HOW DOES A COUNTRY DECIDE TO ADOPT A SPECIFIC SET OF ACCOUNTING STANDARDS? AN ANALYSIS OF MEXICO'S TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

by

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ABSTRACT

This paper first defines financial reporting and gives examples of popular accounting standards, such as United States Generally Accepted Accounting Standards and International Financial Reporting Standards. Then the paper analyzes why a country would choose a certain set of standards and which factors about that country are important when determining which set of standards to implement. There are five factors that I hypothesize are important in a country's decision to implement a certain set of accounting standards: the country's culture, economy, trade agreements, political state, and colonial history. Finally, Mexico is used as an example to test this hypothesis. Mexico implemented International Financial Reporting Standards when many people would have assumed they would implement United States Generally Accepted Accounting Standards. But specific characteristics about their culture, economy, trade agreements, political state, and colonial history led them to choose International Financial Reporting Standards.

Keywords: accounting, financial reporting, implementation, Mexico, International Financial Reporting Standards

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1. What is Financial Reporting?

Financial reporting is the communication of financial information to stakeholders. Companies have incentives to show information including how successful they have been, how they execute their business strategies, and why someone should invest in their company.

Accounting is comparable to a language in many ways. To communicate one's thoughts and feelings to another person, one must use the correct language to get one's point across and help the other person understand. Accounting standards are a way to standardize the information companies provide in a way that financial statement readers can understand.

As there are many different languages, there are also many different financial reporting systems. Throughout thousands of years, countries and regions of the world organically developed local financial reporting standards to suit their economies. An example is Generally Accepted Accounting Principles (US GAAP) in the United States, and International Financial Reporting Standards used primarily in Europe. In some cases, industries, stock exchanges, and governments define which accounting standards should be used. But, when given a choice, companies and countries choose the set of accounting standards they believe will be most beneficial to their business, economic, and political situation.

2. Introduction

Considering that there are many different choices of accounting standards a country could implement, or that they can create their own financial reporting system, what are the reasons a country considers when they are making their choice? There are five factors that I find to be essential when a country decides which set of accounting standards to use: culture, economic state, trade agreements, political state, and colonial history.

The financial reporting standards that a country or company chooses can have a significant impact on the story told by the financial statements and thus on the way they do business with other countries and companies.

I focus on the implementation of International Financial Reporting Standards in Mexican companies. I analyze the culture, economic state, trade agreements, political state, and colonial history of Mexico and determine the ways in which those factors led Mexico to implement International Financial Reporting Standards.

Mexico's culture has specific qualities that lend itself to choosing IFRS. Mexico has many trade agreements with countries all over the world, and implementing IFRS is helpful when doing business and reporting financial statements in and with other countries. The economic state in Mexico calls for an increase in globalization and trade, an increase in foreign direct investment, control over inflation, and lowering foreign debt. With the current economic issues, I believe the implementation of IFRS will be helpful. The international relations are another factor to consider. When Mexico implemented IFRS, there was a large push for globalization and a goal to decrease reliance on the United States. Finally, Mexico has ties to Spain through their colonial history and Spain has implemented IFRS as well.

While there are other factors that may explain the decision to switch from Mexican GAAP to International Financial Reporting Standards, many can be drawn back to the five factors mentioned in my research.

3. What is IFRS?

International Financial Reporting Standards (IFRS) are just one set of financial reporting standards a company can use to present their financial information. Currently, nearly half of the Global 500 companies use International Financial Reporting standards as their financial reporting system (Steinbach & Tang, 2014).

The companies and countries that have implemented IFRS presumably find that there are advantages and disadvantages to this implementation (Steinbach & Tang, 2014). A set of standards that is comparable across companies and countries is very useful for foreign investment, and companies can reduce their financial reporting costs by using only one set of standards. But the cost to implement the new standards and change the current accounting system is a disadvantage to consider (Steinbach & Tang, 2014).

In the 1990s, the trend was that many countries and companies were adopting US GAAP. But, a short 15 years later, more than 100 countries had adopted or planned to adopt IFRS to a varying degree (Posner, 2010). An increase in globalization, foreign investment, and business agreements between foreign entities have increased the need for standardization of accounting standards (Laínez, Masci, & Durante, 2004).

In 1995 the International Accounting Standards Commission, IASC, created the original core standards and work plan for IFRS. From 1995 to 2002 the United States showed interest in these new standards and gave time and resources to the effort of creating the standards (Posner, 2010). After the International Organization of Securities Commission's (IOSCO) approval in 2000 of the second set of standards, later known as IFRS, the European Union adopted IFRS with legislation in July of 2002. This legislation required publicly traded companies to report

consolidated accounts that follow IFRS standards (Posner, 2010). The European Union member states set a deadline of 2005 for the implementation of IFRS for all companies (Posner, 2010).

In the US before 2007, all foreign registrants that used IFRS or another national GAAP and traded on US stock exchanges were required to reconcile their statements to US GAAP. After 2007, firms could use IFRS without reconciliation (Huff).

One example of an IFRS implementation is the 6K released by Coca-Cola FEMSA in June of 2011. This Mexican-based company analyzes the effects that the Comisión Nacional Bancaria de Valores' (National Banking and Securities Commission) decision to implement IFRS will have on their company. Some of the topics covered are the transition progress, impact on information systems, impact on accounting and business, and additional considerations. (Steinbach & Tang, 2014) Coca-Cola FEMSA states that they will adapt their information systems to follow IFRS and they will implement adjustments to create more comparable financial statements. These adjustments include: write-off of inflation in non-monetary assets and shareholder's equity, employee benefits, embedded derivatives, deferred income taxes, cumulative effect of foreign currency transaction, bonus program, and retained earnings (Form 6-K Coca-Cola FEMSA, 2011).

In addition to questions specific to Mexico, in the remainder of this paper I explain the following questions: What caused this switch from US GAAP to IFRS? Why did it occur within those 15 years? What makes a country more likely to switch to IFRS?

A. IFRS vs. US GAAP

The two most popular financial reporting systems in the world are US GAAP and International Financial Reporting Standards (IFRS). Many local systems are based on one of these two main systems. In Mexico, the original financial reporting system, Mexican GAAP was similar to US GAAP. Then, in the process of switching to IFRS, Mexico used Mexican Financial Reporting Standards (MFRS), which was based on IFRS. So the first step in understanding this switch between standards is to comprehend the major differences between US GAAP and IFRS.

The mission of the International Accounting Standards Board is "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions," (Huff).

Overall, the general framework and types of principles are similar in US GAAP and IFRS, but there are some differences that can have a major impact on a company's financial statements depending on the interpretation and involvement (Ernst & Young, 2013). According to the "Capital Market Development in Latin America and the Caribbean" chapter in *International Accounting Standards- Transparency, Disclosure and Valuation for Latin America and the Caribbean* some of the main areas for differences between US GAAP and IFRS include: stock compensation, business combinations, goodwill, research & development- acquisitions in process, financial statement consolidation, asset impairment, provision for liabilities of uncertain timing and amount, issuance of convertible debt, hyperinflation, discontinued operations: expectation for future operating losses, direct initial costs for lessors, foreign exchange differences on monetary transactions, segment report, property, plant & equipment (PP&E),

investment in property, correction of errors, accounting changes- non-required, financial statement formats, comprehensive income, statement of cash flows, construction contracts (when percentage of completion cannot be determined), capitalization of interest on constructed assets, preferred shares- mandatory redemption, investment in joint ventures- incorporated, changes in value on investments with not ready available market, and special purpose entities. More details about each of these differences are provided in the table in Appendix A (Laínez, Masci, & Durante, 2004).

Although the list of differences provided is lengthy, some of these differences are more consequential than others in their implementation. A study of the reconciling items between IFRS and US GAAP on the form 20-F found that out of the 20 categories of reconciliations studied, the most common adjustment was in the pension category. The largest value adjustments, positive and negative, came from the goodwill changes implemented and the differences in expense recognition (Henry, Lin, & Yang, 2009).

