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IFRS Enforcement Practices in the EU

The challenges in the uniformity of IFRS enforcement for cases of Finland, the Netherlands and the UK

by

Veronika Habrmanová and Marianna Lautala

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Supervisors: Amanda Sonnerfeldt and Peter W. Jönsson

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Abstract

Title:	The IFRS enforcement practices in the EU – The challenges in the uniformity of IFRS enforcement in the cases of Finland, the Netherlands and the UK
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Five Keywords:	Enforcement, IFRS, practices, challenge, uniformity
Purpose:	The purpose of this paper is to analyse the status of challenges in ESMA coordinated IFRS enforcement by looking at the practices of the national enforcement bodies in particular EU countries. The aim is to reveal the possible differences in enforcement that might pose a challenge to the uniformity of IFRS enforcement within the EU.
Methodology:	This study is using qualitative research strategy, with a comparative multi-case design. An abductive approach is applied.
Theoretical Perspective:	A multi-theoretical approach is chosen. The practices are also considered in the light of multilevel regulation.
Empirical Foundation:	The qualitative data has been collected from publicly available information on the official websites of the Dutch, UK and Finnish enforcement bodies and from related national legislation.
Conclusions:	Study reveals four challenges to uniformity of IFRS enforcement in the EU arising from the detected differences in national enforcement practices. The challenges are due to differences in legal authority and power of the national enforcement bodies. The differences prove the fragmented nature of European enforcement and point out the accountability issue.

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Abbreviations

AFM	Authority for the Financial Markets
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CRR	Corporate Reporting Review
DNB	De Nederlandsche Bank
EC	European Commission
EEA	European Economic Area
EECS	European Enforcers' Coordination Sessions
ESMA	European Securities and Markets Authority
EU	European Union
FCA	Financial Conduct Authority
FEE	Fédération des Experts Comptables Européens
FIN-FSA	Finnish Financial Supervisory Authority
FRC	Financial Reporting Council
FRRP	Financial Reporting Review Panel
FSA	Financial Services Authority
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretations Committee
UK	United Kingdom
US	United States

1 Introduction

In this introductory chapter, the background setting for this thesis is presented. Thereafter, the problem within the research field is identified, leading to the thesis purpose and research question. Delimitations of the thesis are presented and finally, the further outline of the thesis is provided.

1.1 Background

It has been over ten years since the European Union (EU) required publicly traded companies to prepare their consolidated financial statements according to the International Financial Reporting Standards (IFRS) through the adoption of the Regulation (EC) 1606/2002. The motive behind the regulation was to make financial reporting in the EU more transparent and comparable, in order to bolster the free movement of capital. Therefore, it would reinforce the attempt to create a single market for financial services in the EU.

Previous research shows that IFRS are considered as high quality accounting standards (Ball, 2006). Moreover, it is argued that the adoption of IFRS can lead to higher quality of financial information (Horton, Serafeim, G. and Serafeim, I., 2013), enhancement of comparability of financial statements (Horton et al., 2013; Ball, 2006) and increased investor's confidence in the financial information provided by companies (Ball, 2006). In addition to the above mentioned motive for the adoption of IFRS, Berger (2010) claims that there was a political will on the European level to avoid the prevalent usage of US Generally Accepted Accounting Principles (GAAP) and hence, take distance from the United States (US) dominance in the financial field.

After the adoption of IFRS for publicly listed companies in the EU, the role of enforcement has increased, since regulation on its own does not necessarily lead to the expected outcomes. Scholars argue that a single set of accounting standards is not sufficient in achievement of the desired outcomes and they further stress the importance of enforcement to achieve the desired outcomes of IFRS (Christensen, Hail and Leuz, 2013; Daske, Hail, Leuz and Verdi, 2008;

Palea, 2013; Ernstberger, Stich and Vogler, 2012; Pope and McLeay, 2011). Thus, enforcement could be seen as a key part of regulation as it is an important mechanism to ensure compliance with the applicable reporting framework and therefore, it contributes to the accomplishment of the intended outcomes of IFRS (Brown and Tarca, 2005; Ojo, 2010). Prior research ascribes the explanatory power to enforcement in the achievement of economic consequences of IFRS adoption such as decreased cost of equity and increased market liquidity (Daske et al. 2008; Christensen et al., 2013).

Interestingly, instead of harmonizing enforcement and creating a uniform enforcement body in the EU, the European Commission (EC) pursued a common approach towards enforcement through the Committee of European Securities Regulators (CESR) (EC, 2002). The CESR was a network of European enforcers (van Rijsberg, 2014). The CESR′s successor, the European Securities and Markets Authority (ESMA) was established in 2011 (ESMA, 2015a). ESMA's main mission is to coordinate enforcement of financial information to protect investors and strengthen confidence in the stock markets (ESMA, 2015a). One of the responsibilities of ESMA is the development of guidelines and recommendations in order to "ensure the common, uniform and consistent application of Union Law" (ESMA, 2015a, Online). In 2014, ESMA issued guidelines on enforcement of financial information (ESMA, 2014). According to ESMA (2014) they are to harmonise the activities of national enforcement bodies. Nevertheless, the guidelines are not legally binding (ESMA, 2015a), but the national enforcement bodies should comply with them and incorporate them into the national enforcement practices or give an explanation to ESMA for the reason of non-compliance (ESMA, 2014).

1.2 Problem identification

The characteristics of ESMA, in the field of IFRS enforcement, are that it is a legally non-binding network comprising of national authorities, which coordinate their actions and cooperate, but do not need to transfer their powers (Scholten and Ottow, 2014). According to Scholten and Ottow (2014) this allows differentiation in enforcement practices. The current IFRS enforcement in the EU is characterized by multilevel regulation as the "rule enforcement is dispersed across more than one administrative or territorial level amongst several different actors" (Chowdhury and Wessel, 2012, p. 345). The multilevel character

makes the enforcement area complex, and fragmentation could be considered a significant threat to uniformity (Coen and Thatcher, 2008). Therefore, the multilevel character of the IFRS enforcement in the EU, points out that there might be differences in the enforcement of IFRS. The possibility of fragmentation is emphasised by the fact that contrary to the harmonization of financial reporting, the enforcement of IFRS is in the hands of each member state of the EU (Brown and Tarca, 2005). As the national contexts differ between the countries, it could be expected that there are different approaches towards enforcement, mirroring the local circumstances (Brown and Tarca, 2005). These different approaches might create differences in the enforcement structures and practices.

Previous research demonstrates the existence of differences in the enforcement between the different EU countries (FEE, 2001; Brown and Tarca, 2005; Berger, 2010). These studies mainly focus on studying the structures and practices of enforcement bodies in the EU. The findings relating to differences in structures of enforcement bodies, point out that enforcement bodies without identical structure can still achieve the same outcomes (Brown and Tarca, 2007). Therefore, it seems that differences in enforcement structure are not a challenge. Concerning practices, one could interpret from Berger's (2010) proposition for improvements of the European IFRS enforcement system, that some of the different practices are not desirable.

One could claim that the differences in the practices of enforcement might not be a challenge in itself, as every country has different political, legal and cultural background. However, in light of ESMA coordinated IFRS enforcement, the differences between national enforcement bodies might hamper the uniform approach towards enforcement in the EU (van Rijsberg, 2014; Scholten and Ottow, 2014). Therefore, differences in enforcement practices among countries might pose a challenge to the uniformity of ESMA coordinated enforcement. Nevertheless, there is lack of research in the field of enforcement that pinpoints the differences in practices (Brown and Tarca, 2007).

As stated above, the research field recognises the existence of different practices, yet lacks studies in the area of enforcement practises and is thus an interesting topic. This study contributes to the research landscape by filling the gap in studies of the differences in practices of national enforcement bodies by considering the aspect of challenges to the uniformity of IFRS enforcement. By increasing understanding of the possible challenges in the common approach of IFRS enforcement, this thesis could contribute to the work of ESMA

and national regulators, and furthermore, enlighten different stakeholders of the differences in national enforcement practices.

1.3 Research purpose and research question

Based on the problem identification, the purpose of this paper is to analyse the status of challenges in ESMA coordinated IFRS enforcement by looking at the practices of the national enforcement bodies in particular EU countries. The aim is to reveal the possible differences in the enforcement that might pose a challenge to the uniformity of IFRS enforcement in the EU. To fulfil the purpose of this thesis, the following main research question is chosen:

- What are the possible challenges in the uniformity of IFRS enforcement in the EU?

To answer the main research question, one sub-questions is chosen:

- What are the different IFRS enforcement practices in particular EU countries?

1.4 Delimitations

This thesis focuses on ESMA coordinated EU level IFRS enforcement conducted at the national level. Hence, certain delimitations to the study are in order. Firstly, other than European countries applying and enforcing IFRS are excluded. Secondly, only countries belonging to the EU, and thus obliged to follow the EU regulation are included to the study, namely the United Kingdom (UK), the Netherlands and Finland. Thirdly, since reporting of financial statements based on IFRS is mandatory for listed companies, the enforcement of other than publicly traded companies is not included in this study. This leaves the majority of European companies outside of the scope of this study. Fourthly, according to Ernstberger, Hitz and Stich (2012) there are three levels in enforcement; the company's internal control arrangements, external control systems such as auditors auditing the financial statements and on the top, the public enforcement mechanism. In this paper, the focus is only on the latter. Furthermore, as prior research shows, different enforcement structures do not pose a challenge, and thus are not in the scope of this paper. Finally, this thesis does not consider the

direct effectiveness of enforcement bodies or the quality of their enforcement and neither does it try to criticise the national or European level of enforcement.

The three countries analysed in this thesis are: the UK, the Netherlands and Finland. The criteria for choosing these particular countries are discussed later in the methodology chapter.

1.5 Further outline of the thesis

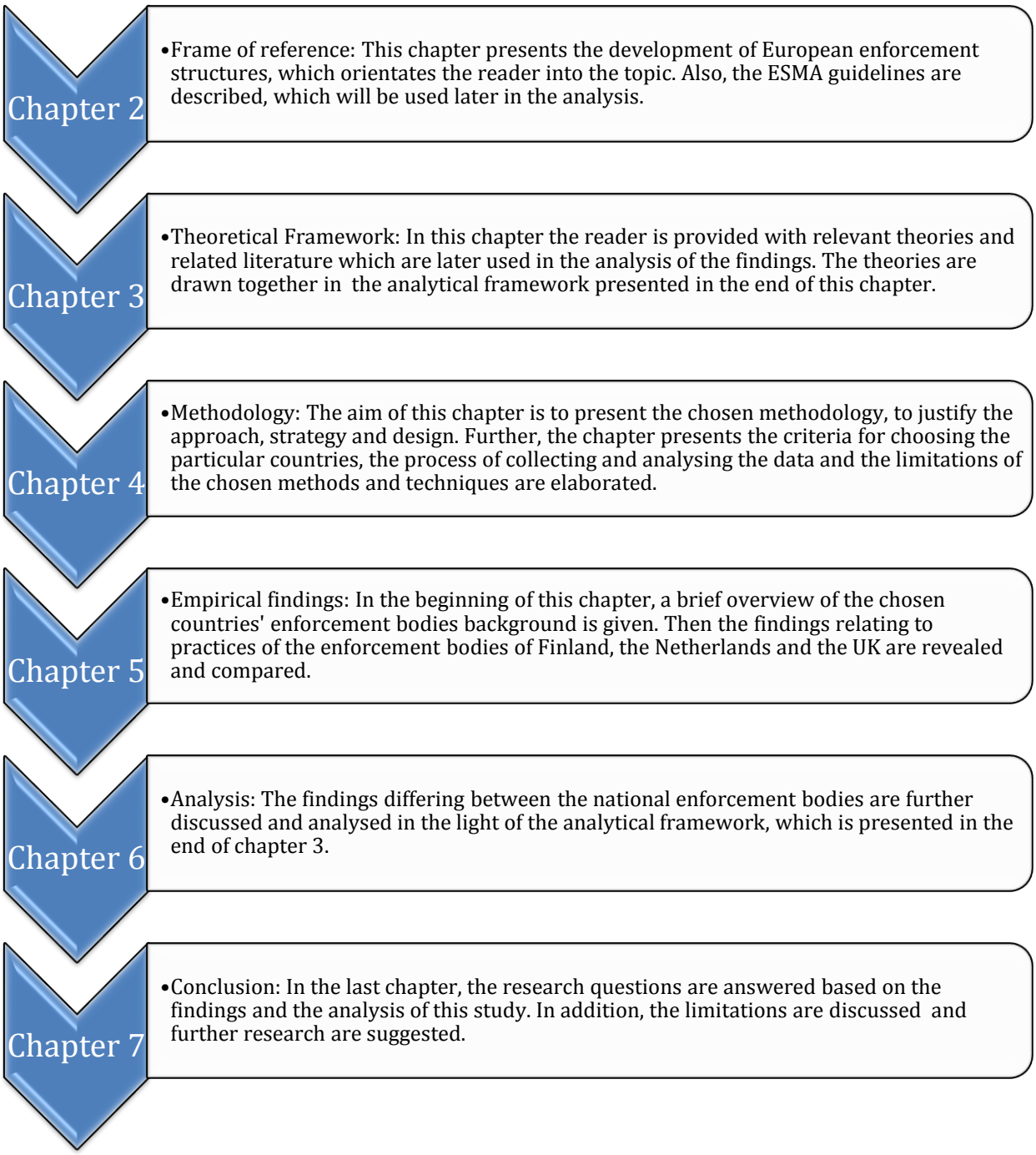

Figure 1: Further outline of the thesis (Own representation)

2 Frame of reference

The purpose of this chapter is to give an overview of the developments in the European and national level enforcement. A brief history of the development of the European body as well as the development of the national enforcement bodies are described. Moreover, the current European IFRS enforcement guidelines are briefly described to give a general picture of their contents. The guidelines will be later used in the analysis of the findings. The background information helps to gain an understanding of the status of the enforcement system in the EU, as seeing where they have started and how far they have come.

