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INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTION, INVESTOR PROTECTION, AND FOREIGN PORTFOLIO INVESTMENT: A REVIEW

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ABSTRACT

This paper aims to analyze the impacts of International Financial Reporting Standards (IFRS) adoption on foreign portfolio investment (FPI) in relation to investor protection based on existing empirical literature. This study uses a historical approach and focuses on thirty-six relevant articles published in accounting and finance journals. The author provides a theoretical groundwork of the association between IFRS adoption and FPI and summarizes the results. The findings are critically analyzed by employing developed vs. developing country lens. The review study reveals that the effects of IFRS adoption on FPI significantly differ between developed and developing countries. Although the positive impact of IFRS adoption on FPI is documented in existing literature, not all countries (particularly developing countries), firms, and users have benefited or equally benefited from IFRS adoption regarding FPI. In addition, the positive impacts of IFRS adoption on FPI are associated with the country's regulatory environment, such as level of investor protection. The findings of the study suggest that developing countries should ensure a proper regulatory environment to reap the full benefits of IFRS adoption. This review contributes to the existing literature by providing a comparative analysis of IFRS adoption effect on FPI between developed and developing countries while also suggests future research avenues.

Keywords: IFRS Adoption, International Accounting Standards (IAS), FPI, Foreign Shareholdings, Investor Protection.

JEL Classification Codes: M41, Z23, B17.

INTRODUCTION

With the emergence of globalization, corporate giants worldwide are expanding their business in every corner of the world. However, the use of different accounting systems and the prevalence of local accounting standards hinder uniform financial reporting throughout the world (International Accounting Standard Board [IASB], 2002). Thus, professional accountants worldwide assume that uniform accounting standards will harmonize the accounting practices worldwide and, in turn, will bring the financial reporting practices under one umbrella. IFRS is a single set of uniform accounting or financial

reporting standards globally recognized for financial statement preparation (Association of International Certified Professional Accountants [AICPA], 2021).

Proponents of IFRS have consistently claimed that adopting IFRS helps reduce information asymmetry, improve comparability, transparency, and quality of financial information, and thereby, lead to greater flows of cross-border investment, particularly FPI (Levitt, 1998; IASB, 2002; White, 2008). Although overall positive impact of IFRS adoption on FPI is documented in existing literature (Amiram, 2012; Hamberg, Mavruk, & Sjögren, 2013; Yu & Wahid, 2014; DeFond, Hu, Hung, & Li, 2011; Florou & Pope, 2012; Beneish, Miller, & Yohn, 2015; Hansen, Miletkov, & Wintoki, 2015), not all countries particularly developing countries such as China (DeFond, Gao, Li, & Xia., 2014), South Africa (Sherman &, Klerk, 2015), Nigeria (Udofia, 2018), and Malaysia (Shovon, 2019) have benefited or equally benefited from these changes. This evidence indicates that there are inconsistent findings regarding the impacts of IFRS adoption on FPI between developed and developing countries. In explaining the inconsistent relationship between IFRS adoption and FPI, this study aims to review and summarize the existing researches on the impacts of IFRS on FPI from the developed and developing country perspective and provide suggestions for future research. In addition, this research presents a clear understanding of the association between IFRS adoption on FPI and explains these inconsistencies in relation to countries institutional settings or regulatory environment.

A number of researchers conducted review on IFRS adoption literature highlighting different aspects of IFRS adoption such as impacts of IFRS adoption on accounting quality (for example, Păşcan, 2015; Soderstrom, & Sun, 2007), auditing (for example, Khlif & Achek, 2016), comparability, foreign trade, and investment, earnings management, market liquidity, cost of equity, cost of debt and firm performance (Ahmed, Chalmers, & Khlif, 2013; Brüggemann et al., 2013; De George & Shivakumar, 2016; Houqe, 2018; Mohammadrezaei, Mohd-Saleh, & Banimahd, 2015; Samaha & Khlif, 2016; Singleton-Green, 2015). However, limited review studies mainly concentrate on the impacts of IFRS adoption on FPI concerning investor protection. In addition, the most recent reviews on IFRS adoption literature were conducted in 2018, and this study aims to advance the literature by considering recently published articles until October 2021.

Most of the reviewed studies reveal that IFRS adoption has a positive impact on FPI. However, some significant caveats are worth noting. Firstly, prior studies indicate that the increase in FPI at the post IFRS adoption periods are restricted to countries and firms that had strong enforcement, regulatory environment, reporting incentives, implementation credibility, and higher governance quality (Amiram, 2012; Yu & Wahid, 2014; Florou & Pope, 2012; Hansen et al., 2015). Secondly, existing review studies suggest that most of the research on IFRS adoption is conducted in developed country context (Lin, 2012; Singleton-Green, 2015), and there is a limited study that investigate the impacts of IFRS adoption in developing countries (Lin, 2012; Herbert & Tsegba, 2013; Efobi Uchenna, 2016; Mohammadrezaei et al., 2015; Samaha & Khlif, 2016). This indicates that the outcome may not directly apply or is less likely to generalize to developing countries (Lin, 2012; Mohammadrezaei et al., 2015). Further, it is argued that there is a significant difference in institutional features such as regulatory and enforcement environment between developed and developing countries (Mohammadrezaei et al., 2015). Therefore, it is necessary to investigate the impacts of IFRS on FPI, focusing on developed vs. developing country perspectives.