B. IFRS Structure and Governance

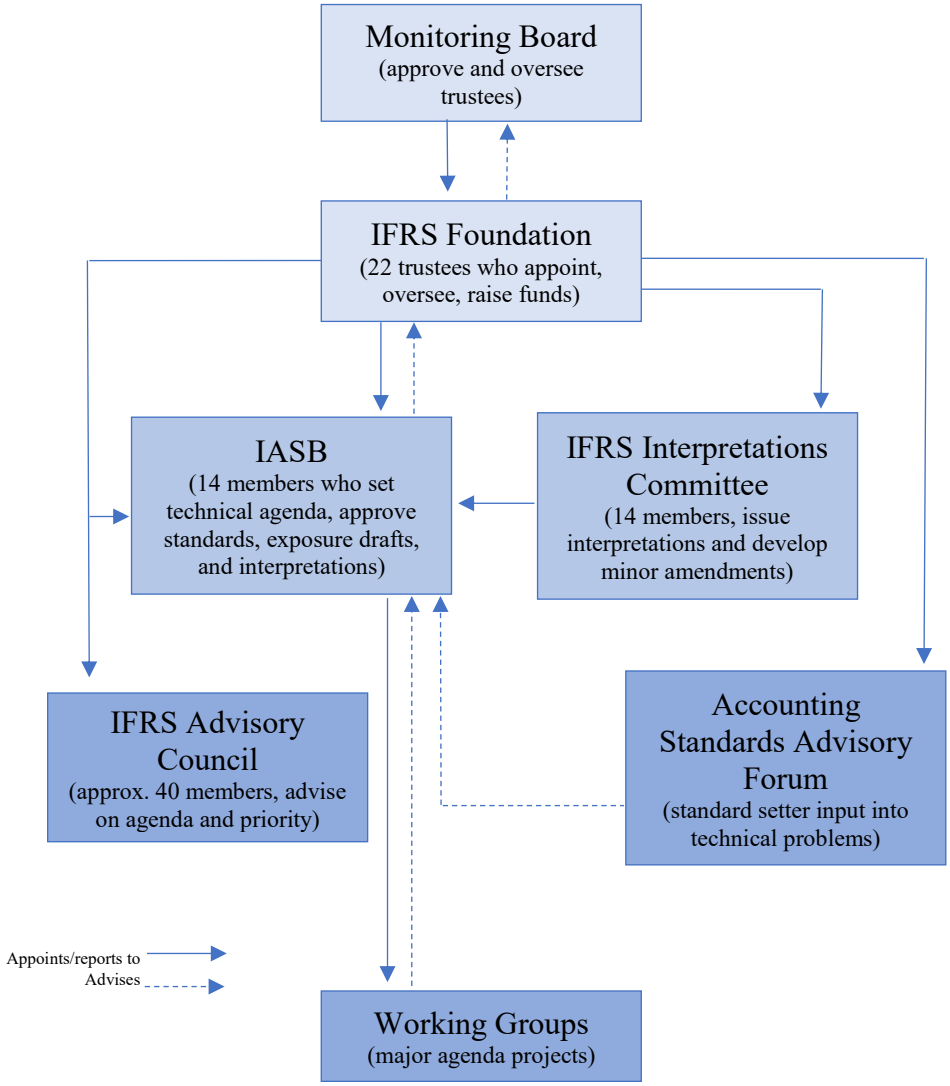
The International Accounting Standards Committee was established in 1973 with the goal of reconciling accounting standards. The organization was later converted into the International Accounting Standards Board in 2001. The IASC had previously created standards called International Accounting Standards, which the IASB adopted and improved. The IASB also develops their own new standards called International Financial Reporting Standards (IFRS in Your Pocket, 2005).

The IASB creates the standards and takes ownership of the standards. The body that governs the IASB is called the IFRS Foundation. There are 22 Trustees on the board of this

organization, from all over the world, each appointed to a 3-year term. These Trustees oversee the due process requirements of IFRS. The IASB has 14 members who develop the standards. The members have very diverse experiences and come from many regions of the world to ensure that all of the IFRS users are represented in the standard setting process (IFRS in Your Pocket, 2005).

Due process is required for setting IFRS standards. The organization consults with the users of the standards to get the opinions of many involved, from professionals in the industry to the standard setting board. Public discussions and forums, access to papers written on the standards and interpretations of new additions, and an approval from 9 out of the 14 IASB board members are required before implementation. The IASB holds a public consultation every 5 years to obtain opinions on specific topics, debates standards in public meetings, issues exposure drafts, considers comment letters received, issues standards with their explanations, consults an Advisory Council, and develops interpretations through the IFRS Interpretations Committee that consists of 14 members (IFRS in Your Pocket, 2005). A detailed structure is shown in the table below.

Figure 1- IFRS Structure (IFRS in Your Pocket, 2005)



C. IFRS Implementation Process

In the mid-1990s, the United States was the largest player in accounting standards setting. Some countries' local standards were based on US GAAP and some countries were changing those standards to make them even more like US GAAP (Posner, 2010). The United States was the main influencer throughout the world, but the second half of the 1990s to 2002 was a turning point for accounting standards throughout the world.

The IASC launched its core standards in 1995, the Securities and Exchange Commission was highly invested in the IASC, and the United States was very involved in the creation and the quality of the standards. After the International Organization of Securities Commission's (IASCO) 2000 approval of a second set of standards, IFRS started to emerge on the scene of accounting standards.

At the same time, the United States was in the process of reassessing their accounting standards after the devastating collapse of Enron and similar companies in 2001, due to perceived weaknesses in US GAAP and abuse of the standards. Soon after, the European Union decided to require member states' companies adopt International Financial Reporting Standards in 2002 and had the standards fully required by 2005. The United States continued to work with the IASB to have mutual recognition between the standard setting bodies. In 2008, the SEC allowed all foreign private issuers that file on form 20-F to list on US stock exchanges using IFRS and the SEC recognized IFRS without reconciliation of differences (SEC, 2008). The United States was in discussions, considering converging to IFRS, but it did not come to pass. The SEC even published a document called, "*Final Staff Report: Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers"* in July of 2012. But this report did not give a firm suggestion to start the implementation process (Weaver, 2015).

Today, the United States is one of the few countries that has not implemented the International Financial Reporting Standards, along with India and Japan. The United States, Japan, and India have less incentive to change their current standards because they are already economic powerhouses with large and well-functioning capital markets and have less of a need

for adaptation to attract capital for their countries. A map of countries that require IFRS for domestic public companies is included in Figure 2 (Posner, 2010).

Figure 2- Countries that require IFRS for domestic public companies (IFRS)

4. What determines countries' selection of a specific set of standards?

My contention in this paper is that some of the many factors that influence a country to implement accounting standards are culture, economy, trade agreements, politics, and colonial history. These five categories define the specific characteristics that make a country unique and make up that country's personality.

Cultural factors include individualism vs. collectivism, principles vs. details, one leader vs. consensus, and indirect vs. direct communication style, factors classified by Hofstede's

framework (Hofstede Insights). Economic factors include foreign debt financing, foreign investment, inflation, and economic development of a country. Trade alliances are important when two countries have invested greatly in each other. The country's current legal system may influence the decision. The political reasons include the relationships with other countries. Finally, a country's colonial history may have an impact on their current actions.

My hypothesis is that countries with specific characteristics within their culture, economy, trade agreements, politics, and colonial history will be more likely to implement one set of accounting standards than another. All of these factors have an influence on the likelihood of a specific country to adopt a certain set of adopting accounting standards.

5. Why would countries implement IFRS specifically?

The five factors that influence a country's decision to choose a specific set of accounting standards can be applied directly to the decision to implement IFRS. As I explain in more detail in the following sections, a country that is less focused on long-term orientation and more focused on indulgence culturally will be more likely to implement IFRS. If a country has many global trading partners, they are more likely to implement IFRS. The current political state could influence the switch to IFRS. If the current political power has global ambitions, a country is more likely to implement IFRS. If a country was colonized by a user of IFRS, they could be more likely to implement IFRS as well.

These categories are not equally influential and can affect a certain country's decision differently. Depending on the country's culture and how different it is from others switching standards, the current economic strength, and the political party in place, each factor could have

more or less influence on the decision. This is a dynamic situation because one factor can interact and influence the others and also change over time.

A. Culture

Cultural factors have a major impact on the way business is conducted in a specific country. These factors can change the way people negotiate, the structure of the leadership, the relationships among employees, and their relationships with clients.

Different cultures have different business styles, relationship building, etiquette, decision-making techniques, power structures, communication styles, meeting tactics, negotiating styles, and business entertainment (Rojas). For example, one business person from one country may want to get straight to business when a meeting starts while another from a different country may want to learn about their personal life first. Usually, in the United States, business people tend to be very direct and place more importance on the negotiation than the relationship they are building with other business people. This may be difficult and foreign for someone that comes from a country that wants to build a relationship before doing business.

One way that business culture has been measured is through Hofstede's cultural factors. These 6 cultural factors are measured for each country and these insights can show how two countries' cultures might affect day to day encounters. The 6 cultural factors that Hofstede measures are a country's power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence (Hofstede Insights).

Not only does culture affect the way business people interact, it can also affect the structure and standards in a business society. Culture can drive the decision to implement IFRS because the standards align better with their cultural way of life, as addressed in the following

section. I believe that two of Hofstede's cultural factors, in particular, have an impact on whether or not a country implements international standards.

One of these factors is long-term orientation, or "how every society has to maintain some links with its own past while dealing with the challenges of the present and future" (Hofstede Insight). Countries with high scores of long-term orientations encourage change and modern ways of thinking and countries with low scores of long-term orientations encourage tradition and norms and see change as suspicious. Countries with a low score of long-term orientation are more likely to choose the set of standards that mimics their previous standards the most and pick the standards that they see having the most sustainability. Currently, International Financial Reporting Standards (IFRS) have the most longevity and incorporate similar standards to what many countries had previously because the trend shows most countries are in the process of implementing. Therefore, it is expected that, countries with low scores of long-term orientations are more likely to choose IFRS.