2.1 Background from CESR to ESMA

The Committee of Wise Men published a report in 2001 on the Regulation of European Securities Markets. The report was part of the plan to reform financial legislation and to enhance the EU's significance in financial law. The major findings from this report were that the current system was "too rigid, slow, ambiguous and unable to separate core principles and details" (The Committee of Wise Men, 2001, pp. 14-15). The Committee suggested in their report a four-level approach, the so called Lamfalussy process, to overcome these issues. Level one is about passing the regulations and level two of technical implementations. Level three and four are to secure consistency in the implementations and improve enforcement of EU regulation. The third level is based on common interpretation of recommendations, having common standards, which are not included in the EU laws, providing consistent guidelines, peer reviews and comparison of regulatory practice to assure consistency. Finally, the fourth level is to strengthen the role of the EC in the enforcement of rules. (The Committee of Wise Men, 2001).

The EC established in 2001 three advisory committees on the level three to ensure the consistency in transposition, implementation and enforcement of level one and two: the CESR, the CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors) and the CEBS (Committee of European Banking Supervisors) (van Rijsbergen,

2014). In recognition to the differences between national settings, the EC made it clear that CESR was there to advance the common approach to the IFRS enforcement in Europe (EC, 2002). CESR was an advisory committee, where each member state had a representative from the national enforcement body (Scholten and Ottow, 2014). The aim was to achieve comparability through consistency in the application of IFRS, which is principles-based and has room for judgment (CESR, 2007). The key role to achieve consistency in enforcement (CESR, 2007).

CESR provided two standards, which were principles-based and non-mandatory, to facilitate the common direction of enforcement (CESR, 2007). The mechanism, which CESR used to promote common approach, was the European Enforcers' Coordination Sessions (EECS), where the national enforcers meet and discuss local decisions and the results of peer reviews, exchange best practices, network and issue guidelines (FEE, 2006; Scholten and Ottow, 2014). In addition to EECS, CESR set up a database for the decisions made by the national enforcers (CESR, 2007). Ottow (2012 cited in Scholten and Ottow, 2014) claims that these efforts did not have a direct influence to national enforcers due to the fact that the standards and guidelines were not legally binding. Furthermore, Scholten and Ottow (2014) state that experience has shown that agreements made on level three of the Lamfalussy process are not consistently applied in everyday actions by national enforcers. According to them, the issues arose from non-binding standards, which were applied and interpreted differently at national level and the Committee's lack of power to correct any national interpretations.

After the 2008 financial crisis, the Lamfalussy structure was questioned due to lack of coordination between the member states to handle the crisis (van Rijsbergen, 2014; Scholten and Ottow, 2014). In 2009 the 'High-Level Group on Financial Supervision in the EU' - report, chaired by de Larosière and mandated by the EC, proved that the system had weaknesses such as differences in enforcement and recommended national enforcers to have sufficient power, resources and better sanctioning ability (The de Larosière Group, 2009). These led to changes in the supervision of European financial markets.

In 2011 CESR was replaced by ESMA. ESMA is an independent body, but fully accountable to the EC and the Council of the EU. Its main purpose is to secure the stability of the EU's financial system and to improve investor protection. More specifically relating to IFRS enforcement, its primary task is to advance the convergence among securities regulators (ESMA, 2015a). According to van Rijsberg (2014), ESMA can now be considered as one of

the strongest EU agencies. ESMA has more power, such as the power to issue technical instructions to financial institutions overriding national enforcement authorities, supervising role over credit-rating agencies with the possibility to appoint sanctions and it can start investigations either on its own or upon request, and thereafter give a recommendation to the national authority (ESMA, 2015a; Scholten and Ottow, 2014). This increase in power is the main difference between ESMA and the predecessor body, CESR. Nevertheless, the enforcement of IFRS is still the responsibility of national bodies.

2.1.1 ESMA guidelines on enforcement of financial information

In 2014 ESMA published the 'Final Guidelines' (later referred as guidelines), which replaced, but follow greatly, the principles-based standards set by CESR. The guidelines are to establish "consistent, efficient and effective supervisory practices … and to ensure the common, uniform and consistent application of Union Law" (ESMA, 2015a, Online). As mentioned before, these guidelines are not legally binding, but the member states are to follow the rule of "comply or explain". The areas addressed in the guidelines are the scope of enforcement, the organization of national enforcement bodies, pre-clearance, selection methods, examination procedures, enforcement actions, reporting, European coordination and emerging issues and decisions (ESMA, 2014). The content of the guidelines is now discussed in further details.

Scope, European enforcers and pre-clearance

The national enforcers should be the designated competent authorities, which have the full responsibility of the monitoring responsibilities. However, the competent authorities can delegate the tasks to another body, but as stated above, the overall responsibility remains under designated competent authorities. The enforcement bodies should be independent from issuers, auditors, governments and other actors. Independency meaning the decisions made by enforcers cannot be influenced, the enforcers should follow ethical codes and the board of the enforcement body should be composed in an independent manner. The resources, both human and financial, should support effective enforcement considering the characteristics of the national reporting environment. Moreover, the resources play an important factor in preventing regulatory arbitrage, since companies might prefer countries, which are known to have lack of resources in enforcement. If pre-clearance is permitted, it should follow formal procedures. It is typical of enforcement to be an ex-post activity, hence it is important to have formal process to secure that ex-ante enforcement results in the same decision as it would in

ex-post situation. (ESMA, 2014). When addressing the power of an enforcer, the guidelines refer to the Transparency Directive, which state that they should be consisting of at least but not limited to:

- *the power to examine compliance of financial information in the harmonised documents with the relevant financial reporting framework,*
- *the right to require any information and documentation from issuers and their auditors,*
- *the ability to carry out on-site inspections; and*
- *the power to ensure that investors are informed of material infringements discovered and provided with timely corrected information* (ESMA, 2014a, p.44).

Selection methods

The selection should be based on a mixed model of risk based approach and rotation and/or sampling. Risk based alone is not considered sufficient, since companies not fitting to the risk criteria are not subject to enforcement, whereas pure rotation or sampling approach might miss the high-risk issuers in time. Important factors to consider are the probabilities of infringements, the possible impacts the infringements might have on the financial markets and the specific characteristics of the issuers. In addition, the common European enforcement priorities should be considered when selecting issuers for monitoring. The guidelines state that the national selection criteria models are not public information, to prevent the possibility for issuers to recognize whether they are to be examined or not, but national enforcers should inform ESMA on them. (ESMA, 2014).

Examination procedures

The guidelines give examples of how the examination procedures could be organized based on the powers and measures stated above. The selection of issuers is done based on the approaches discussed before. Once the issuers are selected, the activities related to ex-post enforcement should be carried out in an effective way. The unlimited scope examinations, meaning full review of financial statements, can be used solely. It can be combined with focused examinations, meaning scrutiny of specific items in financial statements, but focused examinations are not considered sufficient alone. The analysis can address either annual or interim consolidated reports. (ESMA, 2014).

Once the analysis is started, the enforcers should use different procedures to gain more information to make the analysis and decisions. Guidelines suggest asking questions, preferably in writing, from the issuer, communicate with the auditors of the issuer, contacting supervisory boards or audit committees, using internal and/or external experts, engaging in on-site inspection and/or consulting EECS database for similar cases. Additional information should be gathered from other relevant financial information from the issuer, reviewing press articles, comparing information with competitors and/or with previous financial year information. The outcome of these procedures is that no enforcement actions are needed or that the examinations revealed material misstatements or immaterial departures, which require actions. (ESMA, 2014).

Enforcement actions

If the analysis outcome is that the national enforcer should take appropriate enforcement actions, the actions depend on the powers allowed by the national regulation. Guidelines suggest three actions alone or in combination:

> *a) require a reissuance of the financial statements,*
>
> *b) require a corrective note, or*
>
> *c) require a correction in future financial statements with restatement of comparatives, where relevant* (ESMA, 2014, pp. 48-49).

Enforcers should consider the actions in the light of providing sufficient information to investors to make their investment decisions. Consideration should be taken whether the original statements together with a corrective note are clear and sufficient or should the financial statements be issued again to serve the investors decision-making in the best possible way. Corrective note could be considered as so-called 'name and shame' strategy. The timing of the decision, the nature of decision and the general context affect the considerations of the need for immediate actions or whether the future restatement is sufficient. The future restatement could be appropriate e.g., when publication of financial statements is very close, the markets are already satisfactorily informed and the decision of enforcer is a matter of the presentation not the substance per se. As the decision of actions is made, the enforcers should follow-up the issuers to take the actions requested. (ESMA, 2014).

European coordination, emerging issues and decisions and reporting

An important part of the tasks of ESMA is to coordinate and harmonize the European enforcement. The EECS, as already discussed before in relation to CESR, are for the national

enforcers to meet on regular basis, discuss relevant issues and share information. In case there are controversies or ambiguities in the interpretations of IFRS applications, these are addressed to the standard setters the International Accountings Standards Board (IASB) or the interpreting body International Financial Reporting Standards Interpretations Committee (IFRS IC). Enforcers do not make any interpretation guidance of their own. The EECS meetings are important in coordinating both ex-ante discussions and ex-post decisions. The ex-ante discussions relate to emerging issues, which have not been appointed by the EECS before, but are of significance to be coordinated. The ex-post decisions are discussed in the light of significance for European harmonization. (ESMA, 2014).

The decisions made by national enforcers should be reported to ESMA. The decisions are collected to an EECS database based on the submission criteria listed in the guidelines. The database is to support the harmonization by providing the possibility to see how other enforcers have made decisions on particular cases. The database is accessible only to ESMA members, which means the national competent authorities. If the national competent authorities have delegated their enforcement responsibilities to another body, they do not have access to this database. However, the enforcers with delegated responsibilities have the right to participate in the EECS meetings. Few of the decisions in the database are published on anonymous base to promote consistency of IFRS application. The publications are based on an evaluation of being general interest to issuers or third parties or of particular character. Furthermore, the guidelines state that national enforcers should report on their activities to the public periodically at national level. (ESMA, 2014).

2.2 National enforcement bodies

In conjunction with the adoption of IFRS in 2005, the EU required member states to ensure compliance with the IFRS with appropriate measures, which in practice meant to establish an enforcement body (if not already established) (EC, 2002). Fédération des Experts Comptables Européens (FEE) (2001) published a study of enforcement mechanisms in Europe prior IFRS adoption. Their study focused on oversight for listed companies and their financial statements, whereas other types of oversight were left out from the study. Their findings were that the institutional oversight systems varied between countries and some did not have one at all. The enforcement bodies detected in Europe were: Stock exchange, Stock Exchange Regulator,

Government department or Review Panel as an example of Private-Sector Body. Table 1 gives an overview of the countries categorized by the FEE (2001) study, however some countries might belong to more than one category. The table clearly displays the fragmented take on the supervision of financial statements and the challenges ahead. Nonetheless, Nobes and Parker (2012) state there is no optimal model of enforcement body to suit all countries. The national institutional settings, the general regulatory system and the overall culture determine largely what kind of body is established and what kind of capabilities for enforcement it is endowed with (Nobes and Parker, 2012).

Table 1: Summary of enforcement bodies in the EU in 2001 (FEE, 2001, p.12.)

Stock Exchange	Stock Exchange Regulator	Review Panel	Other Government	No institutional oversight system
Sweden	Belgium	UK (FRRP)	Denmark	Austria
Norway	France		UK	Finland
Switzerland	Italy		Czech Republic	Germany
	Portugal			Ireland
	Spain			Luxembourg
				Netherlands
				Hungary
				Slovenia

Due to the EU regulation EC 2002/1606 there were some drastic changes made in the enforcement on national level in several European countries. For instance, Germany, the Netherlands and Finland introduced enforcement body simultaneously with IFRS introduction, and the UK made changes in the rights and power of their existing oversight body (Christensen et al., 2013). Other countries made the changes gradually after the IFRS adoption. As Christensen et al. (2013) point out, the EC's regulation "to take appropriate measures to ensure compliance" (Christensen, 2013, p. 148) is broad, and thus allows member states variety in ways to accomplish compliance. Currently, every EU country has established an enforcement body, responsible for enforcement of IFRS (ESMA, 2014). The current European IFRS enforcement bodies are listed and shown in the Appendix A.

3 Theoretical framework

The theoretical framework presents a variety of theories and models relating to enforcement. It starts with the definition of enforcement, and then proceeds to the theories of enforcement and related empirical literature. Then the specific structural nature of IFRS enforcement from a multilevel regulation perspective is introduced. In the end of this chapter, an analytical framework is developed, which is later used in the analysis and conclusion chapters.

3.1 Enforcement definition, role and mission

The term enforcement could be generally understood as "the act of compelling observance of or compliance with a law, rule or obligation" (Oxford Dictionaries, 2015, Online). Research in the field of accounting enforcement adopts this type of definition as enforcement is defined broadly as "the procedures and mechanism that ensure the observance of, or obedience to security laws or investor protection law" (Ernstberger, Stich and Vogler, 2012, p.217). ESMA refers to enforcement as "examining the compliance of financial information with the relevant financial reporting framework, taking appropriate measures where infringements are discovered during the enforcement process in accordance with the rules applicable under the Transparency Directive and taking other measures relevant for the purpose of enforcement" (ESMA, 2014a, p.9). For the purpose of this thesis, it is important to distinguish between the terms of supervision and enforcement. On one hand, supervision could be described as ex-ante activity to prevent noncompliance. On other hand, enforcement could be defined as ex-post activity that aims to detect and punish violations. In practice, supervision and enforcement are difficult to disentangle. (Carvajal and Elliot, 2009). Both of these terms are "tools of implementation, a means of fostering compliance with the legal framework, and often the umbrella term, 'enforcement of compliance', is used to bring the two together" (Carvajal and Elliot, 2009, p.4). Thus, in this thesis both supervision and enforcement are considered simultaneously.

