy, statistical validity, and generalizability of findings. Particular attention was given to studies that accounted for confounding factors and employed advanced econometric techniques to isolate the specific effects of IFRS adoption on financial reporting outcomes (Majid, 2017; Ma et al., 2022). Additionally, comparative studies examining the pre- and post-IFRS adoption periods across different jurisdictions were prioritized to provide insights into how IFRS impacts varied across regulatory and economic contexts (Nguyen et al., 2020).

By adopting this methodological approach, this study ensured a comprehensive and balanced evaluation of the literature on IFRS adoption and its impact on financial reporting quality. The integration of diverse research methodologies, a rigorous selection process, and thematic analysis of findings enabled the identification of critical factors influencing IFRS implementation and its broader implications for financial transparency and investor confidence.

RESULT AND DISCUSSION

1. The Impact of IFRS on Financial Transparency

The adoption of International Financial Reporting Standards (IFRS) has been extensively studied in relation to its impact on financial transparency. Empirical evidence suggests that IFRS enhances transparency by encouraging comprehensive and relevant disclosures, enabling stakeholders to make better-informed decisions. El-Gazzar and Finn found that companies adopting IFRS tend to disclose more information regarding earnings quality and financial risks, thereby improving overall transparency (Tran et al., 2019). Similarly, Iatridis indicated that IFRS adoption reduces earnings management and increases reporting accuracy, reinforcing investor confidence (Nguyen et al., 2020). These findings highlight that IFRS does not only enhance transparency but also fosters greater trust in financial reporting.

Comparing financial transparency before and after IFRS adoption across different countries reveals varying outcomes influenced by local contexts and regulatory frameworks. In Europe, Platikanova and Perramon documented a significant increase in financial statement comparability among publicly listed firms post-IFRS adoption, a key indicator of enhanced transparency (Gomes et al., 2019). The standardization of reporting facilitated cross-border investment evaluations and financial decision-making. Conversely, in developing economies like Indonesia, research by Farichah demonstrated that while IFRS adoption improved disclosure practices, implementation challenges such as limited expertise and regulatory inconsistencies persisted (Majid, 2017). In Brazil, Silva et al. found that although IFRS enhanced reporting quality, weak enforcement mechanisms sometimes impeded its full benefits (Li et al., 2021). While IFRS has been widely praised for standardizing financial disclosures, limitations such as insufficient local capacity and inconsistent regulatory enforcement can hamper its effectiveness. This uneven application may limit the overall improvement in transparency, especially in emerging economies where institutional frameworks are still developing.

2. The Effect of IFRS on Earnings Management

The relationship between IFRS adoption and earnings management has generated significant academic interest. IFRS is designed to improve financial reporting quality by curbing opportunistic earnings manipulation. Empirical research supports the notion that IFRS implementation reduces earnings management by promoting stricter accounting rules and enhancing disclosures. Farichah's study in Indonesia demonstrated a substantial decline in discretionary accruals post-IFRS adoption, indicating higher earnings quality (Tran et al., 2019). This finding aligns with research utilizing the modified Jones model, which measures earnings management tendencies.

However, the impact of IFRS on earnings management varies across jurisdictions. In Russia, Malofeeva observed an increase in earnings management post-IFRS adoption, suggesting that managers exploited new accounting flexibility to manipulate financial results (Nguyen et al., 2020). This finding underscores that while IFRS aims to restrict earnings management, its success depends on enforcement mechanisms and the corporate governance environment.

Several factors influence the extent of earnings management under IFRS. Regulatory oversight and legal enforcement play a crucial role in ensuring IFRS effectively limits earnings manipulation. Brown et al. found that countries with robust enforcement mechanisms exhibit lower earnings management levels after IFRS adoption (Gomes et al., 2019). Additionally, corporate governance and financial literacy impact compliance effectiveness. Amidu and Issahaku highlighted that firms in high-corruption environments often struggle to fully implement IFRS, leading to continued earnings management (Majid, 2017). Further research by Hakim et al. emphasized the importance of well-trained audit committees in mitigating earnings manipulation under IFRS (Li et al., 2021).