The second cultural factor that relates to the decision to implement IFRS is a country's indulgence score. According to Hofstede, indulgence means "the extent to which people try to control their desires and impulses." A country with a high indulgence score is more likely to focus on themselves, be optimistic, and act as they wish. My hypothesis is that a country with a high indulgence score is more likely to pick IFRS because there is more interpretation involved in the standards of IFRS. With standards more open to interpretation, a country can be optimistic with their reporting and use the standards as they wish to some extent. There are certainly limits to the flexible nature of IFRS standards, financial statements must still report the information in a representationally faithful way.

An example of this flexibility is the lease standards in IFRS and in US GAAP. The US GAAP standard for lease accounting that was in effect when Mexico made their decision was ASC 842. ASC 842 requires 5 tests to determine the lease classification. Those tests conclude that the lease is a finance lease if any of the following are true: the lease transfers ownership by the end of the term, the lease provides an option to purchase and it is reasonably certain the option will be exercised, the lease term is for 75% or more of the remaining economic life of the asset, the present value of the lease is greater than or equal to 90% of the fair value of the asset, and the asset is so specialized that there is no alternative use for the asset. In IFRS, there are no bright line tests that require a lease to be classified as financing. Instead, IFRS 16 has a single lessee accounting model and all leases are required to be accounted for as a finance lease (unless leasing an asset with a value of $5,000 or less) (Moss Adams, 2016).

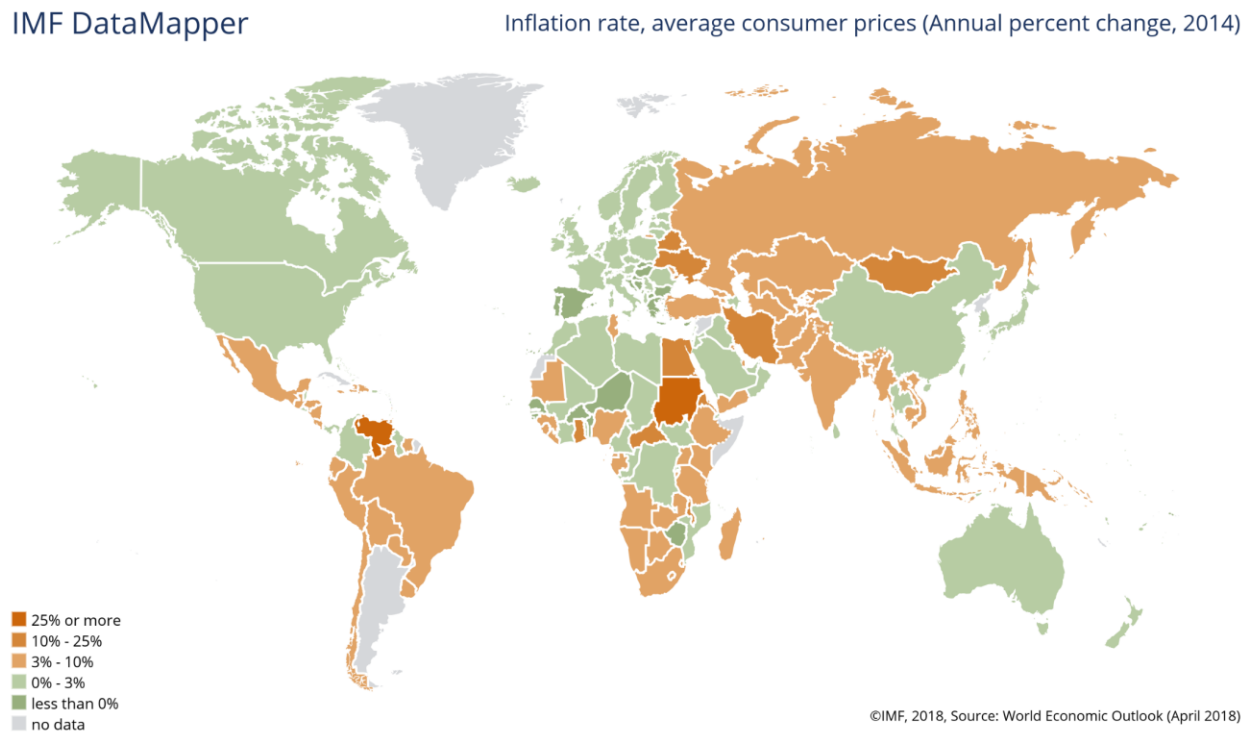
B. Economy

The second factor that has a large impact on whether a country chooses IFRS or US GAAP is the economic condition of that country. The economic development of a country, how much foreign investment they have, how much foreign debt they have, and their inflation can all have an effect on the way that they make business decisions and what standards might work best for them. Some of the information I analyzed to understand the relationship between choosing IFRS and a country's economy are the amount of companies that a country has on foreign stock exchanges; what their trade profile and the amount of trade between specific countries; the amount of foreign direct investment, or FDI, a country has; inflation rate trends; and the structure of their economies in general.

The relationship that the country has with other foreign entities is very important in the decision to switch to IFRS. If a country has strong economic ties to the European Union, or a country that uses IFRS, they are more likely to use IFRS as well and reduce their costs to users. The country's future economic goals also have a very important impact on the decision to implement IFRS. If a country wishes to have more foreign relationships and focus their trade on the European Union, it is highly likely that switching to IFRS will more easily build that relationship. Many of the world's strongest economies have switched to some form of IFRS, besides the United States. Using the same accounting standards makes investing in companies simpler and cheaper because the financial statements do not need to be transferred to another set of standards.

The map below shows the annual percent change of countries' inflation rates of average consumer prices. Countries highlighted in green and light orange have very low inflation rates and countries in dark orange have higher inflation rates. The countries that have lower inflation rates are more likely to implement International Standards (Shima & Yang, 2012). There are very specific rules in IFRS for hyper-inflation, making reporting more difficult if the country has high levels of inflation.

Figure 3- Inflation rate, average consumer prices (Annual percent change, 2014) (IMF Data Mapper, 2018)



C. Trade Agreements

The country's relationship with other countries has a major impact on whether or not they implement IFRS. If they already have trade alliances and established economic relationships, the switch to IFRS would be more natural and make the trade and investment less expensive. Countries with greater political power also might be more likely to implement IFRS because they can have an impact on the decisions made and changes implemented to the current standards that might improve their economic situation, if they are able to place someone from their country on the International Accounting Standards Board (Pratiwi, Shalihatulhayah, & Mayasari).

D. Political State

The fourth factor is the country's political state. There are many factors that characterize the political state in a country including the structure of the government, the legal system in place, the current political pressure groups, the country's relationships with other countries, and the history of the country's political states. For example, the United States is a constitutional federal republic with a common law legal system. The main political pressure groups are those that fund their respective parties; currently the Democratic party or the Republican party. The United States has a strong relationship with many other countries and is considered the most powerful country in the world.

The main political reasons that affect the decision to switch to international standards are the country's relationships with other countries and their current legal systems of the country (Pratiwi, Shalihatulhayah, & Mayasari). A study called "The Influence of Political Factors on IFRS Adoption" estimated a linear regression model that shows the effect of these political factors on 13 countries sampled. In this study the quality of local legal systems positively influenced the decision to adopt IFRS while the international power politics variable negatively influenced the adoption of IFRS (Pratiwi, Shalihatulhayah, & Mayasari).

Next, the way that the legal system monitors accountants and companies will affect their decision to adopt IFRS. If the country already has strong regulations, they are more likely to care about the implementation of whatever standards will give them the highest quality of financial statements for their investors.

E. Colonial History

I also found that colonialism has positively influenced the adoption of IFRS. The influence of colonialism stems from the way the government was originally created and set up for a specific country. Countries that were colonized by European countries are more likely to use international standards because their government structure is already similar (Pratiwi, Shalihatulhayah, & Mayasari).

6. Focus on Mexico

This study will focus on Mexico's implementation of IFRS as an example. Originally Mexico had standards called Mexican GAAP. Mexican GAAP is largely based on US GAAP. The major difference between the standards is in inflation accounting (McCann, 1995). In 2004, Mexico decided that they would eventually implement IFRS. But to ease the transition to IFRS they implemented Mexican Financial Reporting Standards, a set of standards that are very similar to IFRS. Finally, in 2012, Mexico fully implemented International Financial Reporting Standards. One would expect Mexico to implement US GAAP instead of IFRS because of their strong relationship with the United States and large amount of trade between the countries. But, they implemented IFRS. What are the reasons for their IFRS implementation? Why would they pick IFRS over US GAAP?

To answer these questions, I focus on the five factors mentioned earlier: the culture of Mexican business practices, the current economic state in the country, their current trade agreements, the political issues involved, and their colonial history. In the first section, I give an overview of the current culture, economic state, trade agreements, political issues in Mexico, and

then their colonial history. Then, I determine if my previously mentioned theories explain Mexico's choice.

A. Culture

Mexico's business style has many strong characteristics. The social stratifications are strictly defined and carry great importance in society. Family and friends are the center of the Mexican people's lives. You must know a person well and know their family when doing business, and business processes are much slower than in the United States.

Relationship building is the number one goal when conducting business meetings. The business people will ask many personal questions before speaking about any business information related to the goal of the meeting. People greet each other with a kiss on the right cheek or a hug and staying "on time" in Mexico means anywhere near the agreed upon meeting time (Rojas).