This study adopts a historical approach and focuses on the articles published in finance and accounting journal. The following keywords, such as IFRS adoption, foreign portfolio investment, foreign shareholdings, and investor protection, are selected to categorize relevant studies for this literature review. Searching these key terms in the databases, such as Taylor and Francis, Elsevier, Springer, JSTOR, American Accounting Association, Wiley, Emerald, Social Science Research Network (SSRN), and Google Scholar, a total number of thirty-six empirical studies dealing with IFRS adoption, FPI and investor protection are found. This literature review reveals that the effects of IFRS adoption on FPI significantly differ between developed and developing countries. This initial evidence in IFRS adoption on FPI literature implies that this issue is still in its infancy, and further research is required to capture the effect of IFRS adoption on FPI in developing country settings.

Conducting a review of the IFRS adoption effects on FPI is of critical importance for researchers and regulators. For researchers, this paper complements these reviews that focus on IFRS adoption effects on FPI by shedding light on developed and developing countries. Our study suggests that the impact of IFRS adoption on FPI is fertile ground for future empirical investigations. Authors should refine their analysis at a single developing country to capture the actual effect of IFRS adoption on FPI. Our review is of timely importance for regulators, given the renewed debate about IFRS adoption impacts between developed and developing countries.

UNDERSTANDING ASSOCIATION BETWEEN IFRS ADOPTION AND FPI

Mean-Variance Portfolio Theory (MVPT) suggests that good diversification can optimize the return and, at the same time, reduce the risk in portfolios (Markowitz, 1952, 1959). By diversifying portfolios, investors can take the opportunity to maximize their return and diversify risk (Ackert, Church, Tompkins, & Zhang, 2005). Therefore, MVPT recommends a globally diversified portfolio of equities for investors (Caprio, 2012) to diversify their risk internationally (Markowitz, 1952). Sharpe (1964) subsequently adopted the MVPT and introduced Capital Asset Pricing Model (CAPM), which asserts that investors representing a country ought to hold a world market portfolio (Coeurdacier & Rey, 2013). In other words, foreign investors should possess each country's assets that are equivalent to the country's share in the global market portfolio (De Santis, 2010). Based on CAPM, Levy and Sarnat (1970) and Solnik (1974) demonstrated the benefits of international diversification. Simulations of Lewis (1999 p. 578) forecast that American portfolios should acquire a minimum of 40% of foreign assets. Nonetheless, the actual proportion of American-owned foreign assets ranges from approximately 8% only (Lewis, 1999 p. 578). This phenomenon indicates that the ratio of foreign investment is pointedly lower than what is deemed optimal under CAPM (French & Poterba, 1991; Cooper & Kaplanis, 1994). Investors appear cautious about reaping the maximum benefits of international diversification and acquiring an unbalanced share of local equities (Coeurdacier & Rey, 2013).

The internationally diversified portfolio can reduce portfolio risk (Solnik, 1995; Butler, 2016). It is argued that portfolio risk can be minimized by diversifying the portfolio in foreign as well as local assets (Abid, Leung, Mroua, & Wong, 2014). Based on the idea of diversification, prior literature suggests that investors can reduce the investment risk by investing in the stock market of different countries or incorporating foreign assets in their portfolios (Grubel, 1968; Levy & Sarnat, 1970). More recently, Solnik (1995) and Asness, Israelov and Liew (2011) measured the risk-reduction benefits of international portfolio diversification. By adding more stocks to a U.S. portfolio, Solnik (1995) documents that the gain from international diversification is substantial. Similarly, by observing the return of the domestic portfolio, Nieuwerburgh and Veldkamp (2009) report substantial gain from international diversification. However, despite the potential benefit of diversification, the strong bias in favor of local assets is a well-recognized characteristic of global portfolios investment (Coval & Moskowitz, 1999).

International diversification of assets would be beneficial to investors because there are gains to be had from diversification (Gokkent, 1997). It is extensively recognized that investors should hold a well-diversified portfolio unless there are reasons (such as information barriers) to deviate from this norm (Cooper, Sercu, & Vanpée, 2013). However, previous studies have consistently found that globally, investors significantly undermine foreign investments or are disinclined to hold securities outside their local markets (French & Poterba, 1991; Lewis, 1995; Ahearne, Griever, & Warnock, 2004). For example, French and Poterba (1991) and Lewis (1995) reveal that investors are reluctant to diversify the portfolio and hold more domestic firms' shares. Tesar and Werner (1995) assert that investment decisions of Canadian and U.S. investors do not reflect pure diversification motive. These findings suggest that investors forgo the possible benefit of diversification, which is puzzling and contradicts CAPM predictions (Gehrig, 1993; Karolyi & Stulz, 2003). This under-diversification phenomenon is referred to as home bias.