Generally, the aim of enforcement is to ensure the compliance with the indented purpose of law, rules or regulation (Morgan and Yueng, 2007; Christensen, Hail and Leuz, 2010). Hence, basing on the definitions and aim of enforcement one could conclude that enforcement is an important part of regulation and its function in the regulatory process is to achieve compliance. In accounting sphere and particularly in relation with IFRS, many researchers consider enforcement as an important tool how to achieve compliance with this applicable reporting framework (Berger, 2010; Brown, Preiato and Tarca, 2014; Ojo, 2010). The enforcement system should detect material misstatements in the financial statements, ask for their correction, and impose sanctions when it is necessary (FEE, 2002). Therefore, monitoring, reviewing and imposing sanction are the basic roles of enforcement (Brown et al., 2014). Moreover, enforcement does not only include monitoring and sanctioning, but also education of the public is part of the enforcement activities (Brown et al., 2014).

Enforcement of accounting standards broadly involves three processes:

- *Effective company control system and management dedicated to good reporting*
- *Independent auditors who are expert in the rules*
- *An oversight mechanism with sufficient expertise and power to achieve effective enforcement* (Brown and Tarca, 2005, p.183).

As mentioned before, this thesis focuses on the third element of enforcement process, namely, the oversight mechanism. However, it is important to acknowledge certain dependency between the levels. Nobes and Parker (2012) discuss the relation between auditors and oversight bodies. They claim that auditors are a crucial part of monitoring and enforcement, however, they are not sufficient components alone as their independence is questionable. Therefore, the existence of oversight bodies is important. Nobes and Parker (2012) conclude that both auditors and enforcement bodies can profit from each other's co-existence. On the one hand, from an auditors' point of view, the existence of an enforcement body could enhance their power to demand compliance with an applicable reporting framework. On the other hand, the enforcement body has restricted capacities to check every single account of each company and therefore, in many cases they have to rely on auditors′ work (Nobes and Parker, 2012).

3.2 Theories of enforcement

The following theories presented in this subchapter will be used to interpret and analyse the practices relating to national enforcement bodies.

3.2.1 Enforcement strategies

The term strategy is linked to the enforcement agencies and the choices they make concerning enforcement (Burby and May, 1998; May and Winter, 2011). Strategy includes the tactical choices e.g. the approach to targeting of companies and various actions e.g. sanctions (Burby and May, 1998). However, as many researchers acknowledge, there is confusion between the enforcement style and enforcement strategy in the field of enforcement literature e.g. Burby and May (1998) and May and Winter (2011). The concept of enforcement style is associated with behaviour of employees of the enforcement body during the interaction with regulated objects (Burby and May, 1998; May and Winter, 2011). Nevertheless, in practice these two concepts are interrelated. It is important to note that the enforcement strategy of the enforcement body and the enforcement style of inspectors are linked, as the decisions about the enforcement strategy made at the enforcement body level influence the behaviour of the inspectors and therefore their style (May and Winter, 2011; Hawkins, 1984). Moreover, according to May and Winter (2011), the enforcement strategy could be perceived as higher part of the enforcement style (May and Winter, 2011). For the purpose of this thesis, the term strategy refers to the choices made by the enforcement body.

Generally, scholars distinguish two opposite strategies, particularly deterrence and compliance strategies (Gunningham, 2010). Hawkins´ study (1984) on the enforcement of environmental regulation could be considered as one of the earliest with respect to enforcement strategies. He distinguishes two enforcement strategies, namely sanctioning (above referred to as deterrence) and compliance strategy. The aim of the compliance strategy is to secure compliance with the rules or standards and it strives for achievement of future conformity with rules. Therefore, this strategy emphasizes prevention of harm through informal means of enforcement such as persuasion rather than punishment. Hence, legal sanctions are considered as the last option. In contrast, the sanctioning strategy's objective is to punish the rule breaker and thus, legal sanctions are frequent. The focus lies on the detection of violation and appropriate punishment in order to restrain the violation in the

future. (Hawkins, 1984). However, these strategies should not be perceived as the sole option, because in practice the enforcement bodies use different combination of these strategies (Burby and May, 1998; McAllister, 2009).

One could raise the question which factors affect the choices of enforcement strategy or style. Kagan (1989), based on a review of case study enforcement literature, proposed three sets of factors that could explain the differences in enforcement strategies. These are the legal design factors, task environment factors and political environment factors. All three factors can at the same time affect the behaviour of an enforcement body. Concerning the legal design, important aspects are the enforcement body's goals, the power assigned to the enforcement body, the restrictions on the enforcement body's behaviour and the decisions taken by the enforcement body. Severity of non-compliance, cost of compliance, seriousness of the risk posed to the markets and economic resilience are important features of the task environment factors. In addition to that, the political factors include characteristics such as independence of the body. (Kagan, 1989). Besides political factors, one of the elements that can be seen as a threat to the independence of an enforcement body is the use of external consultants. However, Rundfelt (n.d.) does not consider external consultants as a threat to the independence of an enforcement body. Nevertheless, he stresses that it is important to have employees in the body that ensure that the results of the reviews conducted by external consultants are accompanied by appropriate actions of the enforcement body.

3.2.2 Enforcement actions

Both scholars and representatives of regulatory field believe that in order to accomplish the intended goals of regulation, enforcement bodies should pursue a strategy with a sophisticated mixture of deterrence and compliance strategies (Ayres and Braithwaite, 1992 cited in Morgan and Yeung, 2007). Nevertheless, the essential question is regarding the appropriateness of each strategy in the specific situation and for particular actors. In line with this question is also one of the choices made by the enforcement bodies, which is the selection of a sanction when an enforcer detects a violation. As Braithwaite (1985) notes, different actors have different motives for compliance or non-compliance with the standards or rules (Morgan and Yeung, 2007). Therefore, it seems that enforcers, while making the decision which strategy to use and sanction to impose to the rule breaker, have to take into consideration the different motives of the regulatee′s behaviour towards non-compliance with

the rules. Moreover, one could note, that financial statement issuer's different intentions behind the non-compliance could derive from human errors to intentional financial gain seeking, which should be taken into consideration when deciding on the enforcement actions. However, it is challenging to reveal the underlying motives of non-compliance. The tool to level the sanctions with the motives, is the so-called ′enforcement pyramid′ introduced by Ayres and Braithwaite (Gunningham, 2010). An example of the pyramid can be seen in the Figure 2.

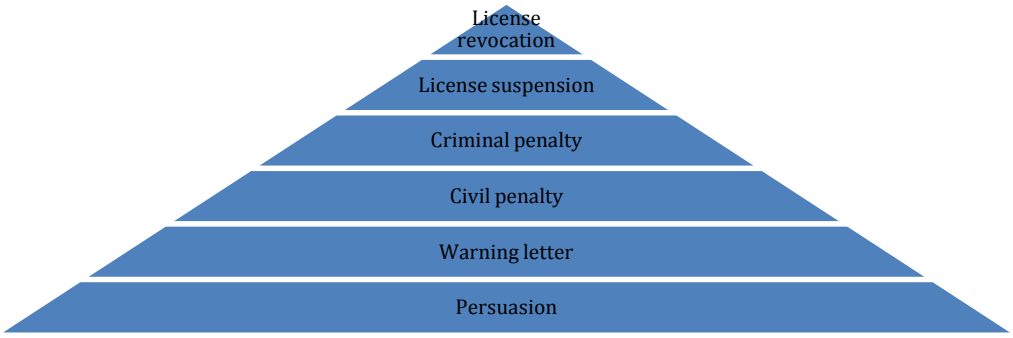

Figure 2: The enforcement pyramid (Ayres and Braithwaite, 1992 cited in Morgan and Yeung, 2007, p. 196)

As Ayres and Braithwaite (1992 cited in Morgan and Yeung, 2007) acknowledge, the pyramid is based on two important features. Firstly, it has an escalation character of sanctions imposed by enforcers. This means that the least obtrusive sanctions, e.g. persuasion and advice, are located at the bottom of the pyramid and the severity of sanctions gradually escalates in the pyramid. The most severe sanctions, e.g. licence revocation, are located at the top of the pyramid. When compliance is not achieved by persuasion or advice, enforcers gradually move up in the pyramid and use more severe sanctions. The second important feature is that sanction at the peak of the pyramid has to be strong enough to deter the worst violators and represent a deterrence tool for violators who do not comply. Except these two essential features, it has to be noted that the main principle of the pyramid is based on cooperation between the enforcer and the violator. (Ayres and Braithwaite (1992 cited in Morgan and Yeung, 2007). Downs (1997) stated that cooperation can bring great benefits under the condition that companies are threatened by the fact that their reputation could be damaged in case of detection of the violation (Downs, 1997). Important thing to note is that the enforcement pyramid and the layers of the sanction have to be adjusted for each particular enforcement area (Ayres and Braithwaite, 1992 cited in Morgan and Yeung, 2007). However, the principle of construction stays the same (Ayres and Braithwaite, 1992 cited in Morgan and

Yeung, 2007). Therefore, the enforcement pyramid could be a useful tool to analyse the practices of enforcement bodies in the field of IFRS in the EU.

Nevertheless, one of the potential drawbacks of the ′enforcement pyramid′ could be its lack of emphasis on the severity of the violation and the strong focus on the firm′s willingness to cooperate (Yeung, 2004 cited in Morgan and Yeung, 2007). As the severity of a violation is an important aspect, it, thus, should be taken into consideration together with the cooperativeness of the violator when choosing appropriate action.

3.2.3 Principles-based and rules-based enforcement

As IFRS is principles-based, it leaves room for management discretion. The same applies to principles-based enforcement, which thus leaves room for enforcers' discretion. There are some detailed rules regarding stock listed companies, however, generally the field is dominated by principles-based regulation.

Principles are meant to direct behaviour as general rules to "express the fundamental obligations that all should observe" (Black, Hopper and Band, 2007, p.192). The idea underlying principles is that the enforcers know better the actions and processes needed to fulfil the objectives of enforcement in the most effective way in respective national context. Black et al. (2007) and Ford (2010) listed potential benefits of principles such as flexibility, more effortless compliance, more difficult to manipulate and there is higher probability to reach the objectives of enforcement by advocating desired behaviour. Furthermore, principles are open for dialogue, which eases cooperation and educational approach to supervision (Black et al., 2007; Ford, 2010). However, as mentioned in the beginning, principles require discretion and/or judgement, which might cause certain complexity. Moreover, they might cause more hind-sight-driven enforcement, accountability concerns and fuzzy line between best practices and minimum delivery (Black et al., 2007; Ford, 2010; Park, 2012).

In comparison, detailed rules might yield certainty, are easier to apply steadily and follow ex-ante and they provide clarity (Black et al., 2007; Ford, 2010). However, according to Ford (2010) detailed rules do not fit well to regulating financial markets, since financial markets are complex and fast moving, and require more flexibility than what specific rules can provide. In addition, they can cause gaps, disparities and might advocate "creative compliance" (Black et al., 2007, p. 193).

Besides, above-mentioned differences the principles-based enforcement is claimed to be costlier than rules-based enforcement (Park, 2012; Ford, 2010). The costs of rule-enforcement stay lower due to the straight-forwardness of sanctioning violations, whereas principles-based enforcement requires interpretations due to their more ambiguous nature (Park, 2012). As Ford (2010) formulates, this calls for investments in the regulatory capacity, relating to resources and expertise, to enable enforcement investigations. For regulators the cost of principles occurs when they are enforced, which is ex post (Park, 2012). However, Black et al. (2007) theorise that in the end the principles-based enforcement could be less costly, because the rules-based enforcement might cause over or under regulation, which could end up being costlier to the public.

3.3 Multilevel regulation

The challenges in the uniformity will be reflected through the concept and modelling of multilevel regulation.

3.3.1 Concept of multilevel regulation in the EU

When enforcement is scattered to diverse administrative levels inside and outside the national borders, it refers to multilevel regulation (Chowdhury and Wessel, 2012). In IFRS enforcement, the national enforcers have moved some of the self-regulation power to the regional (the EU) level by forming a network (ESMA) to coordinate enforcement regulation in the EU. Hence, IFRS enforcement is occurring in a multilevel regulatory sphere.

The actors within the multilevel regulation are considered independent, the relationship is non-hierarchical and they follow an open-ended process, where consensus between the actors is reached through negotiations and interactions and not by strict downwards commands (Chowdhury and Wessel, 2012; Coen and Thatcher, 2008). Chowdhury and Wessel (2012) underscore that the nature of interaction can be formal or informal. The formal interaction happens in a more traditional context and the process follows more strict line, whereas the informal interaction, such as network coordination, is more apt to biased outcomes and could lead to compromises or even contradicting public interest. Furthermore, Pauwelyn (2011) and Pope et al. (2011) criticises multilevel networks for the lack of transparency and that the accountability is towards peers rather than the public.

3.3.2 Level of enforcement in a multilevel regulation context

Heldeweg and Wessel (2014) discuss the appropriate level of enforcement in multilevel regulation context, which is seen in two dimensions of 'strength-level' and 'location-level'. In multilevel regulation trade-offs between these dimensions are necessary. The location is a question of either enforcement happening at the national or the EU level. The strength of enforcement is to consider how intensely the norms are to be enforced in multilevel regulation, since enforcement might take different ways in different contexts. On the supranational level, enforcement is most often regarded to have moderate strength (Heldeweg and Wessel, 2014). The supranational regulation creates possibilities for standardisation and benefits from networking externalities (Leuz, 2010). In comparison, regulation at lower level allows more sophistication in consideration to the issuers and investors, and thus mitigates the issue of "one size fits all" (Leuz, 2010). Heldeweg and Wessel (2014) suggest that optimal mix of enforcement would be the lowest level with the least amount of strength. Nevertheless, there is a risk of failure due to two factors:

- *At low location-levels we may be faced with subsidiarity failures, for instance because the relational scope of relevant transaction (e.g. EU-supranational trade) exceeds the jurisdictional scope of regulation (e.g. domestic);*
- *At low strength-levels we may be faced with virtuousness failures, for instance because perverse transaction incentives (e.g. high profitability or low chance of reputational damage) outweigh the negative consequences of violation (e.g. naming & shaming)* (Heldeweg and Wessel, 2014, p. 26).