The decision-making processes in Mexico are very different from the decision-making processes in the United States. Not only are decisions made in a longer time period, information flows upward, going through many layers of management in the process. Many meetings in-person are required before a decision can be made, and impatience is seen as a weakness by many Mexican business people. Rank is very important in Mexican companies, so at least one high ranking executive must be sent to meetings with Mexican companies. Also, Mexican businesses prefer face-to-face communication but tend to prefer indirect communication when speaking about bad news. Meetings have a very social feel, with coffee and snacks provided at the beginning. Having a local that can help broker business proceedings will be very helpful and deadlines are very flexible in Mexican society.

A to Z World Business has profiles on the negotiating styles of all countries and where each country ranks on a number of scales: goal of negotiations, attitude, personal style, communication style, time sensitivity, emotionalism, risk taking, team organization, agreement-building process, and agreement form. The scales are included in Figure 4 and Mexico's location on each scale is indicated by the blackened cell.

Figure 4- Negotiating Styles Scales, Mexico (Rojas)

Goal of Negotiations

Contract				CULTURAL TENDENCY				Relationship
1.0	1.5	**2.0**	2.5	**3.0**	3.5	**4.0**	4.5	***5.0***

Attitude

Win/Lose				CULTURAL TENDENCY				Win/Win
1.0	1.5	**2.0**	2.5	**3.0**	***3.5***	**4.0**	4.5	**5.0**

Personal Style

Informal				CULTURAL TENDENCY				Formal
1.0	1.5	**2.0**	2.5	***3.0***	3.5	**4.0**	4.5	**5.0**

Communication Style

Indirect				CULTURAL TENDENCY				Direct
1.0	1.5	***2.0***	2.5	**3.0**	3.5	**4.0**	4.5	**5.0**

Time Sensitivity

Low				CULTURAL TENDENCY				High
1.0	1.5	***2.0***	2.5	**3.0**	3.5	**4.0**	4.5	**5.0**

Emotionalism

Low				CULTURAL TENDENCY				High
1.0	1.5	**2.0**	2.5	**3.0**	3.5	**4.0**	4.5	***5.0***

Risk Taking

Low				CULTURAL TENDENCY				High
1.0	1.5	***2.0***	2.5	**3.0**	3.5	**4.0**	4.5	**5.0**

Team Organization

One Leader				CULTURAL TENDENCY				Consensus
1.0	1.5	***2.0***	2.5	**3.0**	3.5	**4.0**	4.5	**5.0**

Agreement-Building Process

Principles				CULTURAL TENDENCY				Details
1.0	1.5	***2.0***	2.5	**3.0**	3.5	**4.0**	4.5	**5.0**

Agreement Form

General				CULTURAL TENDENCY				Specific
1.0	1.5	**2.0**	2.5	**3.0**	3.5	***4.0***	4.5	**5.0**

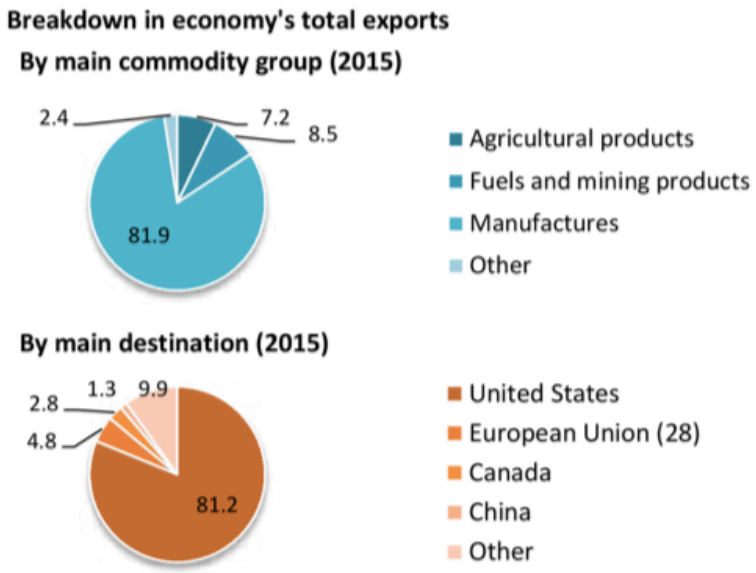
Overall, it takes longer to open a business in Mexico than in the United States and there are fewer requirements in the United States. The banks and IRS in Mexico are very focused on anti-laundering efforts, so they check the source of a new business' resources thoroughly. The taxation in Mexico is very complicated and businesses are taxed at state and federal levels. There are very few cultural barriers between the United States and Mexico because of their long history of a strong trade relationship. Finally, there are many professionals that speak English and the level of technology and electronic communication is the same as the United States (Lazcano, 2018).

Therefore, there are many distinct Mexican cultural characteristics that emerge in business with Mexican companies. Decision-making processes are very drawn out, levels of management are extremely rigid and important, and Mexican people prefer to focus on the relationship before the business. These cultural characteristics have an impact on how business deals are negotiated, how investment decisions are made, and which accounting standards Mexican companies use.

B. Economy

Mexico currently has a $2.2 trillion economy that is strongly oriented around the manufacturing industry, though the income distribution is highly unequal. Mexico has free trade agreements with 46 countries, contributing to 90% of their total trade. Mexico is the United States' second largest export market and third largest source of imports. Mexico exports 81.2% of their exported goods and services to the United States. The graph below shows the distribution of the country's total exports by main commodity group and by main destination (Rojas).

Figure 5- Breakdown in economy's total exports (Rojas)



Mexico's economy relies heavily on the United States, especially with the implementation of the North American Free Trade Agreement (NAFTA) in 1994. With the implementation of NAFTA came a restructuring of the economic system to replace the import-substitution development model with a new model focused on foreign trade and investment and the "economic comparative advantage," (Rivera, 1998). The agreement made Mexico one of the most open countries in the world for trade. However, demand for Mexican goods has decreased since 2010 and the Peso has depreciated against the United States dollar. Their net public debt as a proportion of GDP was only 48% in 2017, compared to 106.1% in the United States the same year. The Big 4 Accounting Firm, PWC has ranked Mexico as becoming the 9th largest economy by the year 2030. There is a lot of room for growth in Mexico and they currently have a large, young workforce with stable economic indicators (Rivera, 1998).

While there have been major improvements to the economy in recent years, there are also many current issues that the Mexican economy is facing. Bribery and corruption have been significant problems in Mexico for many years, especially with some high-profile allegations.

There are many issues with organized crime and terrorism as well. Mexico is ranked 142 out of 163 countries on the Global Peace Index. Drug trafficking continues to be a problem and the number of kidnappings and extortions has risen in recent years (GOV.UK). Even with these concerns, Mexico has made major improvements. They implemented a 3-party strategy for dealing with security and drug problems that includes more training for police, a new system of trials to speed up the process, and a more autonomous attorney general's office (Foreign Affairs, 2015).

Therefore, the Mexican economy has continued to improve, despite setbacks, to make Mexico one of the leading world economies today.

C. Trade Agreements

Mexico signed a new trade agreement with the European Union at the end of 2017. This agreement improves and reinstates the original agreement implemented in 2000. The EU is Mexico's 3rd largest trading partner and there is approximately €48 billion in EU exports to Mexico every year. In 2015, the EU had an accumulated investment of €162 billion in Mexico. Since the original agreement in 2000, trade between Mexico and the EU has risen 148%. In the new agreement there are many specific standards like, "combating corruption, supporting human rights, sustainable development, pledges on fisheries, forests, biodiversity, upholding labor rights, promoting other initiatives, preventing a race to the bottom on standards, and enforcement and a role for civil society," (European Commission, 2018). The agreement will also provide more access to services in the financial, telecommunications, digital, postal/courier, transport, and environmental industries. Mexico will have a greater recognition of qualifications in

regulated professions like accountants, architects, engineers, and lawyers. Finally, most of the customs duties on goods will be removed (European Commission, 2018).

Including the new trade agreement with the European Union mentioned earlier, Mexico has always had a strong relationship with the United States through the North American Free Trade Agreement. NAFTA is a trade alliance that includes Canada, the United States, and Mexico. The goal of this agreement is to make it much easier to transfer goods, services, and labor across the borders. With the implementation of NAFTA, there were also goals to have more policies open to trade, help stabilized the Peso, control inflation, deregulate some of the nation's largest private businesses, scale back enterprises, eliminate bureaucratic red tape, and welcome more foreign investment in the country. NAFTA also helped "propriate a climate towards more democratization and transparency in Mexican politics," (Rivera, 1998). There have been some in the United States that wish to dismantle the NAFTA agreement. This would have a large effect on the political situation with Mexico as well. With Mexico's newest trade alliance with the European Union, it will continue to make Mexico one of the most open countries to trade.

Mexico's heavy reliance on trade and increased openness through their many trade agreements has substantially impacted the economic growth. Because of their many trade agreements, Mexico is quickly globalizing their economy and creating trade relationships all over the world.