Home bias refers to the tendency of domestic investors to invest more in domestic equities or hold a small portion of their wealth in foreign equities compared to the predictions of CAPM (Faruqee,

Li, & Yan, 2004; Yan, 2004). It is argued that the worldwide adoption of IFRS can reduce this information barrier, thereby reducing home bias and enhancing cross-border investment flows (Levitt, 1998; IASB, 2002; White, 2008). Therefore, based on the predictions of MVPT and CAPM, it is expected that adopting IFRS contributes to reducing investors' home bias and thereby increasing the FPI of a country. However, there is little evidence regarding how global integration of financial reporting, such as IFRS adoption can mitigate home bias (Amiram, 2012) and thereby increase FPI, particularly in developing countries.

IFRS ADOPTION AND FPI

A considerable amount of literature (refer to Table 1) has been published on the effect of IFRS adoption on FPI. Most of these prior research works demonstrate that IFRS adoption enhances firms' as well as countries' ability to attract greater FPI. These benefits are due to improved familiarity (Amiram, 2012; Hamberg et al., 2013; Yu & Wahid, 2014) and reducing information asymmetry (explained by comparability, reporting quality, and transparency) after IFRS adoption (Beneish et al., 2015; DeFond et al., 2011; Florou & Pope, 2012; Hansen et al., 2015).

Familiarity is one of the critical issues that prior studies consider explaining the relationship between IFRS adoption and FPI. A number of literary works (Bradshaw, Bushee, & Miller, 2004; Covring, Defond, & Hung, 2007; Amiram, 2012; Hamberg et al., 2013; Yu & Wahid, 2014; Garrouch 2016) find that familiarity of investors on accounting standards assists investment decisions and thereby, encourages FPI. Their findings are rational with the claims that the IFRS adoption facilitates investors in evaluating the performance of foreign firms and the market by establishing uniform accounting or reporting standards (Amiram, 2012). For example, studying firm-level holding of more than 25,000 mutual funds, Covring et al. (2007) suggest that average holdings of the foreign mutual funds are significantly higher for a firm that adopts International Accounting Standards (IAS). Authors further indicate that investors' information processing costs are reduced after IAS adoption, providing information in a more familiar form.

In addition, Bradshaw et al. (2004) reveal that companies using accounting or financial reporting standards similar to US GAAP receive a high level of U.S. institutional investors. This is because such accounting practices are more familiar to U.S. investors. Additionally, Amiram (2012) and Yu and Wahid (2014) mention that countries and firms that adopt IFRS experience a greater level of FPI. Their findings indicate that familiarity with IFRS drives the increase in foreign shareholdings. Apart from this, Hamberg et al. (2013) find that FPI increased in Swedish firms following IFRS adoption, mainly from other IFRS adopting countries. Authors argue that the increase in FPI is driven by the investor's familiarity with reporting standards. Similarly, Omotoso, Schutte, and Oberholzer (2021) suggest that the adoption of IFRS increases FPI in African countries. These outcomes imply that adopting IFRS in a country enables domestic investors to familiarize themselves with accounting standards of more countries, help reduce investors' information processing costs, and eventually increase FPI.

Information asymmetry is considered another critical factor in explaining the relationship between IFRS adoption and FPI. Prior studies demonstrate information asymmetry in terms of comparability, reporting quality, and transparency (DeFond et al., 2011; Beneish et al., 2015; Hansen et al., 2015). Contemporaneous studies (Yu, 2010; DeFond et al., 2011; Khurana & Michas, 2011; Florou & Pope, 2012) assert that mandatory adoption of IFRS enhances comparability of financial information and thus promotes greater FPI (see Table 1 for details). Their outcomes are consistent with the arguments that harmonization around IFRS improves reporting quality and comparability and, thus, reduces information asymmetry (Levitt, 1998; IASB, 2002). Similarly, Lee and Fargher (2010) suggest a uniform accounting standard is likely to enhance the comparability of financial information across companies and thereby assist in reducing information asymmetry.

Besides that, DeFond, Hu, Hung, and Li (2012) assert that the relative attraction of U.S. firms to foreign investors reduced after worldwide IFRS adoption. Their findings are consistent with the claim that a single set of financial reporting standards enables global investors to minimize information processing costs. As a result, firms can enjoy relatively greater comparability benefits through IFRS

adoption. Empirical evidence of Hong, Hung and Lobo (2014) imply that adoption of IFRS reduces information asymmetry between a business entity and its stakeholders and enables firms to increase earnings from overseas markets. Hsu and Lai (2013) suggest that firms using IFRS-based standards experience greater foreign mutual fund ownership than firms with local reporting standards. Additionally, Manyara (2017), Chen, Ng, and Tsang (2015), as well as Wang, Welker, and Wu (2015) examine how the adoption of IFRS influences firms' decisions regarding listing in foreign stock markets. Their findings recommend that the implementation of IFRS encourages the volume of cross-listings and improves access to equity capital. Apart from this, Han, Yi, Park, and Seo (2016) examine whether the adoption of IFRS enhances the effectiveness of financial information in Korea. Their result suggests that foreign investments in small firms have significantly improved after IFRS adoption.