Hence, certain degree of centralization is needed for uniform enforcement (Heldeweg and Wessel, 2014; Scholten and Ottow, 2014). Scholten and Ottow (2014) also discuss the enforcement dimensions and their visualization can be seen in Figure 3.

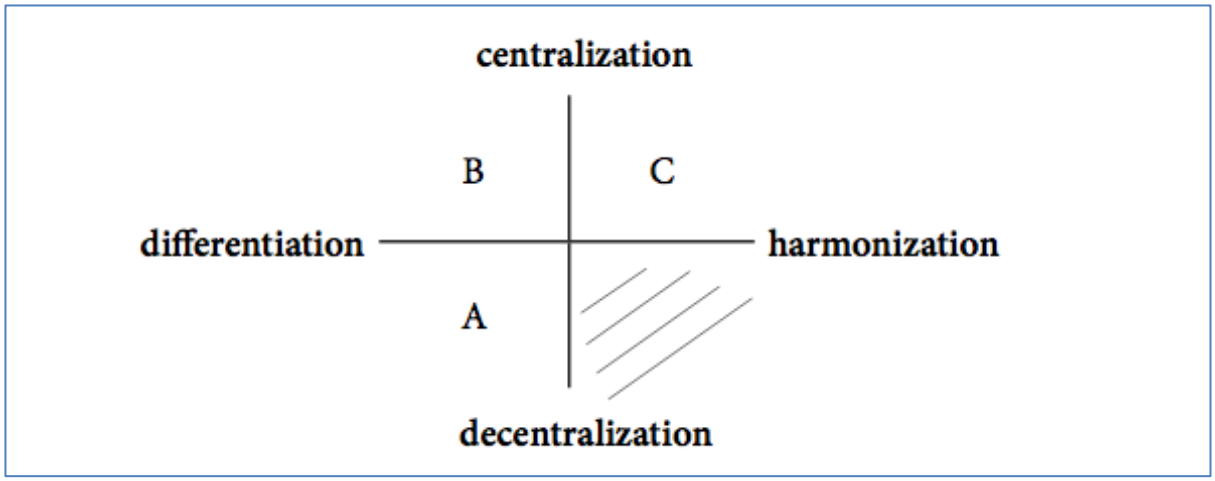

Figure 3: Central dilemmas for shared enforcement in the EU (Scholten and Ottow 2014, p. 91)

Area A in the Figure 3 is the enforcement area where national enforcers have the independence to choose from varieties in practices and laws. Due to great differentiation in the national enforcement, the EU has gone towards more centralization to secure better coordination and cooperation, since without any centralization common norms would be challenging to reach (Scholten and Ottow, 2014). The second trade-off is between allowing different practice and laws (area B) or harmonizing them (area C). Area B is characteristic for instance to a network of national enforcers, who cooperate and coordinate, but still allow national practices persist in consideration to their legal, political and cultural contexts. The downside is the possibility and likeliness of inconsistencies between countries (Scholten and Ottow, 2014). Currently, IFRS enforcement could be categorized to area B based on the description above.

Based on the discussion above, the challenges related to enforcement in the area B are fragmentation and informality. These are now further elaborated.

3.3.3 Fragmentation and informality

Fragmentation, which might cause regulatory duplication and discrepancy, which then might lead to legal uncertainty and questions about accountability, is a challenge in multilevel regulation (Chowdhury and Wessel, 2012; Wessel and Wouters, 2007). Coen and Thatcher (2008) claim that fragmentation is mainly caused by discretion in rules implementation and the fact that the national enforcers can either comply or not. Furthermore, considering multilevel regulation from a principal-agent point of view, the national regulators have two

principals, the national government and ESMA, that could pull to different directions (Coen and Thatcher, 2008). The benefits of a fragmented system could argued to be flexibility, i.e. allowing consideration to the diverse heterogenetic factors (Wessel and Wouters, 2007). Some of the theoretical drawbacks in multilevel regulation, according to Wessel and Wouters (2007), are information asymmetry, coordination needed between different jurisdictions, agency capture and dishonesty due to lack of or ineffective oversight possibilities.

Fragmentation is not however the only challenge in multilevel regulation. The other challenge arises from the informality of three factors compared to traditional law making: output, process or the actors involved (Pauwelyn 2011; Chowdhury and Wessel, 2012). Informality in any of these raises questions about accountability, who is responsible and to whom (Pauwelyn, 2011; Wessel and Wouters, 2007). Accountability was famously defined in a narrow way by Bovens (2007):

> "*a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences"* (Bovens, 2007, p. 447).

Firstly, according to Pauwelyn (2011), the output informality arises from the fact that cooperation between actors in multilevel regulation does not result to a legally binding commitment, but to e.g. guidelines or standards. The output is supposed to affect the behaviour of the actors, but if the network does not have any power to enforce the behaviour, there is no accountability. Coen and Thatcher (2008) argue that informal position could be enhanced through resources and linkages such as information, reputation, expertise and trust. In the same vein are Chowdhury and Wessel (2012), who argue that formal legal authority could be overridden e.g. by monopoly of expertise in technical knowledge. These could give rise to power. Pauwelyn (2011) argues that output informality might lead in certain situations to a weaker national monitoring system. Secondly, the international cooperation might be organised in an informal manner, in a "loosely organised network" (Pauwelyn, 2011, p.17) where some actions might happen "behind the closed doors" (Pauwelyn, 2011, p. 17). This might allow more freedom to regulators compared to acting completely alone in the national context. Informality in processes does not however exclude that the network cannot have rules, personnel or a physical headquarter (Pauwelyn, 2011). Nevertheless, according to Pauwelyn (2011) also the process informality raises question of accountability, because the network might not be recognised as a legal entity and/or the regulators might be more

accountable towards their national constituencies than towards the network. Finally, the actors in the network are national regulators (administrators), which do not have "full powers to represent and bind a State" (Pauwelyn, 2011, p.19) unlike diplomatic actors. Hence, the actor informality can lead to uncertainties in commitments, especially since the national regulators are governed under administrative national laws, which might restrain their legal authority (Pauwelyn, 2011; Chowdhury and Wessel, 2012). To mitigate the effects related to informality and fragmentation in a multilevel regulation context, coordination mechanism could be seen as a useful tool (Freeman and Rossi, 2012).

3.3.4 Coordination

Considering especially IFRS enforcement happening in 28 different member states, the fragmentation challenge is real. The way to fight against fragmentation is to coordinate and cooperate. Moreover, the arguments to create a multilevel regulation system are generally based on the effects of enhanced coordination and efficiency (Coen and Thatcher, 2008). Scholten and Ottow (2014) argue that "*it is impossible to ensure consistent and uniform implementation without ... coordination of efforts... and an exchange of best practices... creating common databases and platforms for exchanging information… or a network of national enforcement authorities"* (p. 91).

Coordination between European IFRS enforcers is one of the main mechanisms to secure consistent enforcement. This is important in the consideration to 'levelling the playing field' for investors and other actors in the financial markets. Freeman and Rossi (2012) discuss coordination in the multilevel regulation. They claim that coordination can hinder systemic failures in regulatory spaces, without losing the "functional fragmentation" (p.1151). Moreover, according to them, coordination diminishes inconsistencies, increases mutual gains, agency capture is more difficult and it helps to detect and fill the gaps in regulation. Furthermore, the quality of agency decision-making is enhanced in coordinated multilevel regulation, since different bodies bring their knowledge and insights into the table (Freeman and Rossi, 2012; Wessel and Wouters, 2007). Wessel and Wouters (2007) list further benefits as the diminished conflict among the regulators and the contesting interests and boosted compliance due to participation in the decision-making process. Contradicting, Chowdhury and Wessel (2012) claim that the relationship between regulators could be competitive in nature and there might be even dissonance between the regulators. In line, Freeman and Rossi

(2012) highlight that the regulators must be willing to coordinate their actions to gain the above mentioned benefits. In coordinating regulators, Freeman and Rossi (2012) suggest that guidelines could be seen as beneficial instrument, as it displays to the public overall what are the enforcement policies. Another aspect to the instruments of coordination is peer-reviews. By using peer-reviews enforcement body shirking can be detected and thus bring consistency (Freeman and Rossi, 2012).

3.4 Literature review

Brown and Tarca (2005) reviewed activities in four EU countries with respect to establishing or altering enforcement bodies due to the adoption of IFRS. Their study stresses the importance of coordination in the field of actions and sanctions taken by the enforcement bodies in order to avoid regulatory arbitrage. However, they note that cultural differences and institutional background could affect the effectiveness of certain actions or sanctions. The example provided by Brown and Tarca (2005) is the 'name and shame' strategy. This strategy refers to the issue whether the name of the violator is published or not after the review is finished. This technique is popular among enforcers as it is cheaper in comparison to legal proceedings. Nevertheless, as Brown and Tarca (2005) state that in one country the action could be more effective than in the other due to the above mentioned factors.

Similarly, Berger's (2010) study, 'Development and Status of Enforcement in the European Union', reviews enforcement on the national level. In contrast to Brown and Tarca (2005), he included more countries in his study and focused more on the practices of enforcement bodies than the structures and role of enforcement bodies. He pinpoints five areas where the significant differences within the national enforcers are visible, namely the procedures, organizational form, scope of assignments of task and legal authority, examination approach and its consequences and 'home country control' principle. The results from his study show that transparency is a major issue as processes and procedures of national enforcement bodies are not in many cases publicly available, and even if they are, they differ and are difficult to compare. In addition, focus of the examination differs. In some countries, e.g. the UK and the Netherlands, the review process of financial statements is targeted at disclosures and the valuation issues are not part of the examination. Berger (2010) claims that valuation issues could cause serious errors. Moreover, he points towards the differences in reported errors.

Berger (2010) questions whether the low rate of reported errors should be considered as good quality of financial reporting in the country or if the low rate of errors signals weak enforcement system in the country. Finally, he indicates that different interpretations of the 'home country control' principle could lead to either double enforcement for companies or avoidance of enforcement by companies. Berger (2010) concludes that significant variations in the national enforcement bodies could lead to regulatory arbitrage and present enforcement challenges.

The general challenges in enforcement of IFRS are further elaborated by Hellman (2011) in his article of the IFRS enforcement challenges in Sweden. Even though he focuses primarily on the Swedish enforcement, he enlightens the role of enforcement bodies in general. He considers that legal enforcement should be strong, since it provides capital market benefits to the companies. He bases his view on studies such as Daske et al. (2008). Moreover, as pinpointed in the Subchapter 3.1, auditors benefit from an enforcement body because it strengthens the independence of auditors and thus increases company's' willingness to follow the standards. Hellman (2011) considers this system as an optimal solution. He further theorised that there are five conditions in a well-functioning IFRS enforcement system. Firstly, in total it should be conducted similarly with similar methods throughout the EU. Secondly, the enforcers should have competence in IFRS, and not rely too heavily on external consultants. Furthermore, linked to the use of consultants, the bodies should have sufficient resources and power to execute their duties. With little resources, there is a risk that supervision stays superficial and/or detail-oriented and there is no possibility for in-depth examinations. In addition, the sanctions that the enforcement body can use should pose a real threat to have the desired effect. Lastly, he mentioned that legitimacy must be secured by avoiding conflicts of interests in structuring the enforcement. Hellman (2011) showcases that it is important for the enforcement body to access auditor's working papers and other documents from the company, since just by looking at the financial statements one cannot conclude e.g. infringements of complicated accounting issues such as goodwill measurement and impairment tests, and it is not possible to examine them in-depth. However, even with access to auditors' papers this demands high resources and integrity from the supervisors (Hellman, 2011).

3.5 Analytical Framework

Considering the aim of this thesis, to reveal the challenges in the uniformity of IFRS enforcement, a multi-theoretical approach is chosen, due to the fact that there is no single theory relating directly to enforcement practices, the stated approach is selected. Using multiple theories in the analysis allows explaining and understanding the empirical findings more in-depth and thus answering the main research question.

The starting point for the analytical framework is prior literature and ESMA guidelines. They provide the basis for the detection of possible differences in IFRS enforcement. As literature review shows, the differences in practices of national enforcement bodies are prevalent.

The theories of enforcement are useful in reflecting the possible differences in practices, since the strategic approach, range of actions available and characteristics of rules might create differences in practices. Strategies of enforcement are used to highlight the approach of enforcement bodies towards enforcement. Different strategies could create different practices, which could disable the achievement of European common approach. The enforcement pyramid is a practical instrument to conceptualise the actions available to the national enforcement bodies. Furthermore, the national enforcement practices are interpreted in light of principles-based vs. rules-based enforcement, as they have different characteristics that might affect the practices. The differences in practices are considered in the light of theories of enforcement, the guidelines and prior literature to identify the possible challenges to uniformity of IFRS enforcement within the EU.

The challenges in the uniformity will be reflected through the concept and modelling of multilevel regulation.

The analytical framework is displayed in Figure 4.