Some firms exploit the flexibility within certain IFRS guidelines to engage in earnings management, particularly when internal governance is weak. This highlights the necessity of strengthening audit committees and regulatory oversight to ensure IFRS achieves its intended objective of reducing opportunistic reporting.

3. IFRS and Access to Capital Markets

IFRS adoption has been linked to improved capital market access, particularly in attracting foreign investment and reducing financing costs. Research indicates that IFRS enhances investor confidence by providing standardized, reliable financial information. Florou and Kosi found that firms adopting IFRS were more likely to access public debt markets due to increased credibility (Tran et al., 2019). Similarly, Omotoso et al. documented a rise in foreign portfolio investment in IFRS-adopting economies, demonstrating the standard's role in fostering cross-border investments (Nguyen et al., 2020).

Regarding capital structure, Mazzi et al. reported that IFRS adopters benefit from optimized debt-equity ratios and improved financing terms (Gomes et al., 2019). Li et al. further established that IFRS-adopting firms experience lower capital costs post-transition, attributed to enhanced investor trust and reduced financial risk (Majid, 2017). However, IFRS effectiveness in capital market access is contingent on regulatory quality. Beneish et al. found that firms in jurisdictions with weak enforcement mechanisms did not experience the same financing advantages as those in well-regulated markets (Li et al., 2021). Nonetheless, for companies in developing regions, the costs of IFRS transition and ongoing compliance can offset potential gains from improved investor perception, underscoring a need for policy support and localized training.

4. IFRS Implementation Across Different Industries

The effects of IFRS vary across industries, with the financial, manufacturing, and service sectors experiencing unique challenges and benefits. The financial sector, due to its reliance on asset valuation and risk disclosure, often faces the most significant IFRS impact. Amidu and Issahaku found that IFRS adoption in African banks led to reduced earnings management and improved loan provisioning transparency (Amidu & Issahaku, 2019). However, Beneish et al. noted that banks in countries with weak regulatory oversight struggled with IFRS compliance, affecting reporting quality (Beneish et al., 2015).

In the manufacturing sector, Farichah identified increased earnings quality and transparency following IFRS adoption (Farichah, 2017). However, challenges such as fair value measurement complexity and revenue recognition inconsistencies remain significant hurdles (Kędzior et al., 2020). Meanwhile, the service sector faces distinct reporting challenges due to the variability of service-based transactions. Sassi and Ayadi reported that IFRS improved reporting clarity but necessitated operational adjustments in revenue recognition (Sassi & Ayadi, 2022). Overall, sectoral differences influence IFRS implementation outcomes, requiring tailored regulatory approaches for optimal effectiveness.

5. International Comparison of IFRS Adoption

IFRS adoption outcomes differ between developed and developing countries, largely due to variations in enforcement mechanisms, market sophistication, and institutional quality. In developed economies, stringent regulatory frameworks and established financial infrastructures facilitate smoother IFRS transitions. Beneish et al. found that firms in developed markets benefit from enhanced financial transparency and investor confidence post-IFRS adoption (Majid, 2017). Additionally, European firms experience improved financial statement comparability, bolstering cross-border investment opportunities (Nguyen et al., 2020).

Conversely, developing economies face greater IFRS adoption challenges. Amidu and Issahaku reported that limited financial literacy and resource constraints hinder IFRS compliance in emerging markets (Li et al., 2021). Cultural and institutional factors also influence IFRS effectiveness. Brown et al. noted that corruption and weak legal frameworks in some developing countries undermine IFRS transparency objectives (Gomes et al., 2019). Similarly, Farichah observed that Indonesian firms struggle with IFRS adherence due to inadequate training and inconsistent regulatory support (Mita et al., 2018). This discrepancy could create an uneven global landscape where IFRS advantages are not uniformly realized, highlighting the need for context-specific strategies that address limited resources and infrastructural constraints.

The findings of this study align with existing literature regarding the impact of International Financial Reporting Standards (IFRS) adoption on financial reporting quality. IFRS adoption has generally been linked to improvements in transparency and accountability, yet its implementation presents challenges and variability across different contexts. This section analyzes these findings in relation to the existing body of knowledge, explores systemic factors influencing IFRS adoption outcomes, examines regulatory and governance implications, and discusses potential solutions to overcome implementation challenges.