Empirical research suggests that the quality of financial information increased following IFRS adoption (Leuz, 2003; Bartov, Goldberg, & Kim, 2005; Barth, Landsman, & Lang, 2008; Armstrong, Barth, Jagolinzer, & Riedl, 2010). This increased reporting quality helps to lessen information asymmetries (Ashbaugh & Pincus, 2001; Tarca, 2004; Beneish & Yohn, 2008) and thereby facilitate foreign investors to make global investment decisions (Hsu & Lai, 2013; Beneish et al., 2015). In addition, existing literature (Shima & Gordon, 2011; Florou & Pope, 2012; Beneish et al., 2015; Hsu, Jung, & Pourjalali, 2015) reveals that increased FPI following the adoption of IFRS is more likely an outcome of improved reporting quality (see Table 1 for details).

Besides that, Rueda-Sabater (2000), Chipalkatti, Le, and Rishi (2007) and Akisik and Pfeiffer (2009) assert that in a developing or emerging economy, foreign equity ownership is positively linked with the level of corporate governance and quality of reporting standards. Similarly, Bradshaw et al. (2004) suggest that U.S. institutional investors invest more in companies that follow reporting standards consistent with US GAAP. This is because such accounting practices are perceived as higher quality. Additionally, Bova and Pereira (2012) assert that cross-border investment is positively allied with IFRS compliance. Their findings are consistent with the claim that international investors demand a high-quality financial or accounting standard to protect their investments within the companies. Apart from these, Ahearne et al. (2004) state that disclosure requirements, financial reporting standards, and regulatory environment are important factors for explaining the home bias. This is because higher disclosures rules limit the chance of domestic investors having access to private information.

Transparency is an essential issue in explaining information asymmetry as well as the relationship between IFRS and FPI. Prior empirical studies (Aggarwal, Klapper, & Wysocki, 2005; Brüggemann, 2011; Hansen, Miletkov, & Wintoki, 2013; Hansen et al., 2015; Garrouch, 2016) claim that the transparency effect of IFRS is positively associated with FPI. Their outcomes are consistent with the claims that transparency decreases information asymmetries, strengthens the comparability effect (Nnadi & Soobaroyen, 2015), and promotes foreign investment (Babío & Muiño, 2005; Márquez-Ramos, 2011). For example, Hansen et al. (2015) argue that firms can increase the transparency of financial information through IFRS adoption and attract more foreign investment. Similarly, Garrouch (2016) reveals that international accounting harmonization enhances foreign shareholdings of PLCs in France. The result implies that assuming transparency benefits foreign investors seeking to invest in companies that apply international accounting or reporting standards.

Besides that, Aggarwal et al. (2005) suggest that emerging markets with high-quality financial reporting standards attract greater U.S. mutual fund investment. The result is more pronounced for companies that ensure greater transparency in accounting information. Additionally, Hansen et al. (2013) suggest that firms using IFRS with strong reporting incentives and more transparent financial disclosures have experienced greater foreign shareholdings. Besides this, Brüggemann (2011) investigates the consequences of IFRS adoption on international capital flows concerning transparency. The author finds that the adoption of IFRS significantly increases the open market trading activity of stocks.

Despite the documented positive impacts of IFRS adoption, it is also evidenced that adoption of IFRS does not have a substantial positive effect on FPI in several countries, particularly in developing countries. For example, with a sample of 5518 firm-year observations from China for 2005–2008,

DeFond et al. (2014) suggest that IFRS adoption has no substantial effect on foreign shareholdings in China. Similarly, using a sample of 40 South African firms for 2001–2006, Sherman and De Klerk (2015) reveal no substantial increase in foreign shareholdings following IFRS adoption in South Africa. Additionally, Udofia (2018) examines the impacts of IFRS adoption on FPI in Nigeria and suggests that compared to the post- IFRS adoption period, the pre- IFRS adoption period has a greater frequency of growth in FPI. Further, with a sample of 5784 firm-year observations from Malaysia for the period 2008-2011 and 2013-2016, Shovon (2019) reveal that adopting IFRS had no significant positive effect on FPI in Malaysia. Besides that, some cross-country studies suggest that the adoption of IFRS has no significant impact on foreign shareholdings in countries where investors' rights are not well protected (Shima & Gordon, 2011; Hansen et al., 2015). Since developing countries frequently suffer from weak investor protection, this finding indicates that the positive effects of IFRS adoption on foreign shareholdings are not substantial in developing countries. Overall, these findings suggest that IFRS adoption's impact on FPI significantly differs between developed and developing countries.

Table 1. Summary of studies on the association between IFRS adoption and FPI

Author(s), and Year	Objective(s)	Context, Fiscal Year(s) and Analysis Method	Findings
Aggarwal, Klapper and Wysocki (2005)	Examine the investment decisions of U.S. mutual funds in foreign securities.	30 emerging markets economies; 2001–2002; Regression analysis	Countries with high-quality accounting standards, investor protection experienced greater U.S. mutual fund holdings.
Akisik and Pfeiffer (2009)	Investigate the association between the proportions of US FDI its total investment.	46 countries Developed 33 Developing 13 1997–2005; Regression analysis	Portfolio investment is positively impacted by the quality of accounting or financial reporting standards and corporate governance.
Amiram (2012)	Investigate the impacts of mandatory adoption of IFRS on FPI.	104 countries; **Country** / **IFRS** / **Non-IFRS** **Developed** 37 6 **Developing** 16 22 1997 & 2001–2006; GMM, Panel data analysis	FPI increases in countries that adopt IFRS. However, countries with strong investor protection and lower corruption experience greater increases in FPI relative to other IFRS users.
Beneish, Miller and Yohn (2015)	Investigate whether the mandatory IFRS adoption is associated with increased FPI.	47 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 21 8 **Developing** 2 14 2003–2004 & 2006–2007; Regression analysis	IFRS adoption is positively associated with FPI. In addition, the positive impacts of IFRS on FPI are restricted to countries that ensure creditor's rights, quality of governance.
Bova and Pereira (2012)	Examine factors that influence IFRS compliance following IFRS adoption.	Kenya; 2005–2007; Regression analysis	Foreign ownership is positively correlated with IFRS compliance.