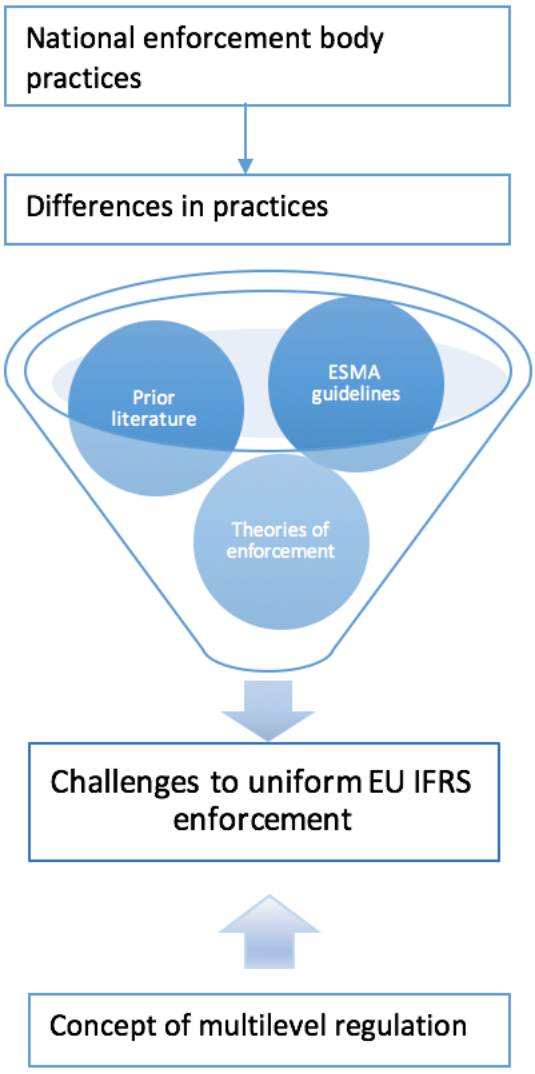

Figure 4: Analytical framework (Own representation)

4 Methodology

In this chapter the research strategy and approach are discussed. Further, the design of the research and criteria for selection of countries are presented. Thereafter, the research method is introduced. Considerations of trustworthiness and ethics are also discussed. Finally, limitations of the chosen method are elaborated.

4.1 Research strategy and approach

The purpose of this paper is to analyse the status of challenges in ESMA coordinated IFRS enforcement by looking at the practices of the national enforcement bodies in particular EU countries. In order to accomplish the purpose of the thesis, qualitative research strategy is chosen for various reasons. Firstly, qualitative research is usually conducted in the situation when the previous research in the field is not extensive (Creswell, 2003). As it was mentioned in chapter 1, there is lack of research in the area of differences in the IFRS enforcement in the EU. Moreover, qualitative research strives for exploration of phenomena (Creswell, 2003). The exploration character is applied in this thesis, since it enables to fulfil the purpose of this thesis. In addition to that, unlike quantitative research strategy that is associated with numerical data, the words and their understanding is important in qualitative research strategy (Bryman, 2012). This is applied to this study, as collecting numerical data would not fulfil the purpose of the thesis and answer the chosen research questions.

Qualitative research strategy is usually linked to inductive research approach (Bryman, 2012). Research approach refers to the role of the theory during the conduct of research (Bryman, 2012). There are two research approaches, namely inductive and deductive (Bryman, 2012). This thesis has adopted both research approaches. Mainly, the study has inductive character as the theories are used to understand and analyse empirical findings related to practices of enforcement bodies (Scapens, 2007). The empirical findings are analysed in light of theories in order to answer the main research question. Besides inductive character, the research contains also deductive features since the collection of data is guided by previous research at

the beginning of study. The process of gathering information is influenced by theories but also empirical findings drive the process of gaining new theoretical insights. This research approach is called abductive (Dubois and Gadde, 2002). In the research with abductive character, the initial framework is adjusted due to unexpected empirical findings as well due to new theoretical aspects obtained during the conduct of study (Dubois and Gadde, 2002). This is applied to this study, as it will be explained in Section 4.4.

4.2 Research Design

This study adopts a case study design as it allows detailed analysis of the phenomena (Bryman, 2012) and therefore, it enables to study and analyse the challenges to the uniformity of IFRS enforcement in the EU. Comparative design of case study is characterised by contrasting multiple cases by using similar methods, and is often used in cross-national research (Bryman, 2012). Hence, it is suitable for achieving the purpose of this thesis, as the practices of three different enforcement bodies are of interest. Moreover, the multiple-case study allows looking at causalities or patterns within the cases (Bryman, 2012). Therefore, multiple case study enables identification of the differences in practices among the selected enforcement bodies and moreover, identify the possible challenges to the uniformity of IFRS enforcement in the EU.

4.3 Selection of countries -criteria

It would be interesting to study possible differences of IFRS enforcement between all the EU countries but due to the resource limitations, it is not feasible. Therefore, the focus of the thesis is limited to the three carefully selected countries: Finland, the Netherlands and the UK. The criteria for choosing these countries are now elaborated.

According to the ESMA Guidelines Compliance' table (ESMA, 2015b), all of the chosen countries comply with the guidelines. It was of interest to choose countries that comply with the guidelines, since the aim of this paper is to detect the challenges to uniformity, and countries that do not comply with the guidelines would pose a self-evident challenge. Considering also that the guidelines are principles-based and are considered as "soft" law, it

was of interest to choose countries that comply to understand how they can differ and whether the differences can pose a challenge to uniformity.

The UK and the Netherlands are much researched in the IFRS field as well as in the enforcement field. However, the actual practices of these countries' national IFRS enforcement bodies have not been very well researched, but some of the significant, inspirational articles to this thesis have included the UK and the Netherlands. These articles are Berger′s study (2010) and Brown's and Tarca′s study (2005), both of which were discussed earlier in the literature review. In contrast, Finland is not highly researched in the area of IFRS enforcement, which makes it an intriguing country to study. To include a country that is less researched and compare it together with two other countries that have been more researched, gives credibility to the research, especially since the findings of this paper from the UK and the Netherlands can be reflected against the previous research.

Additionally, the countries are geographically spread across Europe, not having direct contact of influence with each other, which could indicate that there are higher chances for differences in practices of the national enforcement bodies. As the UK and the Netherlands present important financial market countries in the EU, it was of interest to include them into the study and contrast them against a country with smaller financial market.

Lastly, Finland was chosen also partly because it is the native country of one of the authors, hence of personal interest to study.

The chosen countries and their national enforcement bodies are presented in the table 2.

Table 2: Selected countries and their enforcement bodies (Own representation)

Country	National IFRS Enforcement Body	Abbreviation of the body
The UK	Financial Reporting Council Financial Conduct Authority	FRC FCA
The Netherlands	Authority for the Financial Markets	AMF
Finland	Finnish Financial Supervisory Authority	FIN-FSA

4.4 Data collection and data analysis method

In this study, archive data is the main source of information. In order to gain understanding of development of enforcement in the EU, ESMA website is used as source. Information for the theoretical part is collected through LUBsearch and Google Scholar for finding relevant academic articles and through LOVISA, the Lund University Catalogue, to find further relevant literature. Since, the enforcement bodies′ manuals are considered to be a good way how to reveal the practices of an enforcement body (Burby and May, 1998), the data for empirical section is gathered from the official websites and the most updated publications released on the official websites of the national enforcement bodies, as well as from related national legislation. These are indicated in the table 3. All of the exact sources used in the empirical section are stated in reference list, under the heading "Sources used for the empirical section as per country". These sources are chosen because the enforcement field has been and is constantly changing, and the most up-to-date information is most likely available on the official websites of the national enforcement bodies. Therefore, no other sources of information were used in the empirical section.

Table 3: Empirical data sources (Own representation)

Country	Data Source	Type of the source
The UK	https://www.frc.org.uk/	FRC Official website
The UK	http://www.legislation.gov.uk/ukpga/2006/46	The Companies Act
The UK	http://fca.org.uk/	FCA Official website
The Netherlands	http://www.afm.nl/en	AFM Official website
The Netherlands	http://www.afm.nl/en/professionals/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/toezicht-fv	The Financial Reporting Supervision Act
Finland	http://www.finanssivalvonta.fi/en/Pages/Default.aspx	FIN-FSA Official website
Finland	http://www.finlex.fi/fi/laki/ajantasa/2008/20080878	The Financial Supervision Act

All the archival data collected for the empirical section are publicly available information gathered through the Internet, hence it is an unobtrusive method. Moreover, since the purpose of the study is to analyse the status of challenges in ESMA coordinated IFRS enforcement, no specific time scope limitation for data release is set. The focus of collection on the most current information is considered the most appropriate approach to fulfil the purpose of this thesis.

The empirical data collection process is a multi-step process. Firstly, the decision of what data to collect was based on the ESMA guidelines. The contents of the guidelines were listed on an excel sheet. Then this primary listing was benchmarked against prior research, specifically against the study by Berger (2010). Contrasting the excel listing and prior research facilitated coding process of the collectable data. A cross-sectional data sheet was created. After the data sheet was created, both authors collected separately data from the above-mentioned sources. The same categorization was applied to collection of data for every country. However, the collection of data was not limited by the established data sheet. Any information that was not in the pre-categories, but was of essence or interest in the opinion of either author, was added to the sheet in an additional category. When the data collection was completed by both researchers, the findings were compared. Furthermore, the caveats and discrepancies in findings between the researchers were located and the sources were re-researched to double-check the information or fill-in the missing data. The final categorization is a mix of the previous studies′ categorizations and the categories that emerged during the collection process. The final categorisation is attached as Appendix B.

After mutual agreement in the data collection was achieved, the data structuring process for comparison and analysis purposes began. The empirical findings are divided into the above mentioned categories and the empirical data for every country are compared within the categories in order to seek similarities and differences between three selected countries. The findings are presented in Chapter 6. After the similarities and differences are revealed, the identified differences in enforcement practices among these three countries are analysed. Differences are analysed by using content analysis due to the fact that the focus of content analysis is to reveal the underlying meanings of presented data (Steenkamp and Northcott, 2007). Therefore, using content analysis enables to understand the differences and hence, allows to conclude whether the differences pose a challenge to the uniformity of IFRS enforcement in the EU.

4.5 Trustworthiness

Reliability and validity are two important criteria for the assessment of research quality (Bryman, 2012). However, these two criteria are mainly relevant for quantitative research (Brymann, 2012). Therefore, as the research strategy of this thesis has qualitative character, different approach of assessment of research quality should be taken. Trustworthiness and authenticity are considered as alternative criteria in the assessment of quality of quantitative research (Guba and Lincoln, 1994). Authenticity is not relevant for this research, since the study does not have political impact (Bryman, 2012). Trustworthiness is based on four principles, namely credibility, transferability, dependability and conformability (Guba and Lincoln, 1994). These criteria are elaborated below.

Firstly, credibility of the study is enhanced by using triangulation technique (Ryan, Scapens and Theobald, 2002). This means that multiple sources are used during collection of data. In this study, data about practices of each enforcement bodies are collected through sources such as annual reports of each enforcement body, the official websites of enforcement bodies and the related legislation. Using multiple sources provides the reader with more credible empirical findings (Yin, 2009). Furthermore, the credibility of the study could be enhanced by the nature of the information producers behind the sources used. The general credibility of governmental agencies could be considered relatively high.

Secondly, concept of transferability questions whether the findings are applicable in other contextual settings (Bryman, 2012). The study examines practices of the three selected enforcement bodies in the EU. The focus on small sample allows researchers to study practices of these bodies in-depth. However, as the EU consists of 28 members states, it is questionable whether the findings derived from this sample are representative. Choosing more countries would increase the transferability of the findings. However due to limited time, it would not be feasible.

Thirdly, the dependability criterion refers to reliability of the study. The study entails the features of reliability as the researchers keep complete tracks of data records and explain how the study is conducted (Bryman, 2012).

Fourthly, conformability refers to whether to objectivity of the study (Bryman, 2012). Bryman (2012) notes that it is very difficult to achieve objectivity in qualitative research but

researcher should not permit personal values to influence conduct of research (Bryman, 2012). This risk is reduced by engaging two researchers in conduct of study.

4.6 Ethical Considerations

In this study, during the whole process ethical considerations have been taken into account in order to conduct and present the research in an ethical and moral manner. Definition of ethics is not harmed in this study as it is based on the analysis of publicly available information published on the websites of national enforcement bodies, in their annual reports and in related national legislation. The authors of this thesis did not have any personal interaction in forms of interviews with representatives of selected national enforcement bodies and no data were gathered through communication with employees from the chosen enforcement bodies. Hence, unethical actions such as harming the participants, requesting uninformed consent, invasion of privacy and deception do not pose any ethical problems in this study (Bryman and Bell, 2007). Moreover, use of publicly available information implies that data protection issue is not necessary to take into consideration (Bryman and Bell, 2007). All the used sources are publicly available and no permission has been needed for the use and analysis of the information. Thus, as research does not harm the above-mentioned ethical principles and does not require any confidential data, the study does not violate any ethical considerations.

4.7 Limitations of the chosen method

There are various limitations in the chosen method, which are now elaborated.

No primary sources were used in this paper. However, the initial idea was to use semi-constructed interviews with the representatives of each national enforcement body as an additional information source to the archival data. However, none of the representatives were able to participate due to various reasons. The Dutch representative was not willing to participate, due to the nature of the study. The Finnish representative replied that due to lack of their resources and time, they were not able to participate. Lastly, the UK body did not reply at all. Specific questions raised during the data collection, where no publicly available information were found, were sent by email to the respective enforcement body

representatives. However, no replies to these questions were received. Thus, the thesis was restricted to only archive sources.

Relating to the method of information gathering some limitations could be identified. There is no guarantee of the quality or the completeness of the information gathered from archive data. However, careful selection of the data collection sources should diminish the possible issue of data quality. One has to keep in mind though, that publicly available information might be presented in a certain way and thus does not necessarily give the full picture of the situation. As only publicly available information is used, the researchers cannot determine what is gathered, meaning that there is no possibility to gain additional data or clarification to the collected information. Linked to this, there could be information available in other sources relating to the practices of the national enforcement bodies, but as stated before, it was of interest to gain the most current information and the information provided by third parties might be outdated and was thus excluded from the study sources.