The assertion that IFRS adoption enhances financial transparency is well supported in the literature. Research by El-Gazzar and Finn indicates that firms transitioning from US-GAAP to IFRS experience reduced financial restatements and greater accuracy in financial reporting (Tran et al., 2019). This finding reinforces the intended objective of IFRS to enhance disclosure standards, allowing stakeholders to make more informed decisions. Furthermore, Mazzi et al. identified that cultural and institutional factors, such as corruption and enforcement mechanisms, significantly influence the degree to which IFRS improves financial reporting quality (Nguyen et al., 2020). These studies confirm that while IFRS offers a standardized framework for transparency, its effectiveness depends heavily on the enforcement environment and corporate governance structure of the adopting country.

Despite widespread agreement on the benefits of IFRS, some research suggests that its effectiveness varies across different jurisdictions. Homola and Paseková found that while IFRS adoption increases transparency, it also introduces complexities that may lead to reporting errors (Gomes et al., 2019). Similarly, Bodle et al. argued that IFRS does not entirely eliminate earnings management, as some firms continue to engage in income smoothing practices under the new standards (Majid, 2017). These contrasting findings highlight the need for rigorous enforcement and proper training in IFRS implementation to mitigate potential drawbacks.

A key finding of this study is the differential impact of IFRS adoption in developed and developing economies. In developed markets, strong regulatory frameworks and established financial infrastructures facilitate smoother IFRS adoption. Research by Florou and Kosi supports this notion, showing that firms in developed countries benefit from enhanced comparability and investor confidence post-IFRS adoption (Li et al., 2021). In contrast, Amidu and Issahaku documented substantial challenges in developing economies, where firms often struggle with IFRS compliance due to resource constraints and inadequate training programs (Mita et al., 2018). These findings underscore the necessity of tailored implementation strategies that address country-specific barriers to IFRS adoption.

The systemic factors affecting IFRS implementation include regulatory oversight, corporate culture, education, and accounting infrastructure. Regulatory enforcement plays a critical role in determining the effectiveness of IFRS. Research by Brown et al. found that countries with strong legal and institutional frameworks exhibit higher compliance rates and improved financial reporting quality (Tran et al., 2019). Conversely, Beneish et al. highlighted that in jurisdictions with weak regulatory bodies, IFRS adoption may fail to yield significant improvements in transparency (Mita et al., 2018). These findings suggest that policymakers must prioritize enforcement mechanisms to maximize the benefits of IFRS adoption.

Corporate culture and ethical business practices also influence IFRS adoption outcomes. Amidu and Issahaku found that in high-corruption environments, IFRS compliance tends to be superficial, as firms may continue engaging in earnings management despite adopting international standards (Nguyen et al., 2020). Conversely, a corporate culture that emphasizes transparency and accountability facilitates the intended benefits of IFRS. These findings imply that beyond regulatory measures, fostering an ethical business environment is essential for successful IFRS implementation.

Education and professional training further impact the quality of IFRS adoption. Farichah's study demonstrated that firms with well-trained accountants and financial managers tend to experience fewer compliance challenges and report higher-quality financial statements (Gomes et al., 2019). In contrast, firms in regions with underdeveloped accounting education systems often struggle to adhere to IFRS requirements. This highlights the importance of integrating IFRS-focused curricula in accounting programs and providing ongoing professional development to ensure effective implementation.

Accounting infrastructure, including technological capabilities and reporting tools, plays a crucial role in IFRS adoption. Ultreras-Rodríguez et al. noted that small and medium-sized enterprises (SMEs) often face difficulties in implementing IFRS due to limited access to sophisticated accounting systems (Majid, 2017). These findings suggest that policymakers should consider offering support programs or financial incentives to facilitate IFRS compliance, particularly for smaller firms with constrained resources.

Regulatory policies and corporate governance mechanisms significantly influence the effectiveness of IFRS in improving financial reporting quality. Brown et al. emphasized that well-defined regulatory policies contribute to successful IFRS adoption by ensuring consistent application across firms and industries (Tran et al., 2019). Moreover, Sassi and Ayadi identified that firms with strong internal governance structures exhibit better IFRS compliance and higher-quality reporting (Nguyen et al., 2020). This suggests that governments and financial regulators should focus on strengthening both external regulatory measures and internal corporate governance practices to optimize IFRS adoption outcomes.