Author(s), and Year	Objective(s)	Context, Fiscal Year(s) and Analysis Method	Findings
Bradshaw, Bushee and Miller (2004)	Examine the association between accounting practice and assets allocation choice of U.S. institutional investors in foreign firms.	89078 firm-year observations from 50 countries; 1989–1999; Panel data regression analysis	Firms that use accounting or financial reporting standards equivalent to the US GAAP attract greater U.S. institutional investment.
Brüggemann (2011)	Examine whether the mandatory IFRS adoption impacts open markets trading activities.	4869 firms from 34 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 21 7 **Developing** 1 5 2001–2007; Regression analysis	Firms experienced substantial growth in open market trading activities following IFRS adoption.
Chen, Ng and Tsang (2015)	Examine whether the mandatory adoption of IFRS impacts the company's cross-listing activities.	1181 firms from 34 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 15 6 **Developing** 2 11 2003–2004 & 2006–2007; Panel data regression	The firm's cross-listing activities are positively affected by the mandatory IFRS adoption. These changes are allied with the level of differences between local accounting standards and IFRS.
Covring, Defond and Hung (2007)	Look at the impacts of voluntary IAS adoption on foreign capital.	25000 mutual funds from 29 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 19 3 **Developing** 1 6 1999–2002; Regression analysis	Companies using IAS experienced greater foreign mutual fund holdings compared to companies that use national reporting standards.
DeFond et al. (2014)	Look at how IFRS adoption affects foreign institutional investment.	5518 firm-year observations from China (Developing Country); 2005–2008; Panel data regression analysis	Foreign institutional investment decreases after China’s IFRS adoption.
DeFond et al. (2012)	Investigate the effect of IFRS adoption on foreign portfolio investment in U.S. firms.	13496 firm-year observations from 3374 US firms; 2003–2004 & 2006–2007; Panel data regressions	The relative attractiveness of U.S. companies decreased following worldwide IFRS adoption.

Author(s), and Year	Objective(s)	Context, Fiscal Year(s) and Analysis Method	Findings
DeFond et al. (2011)	Look at the effects of mandatory IFRS adoption on the level of holdings of foreign mutual funds	10360 firms from 24 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 14 5 **Developing** 0 5 2003–2004 & 2006–2007; Multivariate regression analysis	IFRS adoption substantially increases foreign mutual fund investment when it enhances the comparability of financial information. This increase concentrates on firms from countries that ensure implementation credibility.
Florou and Pope (2012)	Examine whether institutional investors demand equities increased following IFRS adoption.	10852 firms from 45 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 21 8 **Developing** 3 13 2003–2006; Regression analysis	Institutional investors' shareholdings increased in countries that adopt IFRS. This increases concentrated in countries where reporting incentives and enforcement are robust.
Garrouch (2016)	Examine the impacts of IFRS adoption on foreign investor's shareholdings decisions.	120 companies from France; 2002–2004 & 2006–2012; Regression analysis	International accounting harmonization attracts foreign equity to France. The variation in foreign shareholding is subject to effective enforcement of IFRS.
Hamberg, Mavruk and Sjögren (2013)	Look into the influence of IFRS adoption on foreign ownership in Sweden.	256 companies from Sweden (Developed Country); 2001–2007; Panel data regressions analysis	IFRS adoption significantly increases foreign ownership in Swedish firms.
Han et al. (2016)	Assess whether Korean firms attract more foreign capital following IFRS adoption.	Questionnaire survey (75 respondents from domestic listed companies, local branches of foreign banks, and Big4 audit firms). 2005–2014; OLS regressions	Foreign investments in small companies significantly increased following IFRS adoption.