The information gathered in this paper was mainly from English sources. As the study focused on the three countries with three different official languages, some of the information might have been only available in local language. Nonetheless, this limitation primarily relates to information gathered of the Dutch body. The limitation was overcome by visually comparing the information provided in local language and in English, to determine whether there are significant differences, such as different structure or length of information. However, this still leaves rooms for possible gaps in information gathering.

Finally, as the data collecting was based on pre-categorisation of what is of interest, and it might have guided the researches to focus only on certain type of information. This could create a situation, where significant factors are overlooked by the researchers and not included in the study. Nevertheless, as both researchers conducted the data collection independently and were free to add information of possible interest and relevance, and the sources were restricted in numbers, thus the possibility of exclusion of important information was minimised.

5 Empirical findings

This chapter presents and compares the empirical findings gathered from archive sources relating to three countries Finland, the Netherlands and UK. Firstly, a brief introduction of each country's enforcement background is given.

5.1 Background of the national enforcement bodies

5.1.1 The UK

In the UK, there are two competent oversight bodies: The Financial Reporting Council (FRC) and the Financial Conduct Authority (FCA). The FRC is a private company limited by guarantee, while the FCA is an independent body accountable to the Treasury. The FRC is the national accounting standard-setter, and when it comes to IFRS, it determines the UK policy view, which affects the FCA's rules and policies, and is the main responsible for IFRS enforcement. The FCA is the UK's Listing Authority, responsible for the approval of prospectuses, up keeping the Official List and making the Listing Rules in addition to greater aims of securing the integrity of the UK financial markets. The FCA is the transformed Financial Services Authority (FSA). FSA was formed in 1997, but as the Financial Services Act 2012 brought changes to the regulation of financial markets, FSA was abolished in April 2013 and the FCA was established. The two bodies, FCA and FRC, have a Memorandum of Understanding concerning the cooperation and coordination between them. They share information and work closely together for instance by informing each other of any material investigations and before any enforcement action, including informal action, is taken.

The FRC's results of reviews of listed companies and other companies operating under the licence of the FCA are shared with the FCA. The former subsidiary and operating body of the FRC, the Financial Reporting Review Panel (FRRP) that used to perform the oversight tasks independently, is now part of the FRC's Conduct Committee. The FRRP was established in 1990 and reformed under FRC in July 2012. The FRC is composed by three committees namely, Codes and Standards Committee, Executive Committee and Conduct Committee.

The Conduct Committee consists of different teams and the IFRS enforcement is under the Corporate Reporting Review (CRR) team. FRC describes in their CRR Annual Report 2013 about their mission: "*At it score, this means helping UK capital markets and, in particular, the market for risk capital to function well"* (p.8). They state that they are working for the benefit of public interest. The FRC is funded by a voluntary levy applied to publicly traded companies, large private entities, insurance companies, pension providers and public sector organisations, and in addition they receive contributions from the accountancy and actuarial professions and the government. The FRC′ Board of Directors consists of 14 members. The Secretary of State for Business, Innovation and Skills appoints the members of board. As the FRC is the main responsible for the IFRS enforcement, this thesis focuses only on that body.

5.1.2 Finland

Finanssivalvonta, the Finnish Financial Supervisory Authority (FIN-FSA), the national IFRS enforcement body, is an independent body in its decision-making, but administratively under the Bank of Finland. It was established in 2009 when Financial Supervisory Authority (Rahoitustarkastus) and Insurance Supervisory Agency (Vakuutusvalvontavirasto) joined together. The FIN-FSA′s Board has five members appointed for a term of three years, and three deputy members at any given time. The Parliamentary Supervisory Council appoints the members and deputy members. Members are appointed based on a proposal by the Ministry of Finance, the Ministry of Social Affairs and Health and the Bank of Finland. Each have a designated deputy member. The majority of funding of the FIN-FSA is gathered from the supervised entities. Bank of Finland provides the rest. The IFRS enforcement was devoted in 2005 to the FIN-FSA, which was established in connection to the Bank of Finland in 1993. The objectives of FIN-FSA are to facilitate stable financial market operations, foster public's confidence in financial markets, and they are responsible for promoting compliance and providing general knowledge about the markets. The FIN-FSA mission states they are operating in public interest. The IFRS supervision's aim is to promote the adoption of comparable, transparent, adequate and understandable financial information to support investors in their decision-making.

5.1.3 The Netherlands

The Netherlands Authority for Financial Markets (AFM) is an independent body that falls under the responsibility of the Ministry of Finance. Since 2002, AFM has been assigned to the role of supervision of the financial markets with the exception of prudential supervision that is conducted by the De Nederlandsche Bank (DNB). In the Netherlands executive board that consists at least of three and up to five members is appointed by Royal Decree. The Ministry of Finance has the power to dismiss or suspend the members of executive board. The AFM is financed mostly by contributions from market parties, the rest of the budget is filled by the government contribution. The AFM is responsible for the whole financial market sector including savings, investment, insurance and loans. Moreover, the body is structured into five divisions: "Customer Interest First, Market & AIFM, Quality of Auditing and Reporting, Efficient Capital Market, Market Integrity &Enforcement" (AMF, n.d.a., p.3) The enforcement of IFRS falls under the competence of Quality of Auditing and Reporting division. The aim of the AFM is the promotion of transparency and fairness in the financial market and therefore, their intention is to enhance the confidence in the financial markets.

5.2 Practices

This section describes the practises of the national enforcement bodies in the respective countries based on the empirical findings. Different aspects of practices are compared based on the final categorisation (see Appendix B).

5.2.1 Access to external consultants

The FIN-FSA can use external experts in the supervision of supervised entities or other financial market participants, but the final responsibility lies always in the hands of the FIN-FSA. Similarly, the possibility to use external consultants is available to the FRC and for them, the overall liability is on the FRC. In particular cases, a Review Group could be constructed to take over further examination from the Conduct Committee. Members of the FRRP, who are individuals from business section and accounting profession, compose the Review Group. Concerning the AFM, information about the usage of external consultants is not available.

5.2.2 Access to company's information other than financial statements

Both the FRC and the FIN-FSA have the right to access other company's information and ask for documents and explanations from the company, its officers and employees. In the Netherlands, until 2012, power of the AFM in this field was limited. The AFM had right to request additional information from the company only in the case when the doubt about correct application of financial reporting standards, based on reviewing of publicly available information, was raised. However, the authorities' competences in this field have increased from the beginning of 2013 through amendment of Financial Reporting Supervision Act. Therefore, currently in case of thematic review, the AFM has the right to request information from regulated entities even if they do not have doubts about the correct application of financial reporting requirements based on publicly available information.

5.2.3 Access to auditors′ working papers

Some enforcers have the right to request information from auditors while conducting the review process. This is the case of FIN-FSA, which has inter alia right to obtain information directly from auditors. Similarly, the FRC can require documents, information and explanations from auditors. In contrast to the FIN-FSA and the FRC, the Dutch Financial Corporate Supervision Act does not grant power to the AFM to access auditors′ papers nor obtain information from them.

5.2.4 'Home country control' principle

The supervision of FIN-FSA is subjected to the Finnish listed companies, whose shares or bonds are traded on a regulated market and targets issuers published financial reports such as financial statements, management reports and interim reports and the disclosures provided. The 'home country control' -principle is followed, which means that the FIN-FSA supervises also Finnish issuers who are listed on other stock exchanges in the European Economic Area (EEA). The FIN-FSA supervises also Finnish prospectuses.

In the Netherlands, the AFM supervises listed companies. The condition whether the company is under supervision is not as clear as in the case in Finland. Companies that are registered in the Netherlands but their shares or bonds are traded on the regulated market in other member states can choose between the Netherlands or the country where their shares or

bonds are traded (with reservation to the regulation in the other member state). In case a company is registered in other EU state but its shares and bonds traded on the Dutch stock exchange, company can choose as well between the Netherlands and the country where it is registered. The AFM also supervises prospectuses.

The FRC focuses their supervision primarily to the listed and large private companies, specifically to the Financial Times Stock Exchange (FTSE) 250 and FTSE 100 companies listed on the London Stock Exchange. However, all the companies listed in the UK, whether headquartered there or not, are under their scope. In addition, any private companies that are not small or medium sized, based on the 247 of the Companies Act, are under the supervision. They review financial statements of above mentioned entities and the director's reports as well as review interim reports of all listed issuers. The FRC can conduct the supervision of prospectuses on the behalf of the FCA, if requested.

5.2.5 Selection of companies for examination

All of the three enforcement bodies use mixed selection method. The risk-based approach together with rotation is a method for selecting the companies in the AFM. The AFM does not explicitly state how they define the risk. The AFM claims that they analyse "*market development and external and internal risk in order to set the right priorities in our [their] supervision. The AFM moreover devotes ample attention to signals and incidents that indicate potential errors in financial reporting*" (AFM, 2014, p.6). Hence, the AFM uses vague and broad identification of the risk. The rotation period is not publicly available.

Similarly, the FRC′s supervision is based on the risk of non-compliance and the assessment of the risk of serious consequences if there is non-compliance. The accounts and reports to be reviewed are selected by different factors. These could be businesses under stress and specific topical accounting issues, which cater for proactive supervision. The risk assessments topical issues are determined and published annually as "priority sectors" and for the year 2015, they are insurance; companies serving extractive industries; food, drink and consumer goods manufacturers and retailers; and business services. The risk-based approach is combined with rotation period. The large public companies (FTSE 350) represent the focus of reviews since any material errors could have implications to the whole market due to their economic significance. The FTSE 100 companies are supposed to be reviewed at least once every three years and the FTSE 250 companies once every four years.

The FIN-FSA′s supervision approach is risk-based combined with random sampling. The risk is pre-determined based on various factors such as company size and industry, change in the management or auditors, concentrated ownership and the general market monitoring results of the FIN-FSA. For example, for the year 2015, there is a focus on companies doing business in Russia, due to the increased disturbances in the business environment in Russia.

All three countries conduct reactive monitoring, in addition to the above described proactive monitoring. The FRC conducts reactive supervision based on complaints from the public, the City and the press. Similarly, the AFM reacts also to the public alerts about probable misstatement in the financial statements. The FIN-FSA focuses their reactive enforcement to cases where the issuer releases stock exchange announcement, there is a complaint, there is vast media coverage related to company's financial situation and/or the company is in general weak financial situation.

5.2.6 Review focus

The AFM mostly focuses on examination of disclosures. There are various reasons behind it. Firstly, the AFM claims that the role of the AFM as an enforcer is to find out whether the application of financial reporting standards is correct, and therefore, the examination of management estimates and opinion is mainly the responsibility of external auditor. Secondly, the AFM has limited power in the enforcement of measurements as AFM′s review on management opinions and estimates could be limited. Nevertheless, the AFM acknowledges that incorrect measurement and management estimates could cause significant issues. In addition to that, the AFM acknowledges in their annual report that "*limited power of the AFM... and the high degree of discretion of management in the measurement of assets do often impede a more detail investigation and/or effective enforcement of adjustments*" (AFM, 2013, p.8). Conversely, the FRC reviews not only disclosures but also management judgements and opinions. However, the FRC states "*directors are responsible for the accuracy of the accounts and for their judgements. It is the role of the Conduct Committee to enquire into cases where it appears that the requirements have not been followed*" (FCR, 2015c, Online). Moreover, the FRC during its review process examine whether the narrative part in the annual report is in compliance with the accounts presented in the financial statements. Equivalently to the AFM, the FIN-FSA mainly focuses on the examination of disclosures. However, they do look into valuation and recognition of specific issues.

5.2.7 Time limit of examination

The Dutch Corporate Supervision Act designates six months period to finish the examination process and take appropriate actions for the AFM. In contrast, in the UK or Finland, there is no official time limit in regards to completion of examination. However, the FRC states that all examinations are aimed to be completed within the companies′ annual reporting cycle due to the fact that it is unpractical to supervise past statements.

5.2.8 Operating procedures and actions

The FIN-FSA follows more formal working method whereas the AFM and the FRC pursue informal working methods.

The AFM working method is more informal. This means that in the case that the AFM during review process finds out any uncertainties about the financial reporting, companies are contacted through email or phone. In some cases, through informal communication, the AFM is able to reach consensus with the company about the application of the financial reporting requirement in current or future financial statements and no further actions are needed. The AFM believes that informal working method is successful. If the AFM does not succeed through informal method, they can apply more formal procedures. In accordance with the 'Dutch Financial Reporting Supervision Act', the AFM may firstly issue request for addition information and secondly, issue notification with or without recommendation. Notification is issued when the financial statements contain one or more misstatements that are material. Through notification, the AFM explains to the company why compliance with the financial reporting requirement was not achieved fully and states that the future financial statements have to be drawn up in accordance with the financial reporting requirements. Notification can be followed by a recommendation in which the company is requested to file a press release in the AFM's official website. In the press release, the company is obliged to explain how the financial requirements will be applied in the future financial statements and how the misstatements affect current and future financial statements. In addition to that, the company is obliged to clearly state which part of the financial statements is not in accordance with the financial reporting requirements and specify what the consequences for its financial statements are. Notification with recommendation is issued in the case when the AFM believes that misstatement will have significant effect on the current and the future financial reporting and hence, the investors have to be immediately informed about the errors in the

financial statements, so that they are able to make investment decision based on correct information. Due to the limited power of the AFM, the notifications with recommendation are not enforceable by the AFM. However, the AFM can start proceedings at the Enterprise Chamber of the Amsterdam Court of Appeal and the court has the power to order company to revise their financial statements or impose sanctions.

