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Standardization and comparability: A regulatory waltz

Abstract

Comparability is an important and necessary aspect of financial reporting and was one of the factors driving the adoption of the International Financial Reporting Standards (IFRS). With cross-border comparability pursued for the listed companies, it had adverse consequences for comparability at the national level as different types of companies utilize different standards. To examine the discourse around comparability and its role in the regulation of the financial reporting of private firms, we utilize a multi-mode standardization perspective that recognizes the interplay of committees, market players, and the government. We apply the model to financial reporting in Norway and focus on the antecedents and consequences of the proposal to adopt the IFRS for SMEs. Although comparability is used to justify the need for standardization, more pragmatic factors, such as the cost of implementation and local control over standards, tend to shape the standardization process and resulting reporting approaches. Furthermore, there is a significant disconnect between the EU’s aim for cross-border comparability and the local market participants’ more nuanced view of comparability, particularly hybrid organizations. Local preparers tend to focus on comparability for their segment of companies and emphasize conflicting demands between IFRS-based standards and their operations. These tensions contribute to an impasse in setting accounting standards and the continued multiplicity of available standards and accounting choices.

Keywords: comparability, standardization, IFRS for SMEs, financial reporting, regulation, Norway
Introduction

The comparability of financial information is one of the factors driving the standardization of financial reporting and the adoption of the International Financial Reporting Standards (IFRS). The aim of standardization is to limit the number of options that are being used when the utilization of many different approaches is ineffective and inefficient (Wiegmann, de Vries, & Blind, 2017). Consequently, the IFRS have been widely adopted for financial reporting around the world. The International Accounting Standards Board (IASB) evaluated the use of IFRS in 166 jurisdictions and determined that “144 jurisdictions require IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets” (IASB, 2018). The European Union (EU) and European Economic Area (EEA) make up 31 of the countries that require mandatory IFRS reporting for the consolidated statements of listed companies.

Studies of globalization and the standardization of accounting reporting tend to focus on the implications for listed companies and the harmonization of global capital markets (e.g., Alon & Dwyer, 2016; Botzem & Quack, 2006; Ramanna, 2013). In addition to the intended consequences, the required adoption of IFRS for listed companies also had implications for the financial reporting of private firms. Cascino and Gassen (2015) note the reductions in comparability between public firms using IFRS and private firms using local GAAP. Private companies “play a vital role in the world economy in terms of generating wealth, jobs and investment in innovation and growth” (Vanstraelen & Schelleman, 2017, p. 565). Minnis and Shroff (2017) document the difficulty of balancing the costs and benefits when regulating

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1 Three countries are part of the EEA: Iceland, Liechtenstein and Norway. EEA-relevant EU directives become binding once approved by the EEA Joint Committee.
2 Similar to Minnis and Shroff (2017), we define private firms as those whose capital (equity or debt) is not traded in a secondary market.
3 There are approximately 21 million private sector enterprises in Europe and approximately 28 million in the United States (IFRS Foundation, 2016).
non-listed companies, as they tend to have more concentrated ownership and different information needs than listed companies. The implications of IFRS for the regulation of the financial reporting of private firms and the resulting comparability challenges at the national level have not been sufficiently ascertained and examined. Therefore, we ask the following research questions: What role does comparability play in the standardization process of financial reporting for private (non-listed) enterprises? What dimensions of comparability are important for the participants of the standardization process?

With regard to accounting, regulatory space includes the “interrelated network of national and international organizations – professional bodies, accounting firms, regulators,” often with conflicting identities and political interests (Malsch & Gendron, 2011, p. 457). We utilize Wiegmann, de Vries, and Blind’s (2017) multi-mode standardization model to examine the standardization process, explore the role of committees, market players, and the government, and investigate the mutual interdependence of these actors and the role of comparability in the regulation of the financial reporting of private firms in Norway.