Author(s), and Year	Objective(s)	Context, Fiscal Year(s) and Analysis Method	Findings
Hansen, Miletkov and Wintoki (2015)	Examine whether companies can attract greater FPI through enhancing the transparency of financial information.	55239 firm-year observations from 51 countries **Country** / **IFRS** / **Non-IFRS** **Developed**: 32 / 0 **Developing**: 6 / 13 2001–2011; Panel data Regression	Firms can enhance FPI by advancing the transparency of financial information. However, there is no relationship between FPI and transparency following IFRS adoption in countries with weak investor protection.
Hansen, Miletkov and Wintoki (2013)	Look at when does the IFRS adoption increases foreign ownership.	54552 firm-year observations from 72 countries **Country** / **IFRS** / **Non-IFRS** **Developed**: 34 / 8 **Developing**: 9 / 21 2001–2011; Panel data regressions	Foreign ownership is higher for IFRS firms with strong reporting incentives and more transparent financial disclosures.
Hong, Hung and Lobo (2014)	Look at the effects of IFRS adoption on the relative change in foreign capital or investment flows through initial public offering (IPO).	3651 IPOs from 29 countries. **Country** / **IFRS** / **Non-IFRS** **Developed**: 18 / 5 **Developing**: 2 / 4 2003–2004 & 2006–2007	IFRS adoption has a substantial positive effect on foreign capital flows. This finding is more evident to firms from countries that ensure strong implementation credibility.
Hsu and Lai (2013)	Look at whether foreign investors are differentially attracted to firms that mandatorily converge into IFRS.	10209 firm-year observations are representing 1505 firms in Taiwan (Developed Country); 2005–2012; Multivariate regression analysis	Foreign mutual fund ownership is greater among companies affected by IFRS-based standards than companies using domestic reporting standards.
Hsu, Jung and Pourjalali (2015)	Investigate the impact of (IAS) - 27 adoptions on foreign shareholdings.	420 firms from Taiwan (Developed Country); 2001–2008; Panel data analysis	Adoption of IAS-27 increases foreign shareholdings of Taiwanese firms.

Author(s), and Year	Objective(s)	Context, Fiscal Year(s) and Analysis Method	Findings
Lee and Fargher (2010)	Examine whether the adoption of IFRS encourages cross-border investment.	40 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 18 7 **Developing** 3 12 2002–2008; Panel data regression	The mandatory adoption of IFRS reduces bias and encourages foreign equity investment. This effect is positively allied with the level of differences between local GAAP and IFRS.
Manyara (2017)	Determine the impacts of IFRS adoption on cross-listing of Australian companies.	1172 firms from Australia; 2002–2008; McNemar test, one way ANOVA	The application of IFRS improves access to equity capital.
Omotoso, Schutte and Oberholzer (2021)	Investigate the effect of the IFRS adoption on FPI	Africa 1994 to 2015; Panel data regression	Adoption of IFRS increases FPI in the African countries.
Sherman and De Klerk (2015)	Survey the effect of IFRS adoption on foreign ownership in South Africa	40 companies from South Africa (Developing Country); 2003–2007; Regression analysis	There is no substantial growth in foreign ownerships following IFRS adoption.
Shima and Gordon (2011)	Investigate whether a country's use of IFRS is associated with U.S. investors investment in foreign equities.	44 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 19 6 **Developing** 4 15 2003–2006; Regression analysis	Adoption or use of IFRS by a country is associated with U.S. equity investment only when it is implemented in a robust enforcement or regulatory framework.
Udofia (2018)	Examine impacts of IFRS adoption on FPI and FDI.	Nigeria; 2007-2016; Cross-sectional survey and ex-post-facto design	The pre IFRS adoption period has a higher incidence of growth in FPIs than the post-IFRS adoption period.
Wang, Welker and Wu (2015)	Examine how differences in accounting standards affect firms' decisions about cross-listing equity share in foreign markets.	46 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 23 7 **Developing** 3 13 1998–2007; Regression analysis	IFRS adoption is positively associated with the volume of direct cross-listings when both home and host countries adopt IFRS.

Author(s), and Year	Objective(s)	Context, Fiscal Year(s) and Analysis Method	Findings
Yu (2010)	Investigate the variation in foreign mutual fund ownership in companies that are required to use IFRS.	4399 firms from 28 countries Voluntary IFRS firm 650 Mandatory IFRS firm 3474 Non-IFRS firm 274 2000–2007; Regression analysis	Firms experienced substantial growth in foreign mutual fund ownership after IFRS adoption. This increase is positively associated with the level of enforcement.
Yu and Wahid (2014)	Investigate whether variation in reporting standards affects the portfolio allocation decisions of global investors.	14599 firms from 46 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 23 6 **Developing** 2 15 2003–2007; Regression model	Firms experienced an increase in foreign investors' holding of the firms' share after IFRS adoption.

IFRS ADOPTION, INVESTOR PROTECTION, AND FPI

Investor protection is defined as the protection of investors such as stockholders, bondholders, and creditors by the legal framework of a country (Porta, Lopez, Shleifer, & Vishny, 2000). It indicates efforts and actions taken by a country to monitor, defend, and enforce the rights of the investors (Jeanjean, 2012). In accounting standards, investor protection designates something to ensure that investors have enough information to make informed investment and voting decisions. It also specifies the action to prevent misleading disclosures and legal framework from protecting investors from dishonest investment brokers (Selling, 2011).