D. Political State

Mexico is currently a federation with a presidential system of government. Their government has federal, state, and municipal levels. In recent years, there has been a lot of

political turmoil in Mexico. Security is a large challenge, with the homicide rate increasing. Corruption has long been a part of Mexican politics, causing a great deal of dissatisfaction within the public sector. There have been advancements in their anti-corruption programs, but not amounting to the change that is necessary. Finally, Mexican politics are very closely linked with the current United States politics (GOV.UK).

Recently there was a presidential election in Mexico, voting in a new leader. This election was called one of the most influential in Mexican history and will provide large changes to Mexico. López Obrador won the election in a landslide. He is a leftist, which puts a leftist leader in charge of a Latin America's second-largest economy for the first time in many decades. This change in Mexico will have a profound effect on their political state and economic system. He clearly rejects the past decisions made in Mexico that have been "defined by a centrist vision and an embrace of globalization that many Mexicans feel has not served them," (Ahmed & Villegas, 2018).

The current state of Mexico's political scene will dictate the future of Mexico's relationships with other countries, business dealings, and economic state. If López Obrador decides that globalization will not be Mexico's focus, companies doing business outside Mexico may see repercussions.

E. Colonial History

Another factor that affects the politics and the accounting systems of a country is their colonial history. This colonial history has a major effect on their current political state. Mexico was originally colonized by the country of Spain with the defeat of the Aztec Empire in the early 1500s (Spanish Colonization of Mexico). Spain essentially set up major systems in Mexico while

they were a colony, making those systems similar to Spain's today. Many colonized countries also still have relationships with their colonizing country.

Mexico's colonial history and current relationship with Spain is one reason that Mexico may have switched their accounting standards to IFRS.

7. Reasons for Mexico's Implementation of IFRS

The five factors that I believe influence a country's decision to implement IFRS are the culture, economic state, trade alliances, political state, and colonial history of that country. For Mexico, I think that all of these factors apply and affect the decision to implement change in accounting standards. Mexican culture is one with a low long-term orientation score and a high indulgence score, making them a candidate to choose International Financial Reporting Standards over US GAAP. Their current economic state also warrants international standards. At first glance, it seems that US GAAP would be appropriate, but their focus on globalizing their financial impact says otherwise. They are the one of the most open countries in the world economically, with many trade alliances. The political state at the time of the transition supports the switch to IFRS with their addition of new trade alliances, efforts to globalize, and their colonial past.

A. Mexican GAAP vs. US GAAP vs. IFRS

Before drawing conclusions about the factors that influenced Mexico's decision, it is important to understand the steps of implementing new standards and the actual differences in the standards. I compare Mexican FRS to US GAAP and to IFRS to understand the details and what makes the systems different. Mexican FRS is the standards set after the decision was made

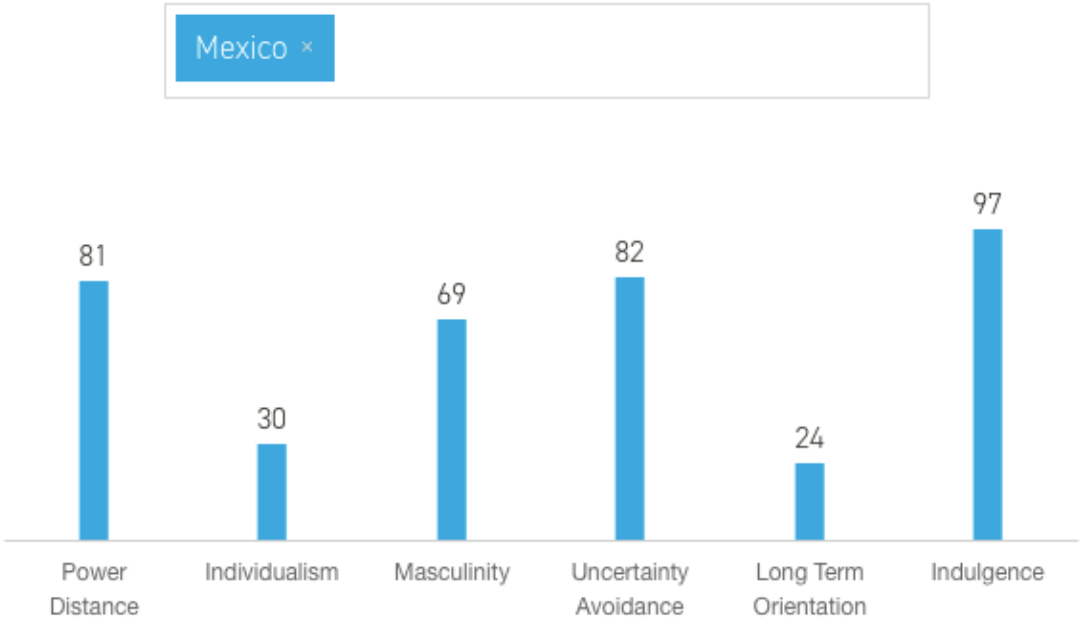
to implement IFRS but before full implementation of IFRS. Mexican FRS was a transition step to implementation, so the standards are similar to Mexican GAAP with influences of IFRS. PWC did an analysis of the 3 systems and the CINIF in Mexico outlined the major differences included in the table in Appendix A (Cervantes, 2010) (PricewaterhouseCoopers México, 2009).

While there are major differences between IFRS and US GAAP, as mentioned earlier, there are less differences between IFRS and Mexican FRS. Originally, Mexican GAAP was very similar to US GAAP. When the decision to implement IFRS took place, Mexico implemented Mexican FRS as a transition step to the implementation of IFRS.

B. Culture

As mentioned earlier, the measurement I used to determine cultural factors in specific countries is their score on the Hofstede scale. Professor Geert Hofstede created this scale in his book *Culture's Consequences* studying "comparative intercultural research." Hofstede created 6 dimensions on which to compare cultural factors from countries. These factors include power distance, individualism, masculinity, uncertainty avoidance, long term orientation and indulgence (Hofstede). For Mexico specifically, the Hofstede scales show that Mexico ranks relatively high for power distance, masculinity, uncertainty avoidance, and indulgence. Mexico ranks relatively low for individualism and long-term orientation, making them a group-oriented culture that is less focused on the long-term future (Hofstede).

Figure 6- Mexico's score on Hofstede Scale (Hofstede)



A study done by David Borker conveys the relationship between Gray's Accounting Value hypothesis and Hofstede's cultural dimensions. Borker combines the two hypotheses to create a specific country profile that is favorable to implementing International Financial Reporting Standards. Gray's accounting value dimensions were derived from the original four cultural factors in Hofstede's cultural dimension study. The four accounting value dimensions are as follows:

1. "Professionalism versus Statutory Control refers to professional judgment and self-regulation in contrast to compliance with rigid legal requirements and legislative control.
2. Uniformity versus Flexibility indicates the level of enforcement of standardized and consistent accounting practices.

3. Conservatism versus Optimism indicates a vigilant approach to accounting measurement, as opposed to a more optimistic and risk-taking approach.
4. Secrecy versus transparency refers to confidentiality and the constraint of disclosure of information, as opposed to a more transparent and publicly accountable approach."

Based on these four accounting value dimensions and Hofstede's cultural dimensions, Gray created four hypotheses. These hypothesis state that if a country has a higher Hofstede score for individualism and lower scores for uncertainty avoidance and power distance, then they will be highly professional. If the country ranks high for uncertainty avoidance and power distance and low for individualism, it is more likely to focus on uniformity instead of flexibility. A country will rank high in conservatism if they have a high uncertainty avoidance score and low individualism and masculinity scores. Finally, a country will focus on secrecy rather than transparency if they have high uncertainty avoidance and power distance and low individualism and masculinity (Borker, 2013).

The study shows that countries with low long-term orientation scores and high indulgence scores are likely to choose IFRS as their reporting standards. Mexico has both of these characteristics, so Hofstede's cultural dimensions strongly indicate that Mexico would be likely to implement International Financial Reporting Standards (Borker, 2013). Mexico's low long-term orientation scores may lead them to choose the accounting standards that the rest of the world is choosing, not what they see as having the most long-term benefits. Also, their high indulgence scores may contribute to the tendency to choose standards that fit well with their culture and way of business and to not make major changes to their reporting standards.

Even if a country does not have the IFRS favorable profile, they still could be likely to implement IFRS if they realize the impact that their implementation could have. An example

given is the cultural profile of Russia. The Hofstede scores determine that the culture is completely unlike Anglo-American countries, which are more likely to implement IFRS (besides the United States). These scores show that if Russia were developing their own accounting standards, it would not be likely that their standards would be similar to IFRS. But, because of their need to be more global and compete in trade and markets, they have realized the need to implement IFRS (Borker, 2013). Shown in the tables below are the Hofstede scores of Anglo-American countries versus Russia and the corresponding Gray Accounting Value results for the same countries.