Similarly, the FRC's working method in IFRS enforcement is informal. If there are any findings from the examination process, the FRC may send a letter to the Chairman of the issuer to inform them and request for additional information. Depending on the findings, there might be several rounds of contact including informal meetings. If company agrees to amend their breaches or improve reporting, there is no need for further review or action. In cases where materiality is concluded and revision of accounts is seemingly needed, a Review Group is appointed by the Monitoring Committee to conduct an enquiry. The Review Group generally consists of five members of the FRRP. The members of the FRRP are *"individuals drawn from commerce and the professions who, from time to time, are called on as peers"(FRC, 2015d, Online).* The correspondence between the FRRP and the company is confidential and contact is made through letters, but sometimes through meetings. Persuasion is the most common method used to come to an agreement with the entity. When the Review Group is content with the explanations of the company directors, they report it to the Monitoring Committee and generally, the case is closed. If there are remedial actions from the directors of the company, the Conduct Committee might issue a press notice. Otherwise, the cases remain confidential. Cases where the company does not reply or their explanations are not satisfactory to the Review Group and/or Conduct Committee, they can take legal actions, such as to request a court order. The Conduct Committee gives the company multiple chances to comply and make corrective actions. The predecessor of the FRC succeeded to solve all cases on voluntary basis.

In the case of FIN-FSA, the examination process follows formal matter, where the companies are approached with supervisory letters if there are findings relating to monitoring actions. The company's management and audit committee are responsible to provide a reply to the inquiry and possible additional documentations relating to the findings. Additionally, the FIN-FSA may conduct an inspection visit to the company. The correspondence is confidential. The FIN-FSA has the same powers to use for the IFRS enforcement as for its other monitoring activities, however, the measures most often required for the IFRS enforcement are a

corrective note, a correction in the next financial statement or reissuance of financial statements.

5.2.9 Sanctions

The power to sanction companies differs in these three particular countries. The Finnish national enforcement body has the biggest power concerning sanctioning. The FIN-FSA can issue a penalty payment fee. Moreover, in severe cases the FIN-FSA can take the case to police officers for criminal investigation. If FIN-FSA issues a penalty, it has to make it public and indicate whether the decision is legally valid or not. If the decision is successfully appealed and overruled, the FIN-FSA has to publish this information. The decisions relating to penalties must be held public at the FIN-FSA website for five years. The publications can be made anonymous if it would risk the balance of financial markets or would cause disproportionate harm to the issuer. Nevertheless, the FIN-FSA has not gone to these lengths in their IFRS enforcement. Conversely, the AFM has no right to impose administrative fine or penalty to a company. However, in the same way as with the reissuance of financial statements, the Court has power to impose sanction. Notwithstanding, the AFM believes that legal action taken towards issuer at the court is inappropriate in many cases, especially when financial statements contain one or just few material misstatements, as it could have pervasive consequences on the company. The fact that in 2013 the AFM did not start any legal proceeding with the court merely confirms the above-mentioned statement. Similarly, the FRC has no power to sanction the company. Nevertheless, they can take legal actions, to request court order, and for this the FRC has a fund of 2 million £. However, as mentioned before, there has been so far no need to use this fund. The FRC can provide any material finding to the FCA, the Listing Authority, which can start their own examinations whether the UK Listing Rules have been violated, and thus lead to more severe sanctions.

5.2.10 Examination outcomes

In 2014, the FIN-FSA monitored total of 27 cases; 10 full reviews, 7 theme reviews and 10 reactive reviews. The cases do not mean 27 different companies, since theme reviews are generally conducted under full-reviews. Based on these examinations 20% did not need any actions, 50% required corrections in future financial statements, 20% were recommended to

enhance financial reporting and in 10% of the cases, the process was not finished by the time of reporting.

Concerning the UK, in reporting period 2013/2014 the FRC reviewed 271 sets of reports and accounts consisting of FTSE350 companies, other listed companies, AIM and third country/ unlisted public and private markets companies. Hundred (37%) of the reviewed companies received a letter from FRC. The outcomes of 2014 CRR actions were that 90% of cases were completed by the end of reporting year. Almost all the correspondence resulted in companies promising to make changes in their reporting. During the reporting year 2013/14 79 company reviews were closed, which resulted in 252 undertakings from 78 companies. These mean changes or improvements to future reports, which CRR makes a follow-up. Two company-specific and two generic FRC Press Notices were issued in 2013/14. In addition, nine companies have reported 'Committee References' in their financial statements as requested by FRC.

The latest data about examination outcomes available are from 2012. The AFM finished 83 desktop reviews (full and limited reviews) in 2012.This includes nine reviews were ongoing from 2011, 36 desktops reviews and 38 follow up reviews. 60% of financial statements did not contain any material misstatements. 33% of reviews required issuance of notification, which means the correction in future financial statements. In 7% case, the notification with recommendation was issued. It has to be noted that the outcomes does not include the reviews finished through informal way.

As it is clear from the data provided above, all the FRC's and the FIN-FSA's and the AFM′s most common action is request to make correction in the future financial statements.

5.2.11 Pre-clearance

None of the countries provides pre- clearance in the way defined by ESMA (see section 2.1.1) following formal procedures. However, the AFM welcomes the companies and/or their auditors to consult AFM experts on voluntary basis. The AFM experts provide guidance and advice in emerging issues. The AFM stresses that the contact should start at the beginning of the formulation of financial statement so that the company will be able to incorporate the advice in their financial statements. Even if the activity provided by the AFM has features of pre-clearance, the AFM does not explicitly state that the guidance or advice has to be

followed by the company. In addition to that, the application of guidance is not mandatory for companies to apply.

5.2.12 Issuance of major areas of reviews

All three bodies are involved in other activities such as providing guidance, statements of good practices and events for listed companies. All of them publish enforcement priorities, which often state specific enforcement focus on particular standards, prior the annual reporting season. The reason why they announce the priorities publicly is to make companies aware what the problematic areas are and therefore, make the companies to pay attention to its application in their financial statements.

5.2.13 EU cooperation

All three countries are actively involved in ESMA activities concerning enforcement of IFRS and they consider internal coordination and cooperation important. There are two aspects of cooperation and coordination, namely participation in EECS and activities related to the database.

The FIN-FSA participated to all annual EECS meeting in 2014. FRC states that they participate regularly to EECS meeting in 2014 but the FRC does not disclose what regularly means. However, they have historically participated to the meetings actively. The AFM does not reveal the information about participation in 2014, the latest information concerning participation in EECS meeting is from 2012 when the AFM participated in all the sessions.

Concerning the ESMA database, the FIN-FSA does not disclose information relating to that. The FRC states that all their decisions submitted to discussions during year 2014 were published by ESMA. The AFM brought 12 decisions to the EECS discussions in 2012. Moreover, during 2012 the AFM used the database for consultation before making enforcement decisions in five different cases. No recent information about the AFM international activities is publicly available.

Except the participation and the database, the FRC, the AFM and the FIN-FSA participate to different ESMA Working Groups.

5.2.14 Overview of empirical findings

In table 4, the empirical findings discussed in this chapter are shown. Findings related to the examination outcomes are excluded from the table, because comparing them is not easy as the information published differs greatly. No publicly available information concerning the AFM practices in two areas, access to external consultants and pre-clearance, were found.

Table 4: Overview of empirical findings (Own representation)

	AFM	FRC	FIN-FSA
Access to external consultants	-	yes	yes
Access to other companies′ papers	yes	yes	yes
Access to auditors′ working papers	no	yes	yes
'Home Country Control' Principle	yes & no	no	yes
Selection of companies	risk-based approach and rotation	risk-based approach and rotation	risk-based approach and random sampling
Time limit of examinations	6 months	no	no
Review focus	disclosures	disclosure and valuation	disclosure and valuation
Pre-clearance	-	no	no
Issuance of major areas of review	yes	yes	yes
EU cooperation	yes	yes	yes
Operating procedures and actions:			
Working method	informal	informal	formal
Correction in future financial statements	yes	yes	yes
Corrective note	yes	yes	yes
Reissuance of financial statements	no	no	yes
Sanctions:			
Monetary	no	no	yes
Legal proceedings	yes	yes	no

6 Analysis

Our findings revealed the similarities and the differences in the IFRS enforcement practices conducted by the FRC, AFM and FIN-FSA. Between all the three bodies, there were only few categories where all the enforcement bodies were similar. To gain an overview of the status of ESMA coordinated enforcement, the enforcement bodies are located in the matrix of central dilemmas in shared enforcement. Afterwards, all the categories with differences are analysed. The differences are analysed from the perspective whether they are a threat to uniformity of enforcement or not. In the end of chapter, challenges are discussed through lenses of multilevel regulation.

6.1 Overview of ESMA coordinated enforcement

In order to visualise the status of the ESMA coordinated enforcement, the enforcement bodies are placed in to the matrix by Scholten and Ottow (2014) based on our findings. Even though the model does not allow fine-nuanced categorisation and/or placement of the national enforcement bodies, we consider it sufficient tool to give an overall view of the status of the enforcement in the EU.

We argue that all of the national enforcement bodies are located in the upper section of the matrix. This is because they all are members of ESMA, in addition, they actively participate to EECS meetings and to different working groups, which show their willingness to cooperate in the European network. Hence, we consider these as an indication of a more centralised take on enforcement. In the axis between the differentiation and harmonisation, it is harder to position the enforcement bodies. We argue that they all are in the category B (see Figure 5), due to the higher amount of differences than similarities between the findings (see Table 4). Even though all of the bodies are in the same quadrant, it is impossible to distinguish their exact placement in the quadrant, especially without any point of reference and due to the limitations of the model as discussed before. Based on the location of the three countries, it could be concluded that ESMA coordinated IFRS enforcement is generally located in the area

B. Therefore, our classification is in accordance with the positioning by Scholten and Ottow (2014).

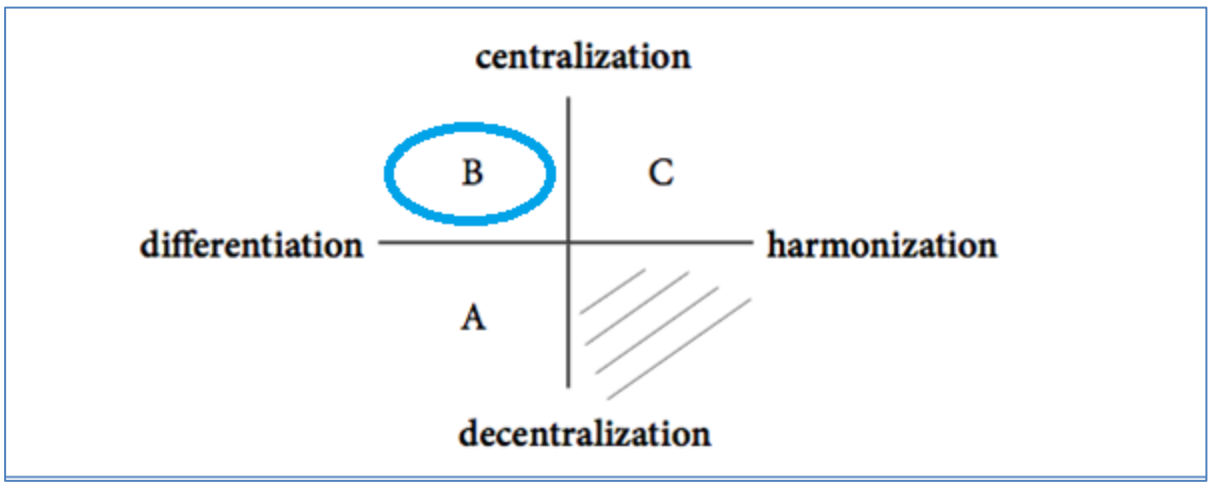

Figure 5: IFRS enforcement in central dilemmas for shared enforcement in the EU (Own representation inspired by Scholten and Ottow, 2014)

6.2 Analysis of differences

Empirical findings point out the various differences in practices. These differences are analysed in detail below.

6.2.1 Access to auditor's papers

Hellman (2011) argues that it is important for the enforcement body to access auditor's working papers in addition to other supporting documents from the company. This is due to the fact that financial statements alone are not sufficient source of information to interpret the measurements and the appropriateness of management's judgement in complex accounting issues. We agree with him. Furthermore, Nobes and Parker (2012) discuss the complementing roles of auditors and enforcement bodies. They brought up the symbiotic benefits in the previously discussed three-level enforcement process, where the enforcement bodies face restrictions in examining every account, and thus count on the auditors' work. In addition, as Park (2012) stated, the costs of principles-based enforcement occur ex-post, hence, duplicating examinations is not purposeful for the enforcement system. Hence, accessing the working papers could even bring savings and be of public interest. Furthermore, reviewing

auditor's comments could expose issues where the enforcer has a deviating opinion or would have judged differently, and which should be addressed to a larger discussion of the interpretation to secure harmonised approach to IFRS. In addition, ESMA guidelines list that the legal authority to request information and documentation from auditors should be endowed to the national enforcement bodies. Based on the empirical findings, the enforcement body in the Netherlands does not have access to auditor's papers unlike the UK and Finnish bodies. This places the countries in an unequal position. In accordance with these statements, we argue that every enforcer should have access to the auditor's documents as it enables to conduct examinations more in depth, and the examination outcomes from bodies with or without access could result in differing enforcement outcomes. Therefore, we argue that this poses a challenge to uniformity.

6.2.2 Companies under supervision

Our findings relating to the scope of supervision, specifically to the 'home country' principle, shows differences that could challenge the enforcement system as they could lead to regulatory arbitrage or double supervision. The double supervision could occur in case of Finland and the UK, since the FRC supervises all the UK listed companies, and the Finnish body all the Finnish companies listed on regulated markets. This could lead to a situation for a Finnish company that it is supervised in both countries and faces enforcement actions in both countries. In the Netherlands, the Dutch companies listed to another EEA country's stock exchange can choose whether they want to be under the AFM supervision or the other country. Considering that the Finnish enforcement body follows the 'home country' principle, a Dutch company listed to the Finnish stock exchange could avoid enforcement completely. Berger (2010) acknowledges that variations could lead to regulatory arbitrage. We argue in line with Berger (2010) that different application of 'home country' principle poses a challenge to uniform enforcement. In addition, ESMA guidelines consider 'home country' principle the best option.