To what extent the investor's interest is protected from expropriation is a primary concern of foreign investors, particularly minority shareholders (Poshakwale & Thapa 2011). Therefore, investor protection is a significant determinant of cross-border capital flows as well as portfolio diversification (Aggarwal et al., 2005; Leuz, Lins, & Warnock 2010; Poshakwale & Thapa, 2011; Florou & Pope, 2012; Hansen et al., 2015). Recently, academics have started to investigate the relationship between investor protection and investors' portfolio holdings. A number of literature suggest that the extent of investor protection is positively associated with FPI (Giannetti & Koskinen, 2010; Poshakwale & Thapa, 2011; Giofré, 2014). The rationale of this argument is that investors are confident and prefer to invest in a market where investors' rights are strongly protected by the legal framework of a country (Poshakwale & Thapa, 2011). On the other hand, investors are reluctant or avoid investing in markets or countries that do not properly protect investors' rights (Giannetti & Koskinen, 2010; Giofré, 2014). This is because foreign investors face information problems in countries with lower-level investor protection (Leuz et al., 2010).

A number of researchers investigate how the level of investor protection affects cross-border capital flows and foreign investor's assets allocation decisions (see Table 2 for details). Using a sample of 14 major investing countries for 2001–2006, Giofré (2013) reveals a significant cross effect of the level of investor protection rights on FPI. In the same vein, Aggarwal et al. (2005), Giannetti and Koskinen (2010) and Poshakwale and Thapa (2011) find that foreign institutional investors such as mutual funds choose to invest in developing/emerging countries or markets with the strong regulatory framework, investor protection, and high-quality accounting standards. On the other hand, Leuz et al. (2010) conclude that foreign investors are unwilling to invest in companies that reside in a jurisdiction with weak disclosure practice and poor protection of shareholder's rights. In addition, Porta, Lopez,

Shleifer, & Vishny (1997) show that the stock and debt market is significantly tiny in countries where investor rights are not strongly protected. They claim that the level of enforcement and quality of the legal framework significantly differs across the jurisdiction. Therefore, the difference in legal protection can justify why companies in some jurisdictions attract more capital than others (Poshakwale & Thapa, 2011).

Prior research works (Ball, Kothari, & Robin, 2000; Ball, Robin, & Wu, 2003; Lang, Raedy, & Wilson, 2006; Epstein, 2009) suggest that the benefits of uniform financial reporting standards can differ significantly across jurisdictions. In addition, Holthausen (2009) reveals that the legal and institutional framework, such as the extent of investor protection, substantially affects the outcomes of financial reporting standards. Prior research works that measure the impact of IFRS on FPI suggest that adoption of IFRS significantly increase the FPI, but the results are more pronounced in countries that ensure better investor protection (Yu, 2010; Shima & Gordon, 2011; Amiram, 2012; Beneish et al., 2015; Hansen et al., 2015). For example, Yu (2010) finds that adopting IFRS helps attract greater foreign capital. This finding is more evident in a country that ensures the protection of shareholder's rights. Similarly, Beneish et al. (2015) assert that foreign portfolio investment is positively associated to the level of creditors' rights and governance quality in a country. In the same vein, Amiram (2012) finds that countries that provide better protection to shareholders' or investors' rights experienced substantial foreign equity investment growth. Likewise, Hansen et al.(2015) find that firms that reside in a country that provides high-level investor protection can attract more foreign investors or foreign investment by increasing the transparency of financial information. These findings suggest that adopting IFRS itself may not be enough to attract FPI if the investor's rights are not well protected.

Table 2. Summary of studies on the association between IFRS adoption, investor protection, and FPI

Author(s), and Year	Objective(s)	Context, Fiscal Year(s), and Analysis Methods	Findings
Aggarwal, Klapper and Wysocki (2005)	Investigate the asset allocation decisions of U.S. investors in an emerging stock market.	30 countries Developed 0 Developing 30 2001–2002; Regression analysis	Countries with strong investor protection and regulatory environment experienced greater U.S. mutual fund holdings.
Amiram (2012)	Investigate the impacts of mandatory adoption of IFRS on FPI.	104 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 37 6 **Developing** 16 22	The positive effect of IFRS adoption on FPI is more evident in countries where investors' rights are well-protected.
Beneish, Miller and Yohn (2015)	Investigate the relationship between mandatory IFRS adoption and FPI.	47 countries **Country** / **IFRS** / **Non-IFRS** **Developed** 21 8 **Developing** 2 14	The growth in foreign equity ownership following IFRS adoption is positively associated with the country's creditor rights.
Giannetti and Koskinen (2010)	Examine the impacts of investor protection on investors' assets allocation decisions.	39 countries Developed 27 Developing 12 2002; Regression analysis	Foreign investors from countries where investors' rights are not well protected prefer to invest more in foreign equities.