Figure 7- Russia's Indices for Hofstede Six Cultural Dimensions Juxtaposed to Indices for Anglo-American Accounting Countries (Borker, 2013)

Table 9: Russia's Indices For Hofstede Six Cultural Dimensions Juxtaposed To Indices For Anglo-American Accounting Countries

Anglo-American Accounting Countries	Power Distance PDI	Individualism IDV	Masculinity MAS	Uncertainty Avoidance UAI	Long-Term Orientation LTO	Indulgence vs. Restraint IVR
Australia	36	90	61	51	21	71
Canada	39	80	52	48	36	68
New Zealand	22	79	58	49	33	75
United Kingdom	35	89	66	35	51	69
United States	40	91	62	46	26	68
RUSSIA	93	39	36	95	81	20

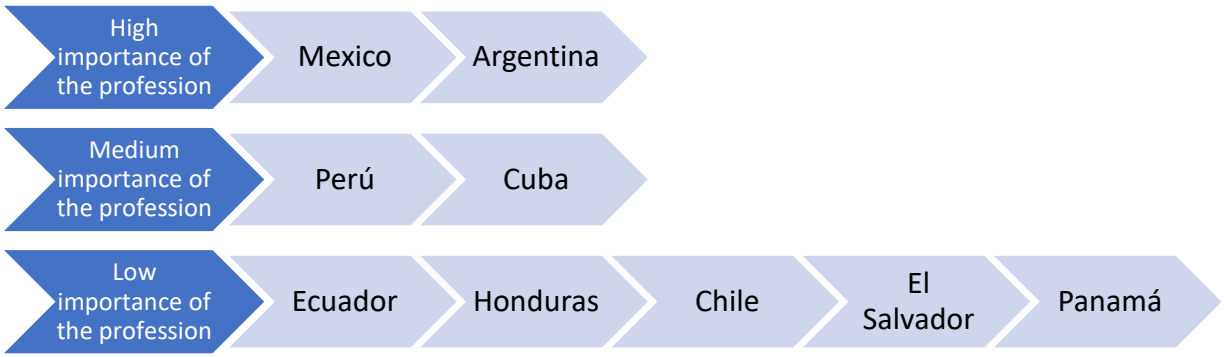
Figure 8- Russia's Gray Derived Accounting Value Profile Juxtaposed to The Profile of Anglo-American Accounting Countries (Borker, 2013)

Table 10: Russia's Gray Derived Accounting Value Profile Juxtaposed To The Profile Of Anglo-American Accounting Countries

Anglo-American Accounting Countries	Professionalism Versus Statutory Control	Uniformity Versus Flexibility	Conservatism Versus Optimism	Secrecy Versus Transparency
Australia	Professionalism	Flexibility	Optimism	Transparency
Canada	Professionalism	Flexibility	Optimism	Transparency
New Zealand	Professionalism	Flexibility	Optimism	Transparency
United Kingdom	Professionalism	Flexibility	Optimism	Transparency
United States	Professionalism	Flexibility	Optimism	Transparency
RUSSIA	Statutory Control	Uniformity	Conservatism	Secrecy

Another study I reviewed shows many cultural factors that have influenced countries' decisions to implement International Standards. The graphs included below show that Mexico and Argentina have a high importance of the development of the accounting profession in their society (Pages, Cortés, & Zapata). The high importance of the profession means that professionals care about the standards being implemented and are more likely to implement the standards that the main economic powers are implementing. Having a well-developed accounting profession that is respected in a country means that the opinions of accounting professionals is taken into consideration. If a country did not respect the accounting professionals and the system was not well-developed, they would likely use their own standards and not update to the standards that all the other countries use.

Figure 9- Importance of accounting profession in Latin America (Pages, Cortés, & Zapata)



The business culture and culture overall in Mexico warrants a switch to International Standards. Their long-term orientation score is low, their indulgence score is high, they realize that implementing IFRS will keep them relevant and competitive in global markets, and the accounting profession is well-respected and important in the culture.

C. Economy

There are many economic reasons that Mexico likely considered when implementing International Financial Reporting Standards over US GAAP. Mexico wanted to increase foreign direct investment, improve their inflation rates, and lower their foreign debt financing. Implementing IFRS can have an effect on these problems in the Mexican economy.

After their European Union trade agreement, Mexico became one of the most open countries to foreign direct investment (FDI) and they are the 25th largest FDI recipient in the world. According to Santander Trade, FDI flows "fluctuate depending on arrival and departure of large international groups." In 2016, Mexico had $26 billion of FDI and in 2017, Mexico had $29 billion of FDI, showing the constant increase in foreign interest in Mexican companies. Most of their foreign investments are coming from the United States and Spain (Santander Trade, 2018). Because Spain, The Netherlands, Belgium, Canada, the UK, Japan, and Germany are their main investors besides the United States, the use of IFRS would be helpful in those business transactions. All of Mexico's main investing countries require or permit the use of IFRS for listings by foreign countries (IFRS). Their FDI can continue to grow consistently because of their use of IFRS and the ease of foreign investment without reconciliation of financial statements.

Figure 10- Mexico's Foreign Direct Investment (Santander Trade, 2018)

Foreign Direct Investment	2014	2015	2016
FDI Inward Flow *(million USD)*	27,508	33,181	26,739
FDI Stock *(million USD)*	486,931	509,292	473,520
Number of Greenfield Investments* **	429	424	482
FDI Inwards *(in % of GFCF****)*	10.1	12.8	11.1
FDI Stock *(in % of GDP)*	37.5	44.2	45.3

FDI INFLOWS BY COUNTRY AND INDUSTRY

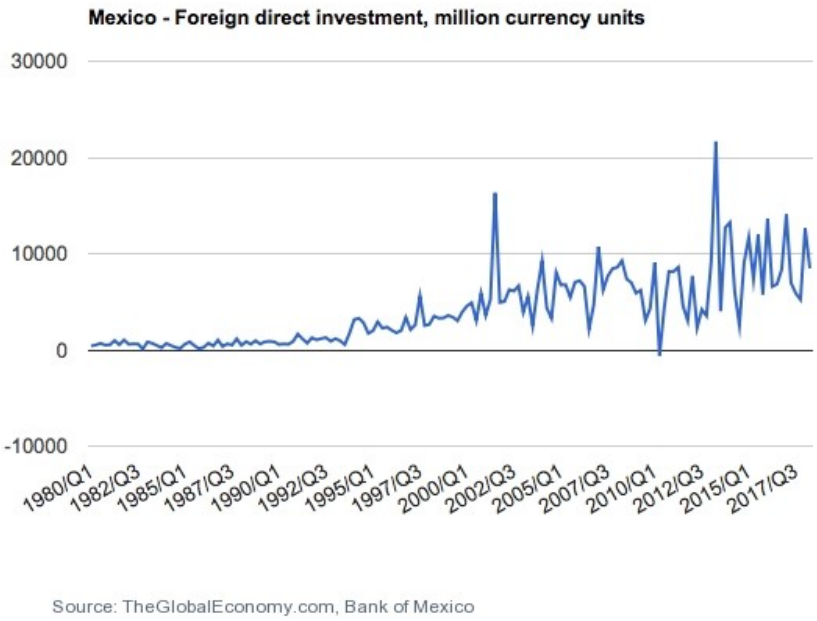
Main Investing Countries	2016, in %
United States	44.0
Spain	11.0
The Netherlands	10.0
Belgium	7.0
Canada	6.0
UK	4.0
Japan	3.0
Germany	3.0

Main Invested Sectors	2016, in %
Manufacturing industry	61.3
Financial services	9.6
Transport	5.9
Mining	4.7
Electricity	4.3

Source: Ministry of Economy (in Spanish) - Latest available data.

After Mexico's decision to implement International Financial Reporting Standards in 2004, foreign direct investment has increased overall. The table below shows the change in the foreign direct investment in Mexico from 1980 to 2017.

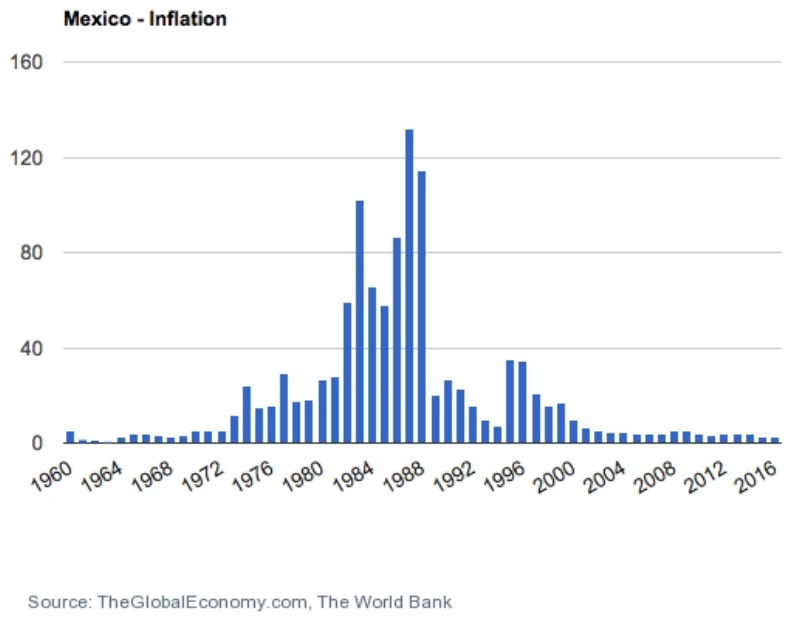
Figure 11- Mexico- Foreign Direct Investment (TheGlobalEconomy)



Besides the increase in foreign direct investment, Mexico's use of IFRS helped the inflation rate in the country. The International Financial Reporting Standards have very specific reporting requirements for inflation. Countries that have hyper-inflation are less likely to adopt IFRS because of IAS 29. IAS 29 "requires a restatement of non-monetary items based on a change in the general price level index at the balance sheet date," (Shima & Yang, 2012). The reporting of inflation required in IFRS may not be as efficient as local GAAP for countries with hyper-inflation. Some countries that have been slow to adopt IFRS because of their high inflation are Brazil, Argentina, and Chile. In Mexico's case, they have relatively low inflation and their inflation rates have steadily decreased both before the implementation of IFRS and after the implementation of IFRS. Mexico implemented IFRS because the way inflation was reported worked well for their companies and their current low inflation rate. The inflation level of a country affects the outside world's confidence in their economy. So, indirectly, a country's

decision to implement IFRS can help lower inflation and increase the outside world's confidence in that economy.