6.2.3 Selection of companies

Both the FIN-FSA and the FRC report on priority sectors for selection of companies for subsequent year. Moreover, the FRC reveals the rotation period for the FTSE 350 companies. ESMA guidelines list that criteria for selection should not be publicly available. Publication

of criteria enables companies to recognize whether there is a possibility of examination of their reports or not in the following year. Hence, companies knowing that there is a low probability of being reviewed might not pay full attention to preparation of their financial statements in accordance with financial reporting framework. However, the publication could be also considered as a service to the general public and specifically to investors, as this way one can see what the authorities consider as risky and/or worth investigating. Nevertheless, this is only hypothetical since the motives behind the publication are unclear.

The release of criteria for selection of companies breaches ESMA guidelines. The publication of selection criteria facilitates company "gambling", thus, could challenge the uniformity of enforcement. However, we argue that the publication of selection criteria does not pose a challenge to uniform enforcement as the risk- based approach is combined with other methods. Furthermore, one has to keep in mind that these are only the priorities, and does not exclude the examination of other areas.

6.2.4 Review focus

There is no consensus about review focus. The AFM mainly focuses on disclosures, whereas the FRC and the FIN-FSA review also management estimates and opinions. The AFM′s review focus on disclosure is due to their limited power in examination of management estimates and opinions. As the government grants the power, it is obvious that the national context still influences enforcement practices. We argue that different review focus poses a challenge to enforcement for various reasons. Firstly, valuation errors could bring more serious consequences than disclosure errors. Berger (2010) also acknowledges this. Secondly, as IFRS are principles-based, accounting standards require management judgement and opinions in many situations. Therefore, reviewing just disclosures might cause situations where material misstatements might not be detected.

6.2.5 Time limit of examination

Only the AFM has official time limit to finish the review. Precise deadlines to finish reviews have features of rules–based enforcement. On one hand, as Black (2007) states, detailed rules provide clarity and yield certainty. Hence, formal time limit assures that more severe actions such as corrective note or reissuance of financial statements fulfil its purpose and thus,

investors will be provided with necessary information in timely manner. However, as Ford (2010) stresses, detailed rules do not fit well to regulating financial markets. Moreover, detail rule related to time limit of examination is in contradiction with the principles-based enforcement pursued by ESMA and its guidelines. In addition to that, time period for reviews could differ due to differences in severity of material misstatements in financial statements and therefore, financial statements that contain more severe material misstatements might need more time to be examined. Moreover, restricted time limit of examination could lead to surface examinations and prevent in-depth reviews.
Based on the arguments, formal time limit does not fit into principles-based enforcement and the fact that each review could require different amount of time, we argue that exact assigned time limit of examination is a challenge to uniform enforcement.

6.2.6 Operating procedures and actions

Operating procedures differ among these three countries. There are no universal operating procedures related to enforcement since operational procedures are partly guided by legal authority as Kagan (1989) indicates. Therefore, as legal authorities are not identical in every country, neither are operational procedures. However, our empirical findings point out that all three bodies, even if their formal procedures are different, prefer the imposition of the same enforcement action, namely 'correction in future financial statements'. This implies that all of them strive for securing compliance with the financial reporting standards rather than punishment of infringements. This is in line with Hawkins (1984) characteristics of compliance strategy. Hence, once could conclude that similar enforcement strategies indicate the identical approach towards enforcement.

Despite the distinct operational procedures, we argue that as far as the broad purpose of the enforcement is the same, the different operational procedures do not pose challenge to enforcement.

6.2.7 Sanctions

Our empirical findings show that the power to impose sanction differs among these three countries. Only the Finnish authority can impose an administrative fine. However, the AFM and the FRC have power to start legal proceedings at the court. One of the principles of Ayres

and Braithwaite′s (1992) enforcement pyramid is that the pyramid must have a peak which is severe enough to deter the regulated entities from non-compliance. The enforcement pyramids of the three enforcement bodies can be seen in the Figures 6, 7 and 8. At the peak of the FIN-FSA′s enforcement pyramid is administrative fine, whereas the FRC's and the AFM′s enforcement pyramid peaks with legal proceeding at court. Administrative fine causes monetary losses for companies, whereas the legal litigation might have significant effect on company's reputation as well as monetary losses. Reputational losses, in the case of legal proceeding at the court, are also acknowledged by the AFM. Hence, it could be argued that even though form of the enforcement pyramid′s peaks differ among these three countries, pyramids′ peaks seem to be sufficiently powerful to discourage companies from non-compliance.

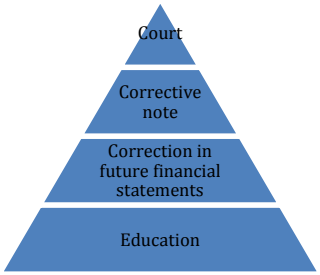

Figure 6: the FRC enforcement pyramid (Own representation)

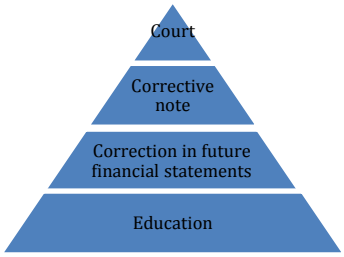

Figure 7: the AFM enforcement pyramid (Own representation)

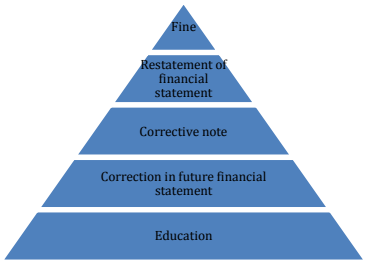

Figure 8: the FIN-FSA enforcement pyramid (Own representation)

Moreover, our empirical results show that, in practice, none of the bodies use sanctions as enforcement action. All three bodies try to locate their activities at the bottom of enforcement pyramids as they perform educational activities such as provision of advices, organize events for listed companies and/or provide guidance. In addition to educational activities, the most frequent enforcement action taken by all three enforcement bodies is the 'correction in future financial statements'. This also supports the fact that the everyday actions of enforcement bodies are located at the bottom of the enforcement pyramid. To conclude, we argue that all three enforcement bodies use the action at the peak of the enforcement pyramid as a deterrence mechanism rather than apply it in everyday enforcement process. This is in line with the theory of enforcement pyramid by Ayres and Braithwaite (1992).

Based on the arguments that each enforcement body has a severe enforcement action at the top of the pyramid and the fact that sanctions are not used in practice, we argue that there is no challenge to uniform enforcement.

6.3 Analysis of challenges

Our analysis reveals that access to auditors' papers, 'home country control' principle, review focus and time limit of examination all pose a threat to uniformity of enforcement in the EU. Considering all the above-mentioned challenges, it becomes evident that the differences in the legal authority and power of the enforcement bodies are the underlying reason for these differences. The differences prove the fragmented nature of IFRS enforcement in the EU. As IFRS enforcement is occurring in a multilevel regulation sphere, we argue that our findings are in line with the recognised issue of fragmentation within the concept of multilevel regulation and the arguments of Chowdhury and Wessel (2012) and Wessel and Wouters (2007). We consider that the fragmentation is mainly due to the differences in legal authority as mentioned before. The issue arises from the fact that the national governments can decide independently on the legal authorities of the enforcement bodies. This is in line with the argument of allowing discretion in implementation, which was presented in the theoretical framework as one of the causes of fragmentation by Coen and Thatcher (2008).

In addition, from all identified challenges to the uniformity of IFRS enforcement in the EU, only access to auditors' papers is regulated by the guidelines. Therefore, as the AFM does not have power to use auditors' papers due to legal limitation, one could raise the question to

whom the Dutch authority is accountable. The empirical finding point out that in relation to access to auditors' papers, the AFM is more accountable towards national government rather than ESMA. Accountability issue identified in this study, is in line with the recognized problem within the concept of multilevel regulation that arises from the informality in the area of ESMA coordinated IFRS enforcement.

In accordance with Wessel and Wouters (2007), we underscore that coordination is needed. Contradicting to Freeman's and Rossi's (2012) claim of coordination helping to fill in the gaps of regulation, our findings show that the network system of European cooperation has failed to certain extent. Therefore, it seems that reinforcement of coordination in the ESMA guided enforcement is needed to secure uniformity.

7 Conclusion

This master thesis looked at the practices of the three selected national enforcement bodies. The intention behind the comparison of different practices was to reveal the possible challenges to uniformity of IFRS enforcement. Our empirical section was based on collecting publicly available information of the current practices of the national enforcement bodies. Our findings revealed several differences between the enforcement bodies' practices. These highlight the fragmented nature of IFRS enforcement in the EU. No matter the fragmentation, our analysis concluded that the enforcement bodies are located in the same cluster in the shared enforcement matrix.

The access to auditors' papers, 'home country principle', review focus and time limit of examination were the areas of differences that were identified as challenges to uniformity of enforcement. Firstly, lack of access to auditors' papers is considered as a challenge as it might prevent in-depth conduct of examinations compared to enforcers with access to auditors' papers. This difference could cause different enforcement outcomes. Secondly, differing protocols in 'home country control' principle create the possibility for avoidance of enforcement or double enforcement. This could be considered also as a systemic failure. Thirdly, differences in review focus could yield different enforcement outcomes. Finally, the use of time limit of examination could prevent appropriate conduct, since every case is unique.

Considering all the above-mentioned challenges, it becomes evident that the differences in the legal authority and power of the enforcement bodies are the underlying reasons for these differences. These differences in legal authority and power are the main reasons behind the fragmented nature of IFRS enforcement in the EU based on our analysis. Moreover, the accountability of national enforcement bodies could be questioned as the analysis showed.

The existing discrepancies could be partly covered by enhanced coordination between the national enforcement bodies. Notwithstanding, one could claim that ESMA has failed to some extent as a coordination mechanism, thus casting a doubt if coordination efforts suffice. Therefore, making the informal guidelines formal and/or strengthening the power of ESMA in

the EU IFRS enforcement could be seen as alternative to current model of IFRS enforcement in the EU. However, there needs to be political will among the member states, to provide ESMA with more power. Thou, looking at the development of the European oversight system, one could see the increase in the power of ESMA (CESR). If this tendency continues, it is possible that in the future a supranational oversight body will be created. Nonetheless, as mentioned before the national contexts, affecting enforcement, differ. Thus, one has to keep in mind that "one size does not fit all", and there is a long way to fully uniform enforcement in the EU.

7.1 Limitations and future research

We acknowledge that there are some caveats in this paper. Firstly, the study relied only on publicly available information. Therefore, important information about the practices of enforcement bodies could be left out, since all information relating to practices is not publicly available. Hence, future research using other methods, such as conduct of interviews, could provide more accurate and sophisticated picture of the possible challenges to the uniformity of IFRS enforcement in the EU. Secondly, as the study includes only three EU countries, the results do not show the full scale of possible challenges to uniformity of IFRS enforcement in the EU. In order to perceive full scope of possible challenges to uniformity, the inclusion of all EU countries and studying their structures and practices could be fruitful. One has to keep in mind that even if the sample would be larger, the detected challenges in this paper would still occur. Thirdly, in this paper the differences were analysed in isolation and thus, their significance to the functions could be lower or higher if they were analysed together. Hence, analysing the differences in interaction could be an interesting area for future research. Moreover, the relation between the actors in the regulatory space of the IFRS enforcement in the EU could be a contributing topic to the IFRS enforcement research field, since it is obvious that the different actors interrelate in this regulatory space. Lastly, we consider the development of IFRS enforcement itself as in interesting area for further research.

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Appendix A - List of European enforcement bodies

National Competent Authorities and Board Members	
Member States	**National Competent Authority**
Belgium	Financial Services and Markets Authority (FSMA)
Bulgaria	Комисията за финансов надзор (FSC)
Czech Republic	Česká národní banka (CNB)
Denmark	Finanstilsynet
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Estonia	Finantsinspektsioon (FSA)
Ireland	Central Bank of Ireland
Greece	Ελληνική Επιτροπή Κεφαλαιαγοράς (HCMC)
Spain	Comisión Nacional del Mercado de Valores (CNMV)
France	Autorité des Marchés Financiers (AMF)
Croatia	Hrvatska agencija za nadzor financijskih usluga (HANFA)
Italy	Commissione Nazionale per le Società e la Borsa (CONSOB)
Cyprus	Επιτροπή Κεφαλαιαγοράς Κύπρου (CySEC)
Latvia	Finanšu un kapitāla tirgus komisija (FKTK)
Lithuania	Lietuvos Bankas
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)
Hungary	Magyar Nemzeti Bank (MNB)
Malta	Malta Financial Services Authority (MFSA)
Netherlands	Autoriteit Financiële Markten (AFM)
Austria	Finanzmarktaufsicht (FMA)
Poland	Komisji Nadzoru Finansowego (KNF)
Portugal	Comissão do mercado de valores mobiliários (CMVM)
Romania	Autoritatea de Supraveghere Financiară (ASF)
Slovenia	Agencija za trg vrednostnih papirjev (ATVP)
Slovakia	Národná Banka Slovenska (NBS)
Finland	Finanssivalvonta (FSA)
Sweden	Finansinspektionen (FI)
United Kingdom	Financial Conduct Authority (FCA)

List of European enforcement bodies (ESMA, 2015c, Online)

Appendix B - Final categorisation of data collection

- External consultants
- Access to company’s information other than financial statements
- Access to auditors′ working papers
- ‘Home country’ principle
- Selection of companies for examination
- Review focus
- Time limit to the timing of examinations
- Operating procedures and actions
- Sanctions
- Pre-Clearance
- Issuance of alerts concerning the major areas of reviews
- EU cooperation