Author(s), and Year	Objective(s)	Context, Fiscal Year(s), and Analysis Methods	Findings
Giofré (2014)	Investigate the effect of local investor protection on FPI.	34 countries Developed 33 Developing 1 2001–2006; Multivariate analysis	Strong investment protection at home attracts inward portfolio investment.
Giofré (2013)	Investigate the effect of investor protection on international capital flows.	14 countries Developed 14 Developing 0 2001–2006; Regression analysis	The legal framework for investor protection has substantial ‘‘cross’’ effects on FPI.
Hansen, Miletkov and Wintoki (2015)	Look at the effect of investor protection on the transparency of financial reporting and foreign shareholdings.	55239 firm-year observations from 51 countries **Country / IFRS / Non-IFRS** **Developed** 32 0 **Developing** 6 13 2001–2011	Firms experienced greater foreign ownership following IFRS adoption in countries that ensure strong investor protection.
Leuz, Lins and Warnock (2010)	Investigate the relationship between corporate governance and cross-border capital flows.	4409 firms from 29 countries Developed 21 Developing 8 1997; Regression analysis	Foreign investors invest less in firms that reside in countries where investor's rights are not well-protected.
Poshakwale and Thapa (2011)	Examine the effects of investor protection on cross-border portfolio investment.	36 countries Developed 24 Developing 12 2001–2006; Regression analysis	The quality of legal protection offered to foreign investors has positive impacts on foreign portfolio investment.
Shima and Gordon (2011)	Examine whether the wider regulatory environment is associated with U.S. investor's holdings of foreign equities.	44 countries **Country / IFRS / Non-IFRS** **Developed** 19 6 **Developing** 4 15 2003–2006	IFRS adopting countries can attract foreign capital only when IFRS is implemented in a robust regulatory framework such as strong investor protection.
Wu, Li and Selover (2012)	Look at the impact of governance quality on cross-border investment and the foreign investment it attracts.	45 countries Developed 20 Developing 25 2005–2008; Regression analysis	The level of property protection with diverse governance models has a substantial impact on both FPI and FDI.

SUGGESTION FOR FUTURE RESEARCH

This section suggests three research avenues for future researchers to enhance their understanding of the topic reviewed in this study.

Although a large number of literature endeavors to measure the economic consequence of IFRS, most of these studies have taken place in developed countries (Lin, 2012; Singleton-Green, 2015). On the other hand, limited research investigates the economic effects of adopting IFRS in developing countries (Lin, 2012; Herbert & Tsegba, 2013; Efobi Uchenna, 2016; Samaha & Khlif, 2016). It is argued that developing countries suffer from weak institutional infrastructure that may cause lower quality compliance with accounting standards (Stecher & Suijs, 2012). Consequently, the expected economic benefits of IFRS adoption is uncertain under weak compliance with the IFRS (Stecher & Suijs, 2012). This implies IFRS adoption in developing countries might not result in the appropriate accounting system (Tyrrall, Woodward, & Rakhimbekova, 2007). Therefore, although the prior study shows the overall positive effect of IFRS adoption, the outcome may not directly apply or less likely to be generalizable to developing countries (Lin, 2012; Mohammadrezaei et al., 2015). While there is no sufficient evidence to confirm that developing countries benefit from adopting the standards (Lin, 2012; Stecher & Suijs, 2012; Herbert & Tsegba, 2013; Efobi Uchenna, 2016; Samaha & Khlif, 2016), it is worthwhile to conduct further research on the impacts of IFRS adoption on FPI in the context of developing countries (Lin, 2012).

Since every country is different in terms of institutions, economics, and politics, many researchers suggest conducting research focusing more on specific settings such as an individual country (Daske, 2012; Brüggemann et al., 2013; De George et al., 2016; Efobi Uchenna, 2016; Houqe et al., 2016). This is because more controlled experiments are possible in a single country (or settings), which facilitates more precise identification. Also, proprietary data is more likely to become available in a single country that is necessary to establish direct causes and effects in empirical studies (Daske, 2012). Finally, country-specific or single-country research should increase the validity of the research outcome by enabling researchers to understand and control concurrent non-IFRS effects (Brüggemann et al., 2013; Singleton-Green, 2015; Efobi Uchenna, 2016; Houqe et al., 2016). In addition, it is observed that prior IFRS adoption literature are mainly concentrated on cross-country research (Daske, 2012). Therefore, future research should focus more on a single country setting to reveal the precise effect of IFRS adoption on FPI.

There is a substantial variation in accounting practice between countries even though they use the same accounting standards (Pricope, 2016). This is because the process of implementing accounting standards is not the same for all countries (Schipper, 2005; Kvaal and Nobes, 2012). In addition, differences in institutional settings also cause variation in interpretation and use of IFRS between countries (Schipper, 2005; Whittington, 2005; Pope & McLeay, 2011). These findings suggest that the implementation and level of compliance with IFRS standards vary between countries due to their institutional settings. Rationally, the expected effect of IFRS adoption will differ among jurisdictions. It is also evidenced that the benefits of IFRS are tied to some country-level factors (Tarca, 2012). Since the investors, assets allocation decision is affected by the level of investor protection, and investors prefer to invest in a country where investors' legal rights are strongly protected by law, future research should consider the effect of investor protection in relation to IFRS adoption and FPI.

CONCLUSION

Based on the existing empirical literature, this study investigates the effect of IFRS adoption on FPI regarding investor protection, focusing on developed vs. developing countries. It was revealed that the impacts of IFRS on FPI vary significantly between developed and developing countries. Although it is evidenced that FPI increased following IFRS adoption, there is limited evidence that IFRS adoption improved FPI in developing countries. The empirical research findings concerning the impact of IFRS adoption on FPI should be interpreted carefully with country-specific factors such as regulatory environment and investor protection. Empirical evidence regarding the effects of IFRS adoption on FPI is inadequate to make a conclusion regarding impacts of IFRS on FPI on developing country perspective.

Further research is required on this topic considering country-specific factors, particularly developing country perspectives

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