Figure 12- Mexico- Inflation (TheGlobalEconomy)



Finally, foreign debt was a major factor in the decision to implement IFRS. In Latin America, there has been a history of heavy reliance on debt financing (Laínez, Masci, & Durante, 2004). The study implemented by Shima and Yang studied reliance on foreign debt financing and the effect it has on IFRS implementation. Countries that have a lot of foreign debt financing are more likely to implement IFRS because financial disclosure between the entities is easier when both countries use IFRS. The result from their regression analysis showed that there was a positive correlation between the amount of foreign-sourced debt financing and the adoption of IFRS, shown in the table below. In Mexico's case, their foreign-sourced debt has steadily increased since 2006, right after the implementation of IFRS and they are currently the 26th highest country for foreign-sourced debt (not as a proportion of GDP) (IndexMundi).

Because of their high levels of foreign-sourced debt, they are more likely to implement International Financial Reporting Standards.

Figure 13- Mexico-External Debt (TheGlobalEconomy)

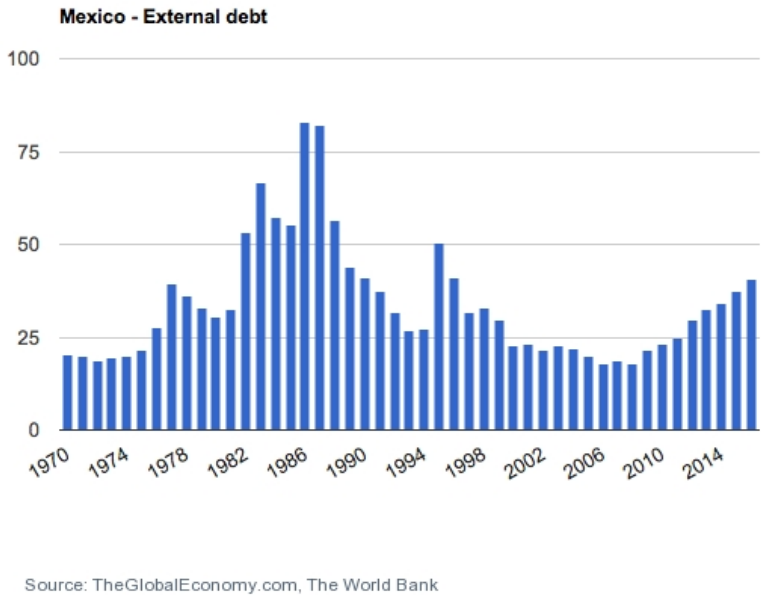
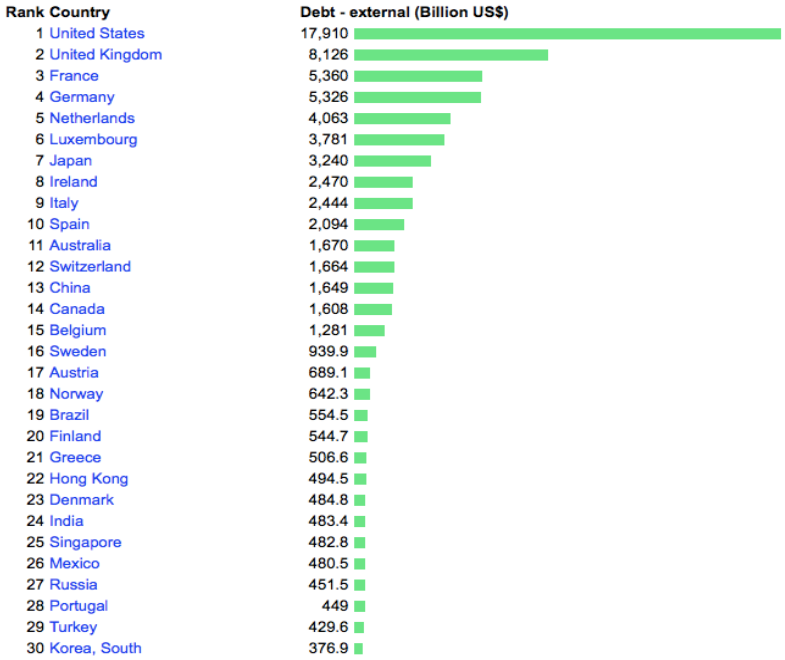


Figure 14- Country Comparison Debt-External- Not as a Proportion of GDP (IndexMundi)



Rank	Country	Debt - external (Billion US$)
1	United States	17,910
2	United Kingdom	8,126
3	France	5,360
4	Germany	5,326
5	Netherlands	4,063
6	Luxembourg	3,781
7	Japan	3,240
8	Ireland	2,470
9	Italy	2,444
10	Spain	2,094
11	Australia	1,670
12	Switzerland	1,664
13	China	1,649
14	Canada	1,608
15	Belgium	1,281
16	Sweden	939.9
17	Austria	689.1
18	Norway	642.3
19	Brazil	554.5
20	Finland	544.7
21	Greece	506.6
22	Hong Kong	494.5
23	Denmark	484.8
24	India	483.4
25	Singapore	482.8
26	Mexico	480.5
27	Russia	451.5
28	Portugal	449
29	Turkey	429.6
30	Korea, South	376.9

Shima and Yang's study confirmed that there is a significant and negative relationship between inflation (INFLAT) and the adoption of IFRS. This signifies that countries with high inflation are less likely to adopt IFRS. But Mexico has relatively low inflation rates. The study also confirms that there is a significant and positive relationship between foreign-sourced debt (DEBT) and the adoption of IFRS. This also also relates to Mexico with their high foreign-debt and the adoption of IFRS. This information is included in the table below (Shima & Yang, 2012).

Figure 15- Results of Panel Analysis Random Effect Logit Regressions with EU countries (Shima & Yang, 2012)

Table 5
Results of panel analysis random effect Logit regressions with EU countries
(t-statistics in parentheses)

	Predicted sign	Model (3) w/o *LEGAL* w *Year dummy*	Model (3a) w/o *UKCOL* w *Year dummy*	Model (4) w/o *LEGAL, UA* w *Year dummy*	Model (4a) w/o *UKCOL, UA* w *Year dummy*
EQUITY	-	-0.011	-0.008	-0.028	-0.022
		(-0.61)	(-0.75)	(-1.51)	(-1.28)
TAX	-	-0.336**	-0.398**	-0.556***	-0.390**
		(-2.68)	(-3.02)	(-2.83)	(-3.05)
UKCOL	+	0.983	dropped	6.147**	dropped
		(0.35)		(2.57)	
LEGAL	+	dropped	-4.040	dropped	0.911
			(-0.98)		(0.36)
ONE	+	3.391	2.789	2.340	1.811
		(1.55)	(1.00)	(1.21)	(1.16)
GROWTH	?	-0.431	-0.473	-0.400	-0.311
		(-0.73)	(-0.72)	(-0.89)	(-0.87)
CAPFOR	?	0.174	0.160	0.208	0.176
		(1.48)	(1.14)	(1.80)	(1.73)
LIT	+	-0.122	-0.108	0.011	-0.028
		(-1.23)	(-0.93)	(0.11)	(-0.44)
UA	-	-0.021	-0.042	dropped	dropped
		(-0.34)	(-0.61)		
Intercept		included	included	included	included
Year dummy		included	included	included	included
N		508	508	697	697
Wald χ^2		76.13	73.96	145.49	83.32
Prob> χ^2		.000	.000	.000	.000