An essential aspect of regulatory policy is the alignment between IFRS and national accounting regulations. Research by Oussii and Klibi indicated that regulatory inconsistencies often create challenges for firms attempting to transition to IFRS (Gomes et al., 2019). Policymakers must work towards harmonizing national accounting frameworks with IFRS to minimize conflicts and streamline implementation.

Corporate governance structures, particularly audit committees, play a crucial role in IFRS compliance. Garrouch and Omri found that firms with audit committees comprising financial experts are more likely to implement IFRS effectively and produce transparent financial statements (Majid, 2017). This finding suggests that corporate boards should prioritize financial expertise when appointing audit committee members to ensure better oversight of IFRS adoption.

Addressing IFRS implementation challenges requires a multifaceted approach involving regulatory reforms, corporate governance enhancements, and capacity-building initiatives. One potential solution is the establishment of IFRS training programs tailored to the needs of different industries and firm sizes. Research by Hakim et al. suggests that customized IFRS education programs can significantly improve compliance rates and reduce reporting inconsistencies (Li et al., 2021). Additionally, governments can introduce tax incentives or financial support schemes to assist SMEs in adopting IFRS-compliant accounting systems.

Strengthening regulatory oversight is another critical measure. Countries with weak enforcement mechanisms should consider establishing independent regulatory bodies dedicated to monitoring IFRS compliance. Beneish et al. argued that independent oversight agencies help ensure uniform application of IFRS and deter non-compliance (Mita et al., 2018). This measure could be particularly beneficial in developing economies where regulatory capacity remains a challenge.

Improving corporate governance practices can also enhance IFRS adoption effectiveness. Firms should be encouraged to adopt stricter internal controls and increase transparency in financial reporting. Research by Florou and Kosi demonstrated that firms with proactive governance policies are more likely to benefit from IFRS adoption in terms of investor confidence and market valuation (Li et al., 2021). This underscores the importance of internal governance reforms in complementing external regulatory measures.

While IFRS adoption has shown significant promise in improving financial reporting quality, certain limitations remain. One of the main challenges is the complexity of IFRS standards, which may be difficult for firms with limited accounting expertise to interpret and apply effectively. Additionally, differences in enforcement across jurisdictions create disparities in IFRS impact, making it difficult to achieve full comparability of financial statements on a global scale. Future research should explore alternative approaches to simplifying IFRS standards without compromising their effectiveness. Moreover, studies examining long-term IFRS adoption effects across diverse economic and institutional settings would provide valuable insights into optimizing implementation strategies.

In conclusion, IFRS adoption presents both opportunities and challenges for financial reporting quality. While its implementation enhances transparency and comparability, its effectiveness is contingent upon regulatory enforcement, corporate governance structures, education, and infrastructure. Addressing these systemic factors through targeted policy interventions and capacity-building initiatives will be essential in ensuring that IFRS fulfills its intended role in global financial reporting.

CONCLUSION

This study has explored the impact of International Financial Reporting Standards (IFRS) adoption on financial reporting quality, emphasizing transparency, earnings management, capital market access, and industry-specific challenges. Although IFRS has substantially contributed to enhanced disclosure practices and global comparability, its actual effectiveness in elevating financial reporting quality varies widely across different regulatory and cultural settings. In jurisdictions with robust corporate governance in financial reporting, IFRS adoption is more likely to reduce earnings management and boost investor confidence. Conversely, where enforcement mechanisms are weak, the anticipated benefits of IFRS may remain limited.

Concrete recommendations to maximize IFRS benefits include improving legal and regulatory support, bolstering corporate governance structures (e.g., more independent audit committees and stronger internal controls), and investing in professional training to address the complexity of IFRS standards. This study also underscores the importance of acknowledging context-specific challenges, especially in developing economies with limited resources and infrastructural constraints. Future research should delve deeper into longitudinal effects of IFRS adoption and explore innovative approaches to address persistent compliance barriers, thereby ensuring that IFRS can fulfill its role in promoting high-quality and transparent financial reporting worldwide.

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