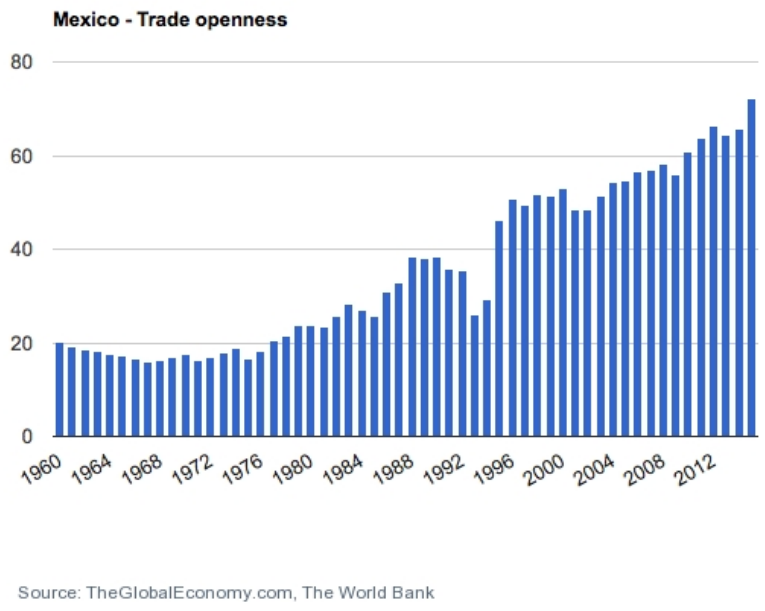
Variables are as defined in Section 4.2. Random-effect logit regression of the adoption model:
$Z_{it} = \beta_0 + \beta_1 EQUITY_{it} + \beta_2 DEBT_{it} + \beta_3 TAX_{it} + \beta_4 UKCOL_{it} + \beta_6 ONE_{it} + \beta_7 INFLAT_{it} + \beta_8 GROWTH_{it} + \beta_9 CAPFOR_{it} + \beta_{10} LIT_{it} + \beta_{11} UA_{it} + e$
*, **, *** Significant at 0.05, 0.01, and 0.001 (all one-tail except when the sign is not predicted), respectively

TAX, UKCOL, LEGAL, and CAPFOR are also significant factors in the implementation of IFRS, but are not detailed in this paper.

D. Trade Agreements

Mexico's many trade agreements and their increasing global reach is a major factor for the implementation of IFRS. In order to invest in other countries and trade on global stock exchanges, having financial statements that are easily transferrable is very important. The trade openness in Mexico has steadily increased since the 1960s. When Mexico decided they would implement International Financial Reporting Standards in 2004, the trade openness was at an all-time high.

Figure 16- Trade Openness in Mexico (TheGlobalEconomy)



Mexico's recently enacted trade alliance with the European Union is another sign that they want to diversify and globalize their trade and their economy as a whole. Using International Financial Reporting Standards is very helpful in the trade alliance with the

European Union, where all of the EU members are required to use some form of IFRS. While trade is not directly affected by the accounting standards that a country uses, trade between two countries is likely to improve their relationship and lead to foreign investment. Mexico's openness to foreign trade shows their strong global outlook. This global outlook eventually leads to implementation of International Financial Reporting Standards, increasing their ability to trade on international stock exchanges and ease of foreign direct investment. When a foreign company does not have to spend money to convert financial statements to another set of accounting standards, they may be more likely to invest or understand that company's success.

E. Political State

The next factor I considered as a main reason that a country would implement International Standards is their current political state at the time of the decision to switch to IFRS. For Mexico, there are many specific factors about their politics that would warrant the implementation of IFRS. Those factors include their relationship to the United States, other countries' decisions to implement a specific set of standards, and their government at that point in time.

One reason Mexico may have implemented IFRS is Mexico's political relationship with the United States. At the time of the decision to switch to International Financial Reporting Standards, the United States had just experienced the Enron and WorldCom crises. There was serious doubt around the world about the US GAAP standards and whether they adequately report financial information. International Financial Reporting Standards are stricter on the rules for accounting for special purpose entities (SPEs) and would have included the SPEs in Enron's accounting (Laínez, Masci, & Durante, 2004).

Also, right before the implementation of IFRS in Mexico, there was serious consideration from the United States to implement IFRS as well. From the beginning of the creation of IFRS, the United States was involved and had a say in the standards being written. In February of 2003, it was announced that the US was going to work to converge with IFRS by 2005 (Laínez, Masci, & Durante, 2004). If the United States was going to implement IFRS, there would be no reason for Mexico to implement US GAAP and then have to switch to IFRS along with the United States.

This was the same situation for Canada in 2005. Canada has the same dependence on the United States for trade, with 80% of its exports to the United States and 60% of its foreign equity from the United States. But Canada still decided to implement International Financial Reporting Standards, instead of US GAAP (Ramana, 2012). Canada thought that the United States was eventually going to convert to IFRS. So, it came down to a cost-benefit analysis when making the final decision. It would be costly to switch to either set of standards, but if the United States was just going to convert to with IFRS, Canada should too (Walters, 2018).

Finally, Mexico's governmental state at that point of time had an effect on their decision. The previous presidents, Felipe Calderón and Enrique Peña Nieto, in office while the IFRS decision was being made, had a vision for Mexico to increase their global impact and foreign direct investment. Dr. Sergio M. Alcocer Martínez de Castro, Undersecretary for North American Affairs and Secretariat of Foreign Relations, Mexico said that "such an ambitious set of economic, political, and social reforms is the bedrock of Mexico's role as an actor with global responsibility," (Foreign Affairs, 2015). But the president-elect, Lopéz Obrador, has very different views on the international situation. He feels that the globalization has not served the

Mexican people well (Ahmed & Villegas, 2018). There could be changes in the financial reporting system to meet the needs of the current government.

F. Colonial History

Finally, Mexico's previous colonial relationship with Spain also had an impact on their implementation of IFRS. A study called "The Influence of Political Factors on IFRS Adoption" by Pratiwi, Shalihatulhayah, and Mayasari says that colonialism has a positive influence on the adoption of IFRS.

Through colonial traditions, similar accounting models can be transitioned to the colony and later implemented into their own accounting standards and the standards the country chooses to implement. A strong example of this is that the majority of the former British colonies have implemented IFRS, except for the United States (Pratiwi, Shalihatulhayah, & Mayasari).

For Mexico specifically, their relationship with Spain has an effect on their implementation of International Financial Reporting Standards. Because their governmental systems are similar, they speak the same language, and still have a strong trade relationship, International Standards make the business agreements that much easier. The colonial history leads to similar economic practices, to which International Financial Reporting Standards lend themselves.

8. Conclusion

In conclusion, there are many factors that a country considers when deciding whether to implement a specific set of accounting standards. The five factors that I focused on throughout my research include the culture of the country, the current trade alliances that country has, the economic state at the time of the decision, the political state and the goals of those in power, and finally the colonial history of that country.

For Mexico, the cultural tendencies that led them to implement IFRS were their low long-term orientation scores and their high indulgence scores. Their trade alliances with the European Union and many other countries around the world were another factor that influenced their decision as it is easier to list on foreign stock exchanges and invest in other countries with a strong trade relationship and corresponding accounting standards. Their large amounts of foreign direct investment from countries that use IFRS, their relatively low inflation at the time of the decision, and their relatively high amount of foreign-sourced debt, warranted the decision to implement IFRS. The relationship with the United States, the current events at the time, and the globalization goals of their government encouraged Mexico to implement IFRS. Finally, another reason they implemented IFRS is their colonial history and the characteristics that came from Spain and continue to influence Mexican society.

There are many other topics that correspond with my research that are not included here. Some of the most interesting are the process of transitioning to IFRS within a specific company and the effects the transition has, the difference between Canada's switch to IFRS and Mexico's switch, and the process of getting a representative for your country on the IASB.

Overall, there are many factors that contribute to a country's reasons to change accounting standards and this switch can have many unknown benefits or consequences. In Mexico's situation, I think that the most logical decision at the time was to switch to IFRS.

9. Appendix A

Topic	IFRS	US GAAP	Mexican FRS
Stock compensation	• No accrual • No disclosure of fair values	• Fair value recorded as expense or disclosed • FMV and appreciation given to employees expensed	• Accelerated expense recognition • Followed IFRS until 2008- similar rule now
Business combinations	• Pooling allowed under certain circumstances	• All combinations accounted for under purchase method	• Previous holdings are not revalued to fair value
Goodwill	• Amortized over 20 years and • Subject to asset impairment test	• Usually not amortized • Subject to asset impairment test	• Deferred tax liability must be recognized
Financial statement consolidation	• Control test • Could be voting rights <50%	• Control test • Voting rights >50%	• Sub-holding company not issue financial statements
Asset impairment	• Recognized if discounted present value of future cash flows is below book value	• Recognized only if the future cash flows (not discounted) are below book value	• Significant influence or joint control recorded at cost
Provision for liabilities of uncertain timing and amount	• One comprehensive standard exists • Discounting required	• No general standard • Some provisions not discounted	• Only liabilities that represent a probable future outflow recognized
Hyperinflation	• General price-level adjustment of subsidiary's financial statements • Gain/loss of net monetary position recorded in net income	• Re-measure of subsidiary using parent's functional currency	• Re-measure of subsidiary using parent's functional currency
Foreign exchange differences on monetary transactions	• Sometimes added to cost basis of the asset	• Always recorded in net income	• Must be recognized on a prospective basis

Investment in property	• Use either fair value or cost model	• Only cost model allowed	• Only cost model allowed
Investment in joint ventures – incorporated	• Equity method or proportionate consolidation	• Equity method	• Equity method or proportionate consolidation
Special purpose entities (SPEs)	• Must be consolidated if controlled	• Variable interest entities must be consolidated by primary beneficiary • "Qualified SPEs" continue off the books	• Must be consolidated if controlled

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