Like other countries in the EU/EEA, Norway adopted the IFRS for listed companies in 2005. While listed companies have one standard, private companies are permitted to choose from the following: the IFRS, the Norwegian version called the simplified IFRS, and the Norwegian Generally Accepted Accounting Principles (NGAAP). To reassess and simplify the approach, the Norwegian Accounting Standards Board (NASB, Norwegian: Norsk RegnskapsStiftelse) and the government initiated parallel efforts to introduce the IFRS for SMEs as the basis for reporting. They completed committee evaluations, legal proposals, and received feedback through comment letters, but no changes have been adopted. We analyze events during 2013-2018 related to these proposals, documentary data from transnational and national government players, committees, and market participants, and interviews to gain insights into the standardization and the role of comparability.
The study contributes to the debate about the regulation of financial reporting and standardization in several ways. Rather than conceptualizing standardization as uni-modal, we use a multi-mode standardization perspective to investigate the interplay of committees, market players, and government. We complement the model by emphasizing that standardization is also multi-level because transnational actors contribute to and/or shape the process. Accounting standards are developed and implemented via multi-level governance where the authoritative decision making is dispersed across multiple territorial levels (Hooghe & Marks, 2001). The tensions between transnational regulations focused on cross-border issues and national needs increasingly shape the outcomes of standardization and regulatory processes. The varying demands of transnational and national constituencies create an impasse where standardization toward a single option becomes not viable and results in the continuing layering and co-existence of multiple standards.

The mandatory adoption of IFRS by listed companies has contributed to reduced comparability between private and listed firms. Our empirical case reveals that when different actors argue for comparability in financial reporting, the concepts they describe and the ways to achieve it are not uniform. We find that the focus on international comparability by the EU, most of the Big 4 firms, and the government committee tasked with modifying the legal framework did not resonate with many of the preparers. The latter do not tend to regard it as important for private companies, including small and medium enterprises (SMEs), but rather as adding complexity and costs to financial reporting. In general, they argue that the accounting standards need to maintain a more localized focus that accommodates differences in business models and produces information that is comparable within their sectors. Specifically, enterprises with differing investor structures, such as cooperatives and hybrid
organizations with state ownership, emphasized the need for differing treatment as application of accounting policies aimed at for-profit entities did not reflect their economic reality.

The nationally focused accounting treatments specified in Norwegian law and the disparities in the conceptual frameworks (income statement-based national standards and balance sheet-focused IFRS) have made it increasingly difficult to introduce consistent accounting policies. Due to such differences, in addition to the comparability of the financial reporting at the international, national level and over time highlighted in prior studies (e.g., Cascino & Gassen, 2015; Gross & Perotti, 2017; Zeff, 2007), we identified comparability challenges between parts of the same entity, referred to as \textit{vertical} comparability. Amounts reported may be difficult to compare when a parent company uses one standard for its stand-alone statements and another in consolidation because the accounting treatment of the same items may differ.

In Norway, as in other civil law countries, accounting is regulated through legislative acts. The Accounting Act provides the basis for financial reporting but does not specify a standard setter to elaborate the requirements of the Act into accounting standards. The NASB has been doing it without a legal remit. However, with the loss of listed companies to IASB standards, its role has diminished and remains undefined. These changes created conditions where there is a lack of agreement about the role of the standard setter and whether accounting standards should be presented through the law as passed by the government or via a private or public standard setter. The government is put in the position to mediate these tensions and is the default standard setter for private companies because the NASB lacks the

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4 Hybrids are professional service-oriented organizations such as hospitals and schools that deliver quasi-public goods and that typically exist under both public and private ownership. Thus, they differ as a group from typical government agencies and private firms (Lan & Rainey, 1992).
legal remit and funding to develop and modify standards. Our findings provide insights for jurisdictions pursuing the standardization of financial reporting with the goal of improving the comparability of financial reporting. By highlighting the expected and unexpected consequences of standardization, we aim to inform regulators and standard setters of the issues that arise when multiple standards and modes of standardization co-exist.

**Standardization modes: The interplay of the transnational and national**

According to Wiegmann et al. (2017), “standardisation aims to resolve situations where involved actors prefer a common solution to a problem, but have not yet agreed which option to choose” (p. 1371). The objective is to limit the number of solutions “when using many different options simultaneously is ineffective and inefficient” (Wiegmann et al., 2017, p. 1370). Botzem and Dobusch (2012) stress the importance of approaching standardization from a process perspective. Both the formation and diffusion of a standard are shaped simultaneously by the interactions of many actors and are interlinked. Furthermore, standards are “subject to continuous adaptation and re-formulation” (Botzem & Dobusch, 2012, p. 756). Consequently, whether or not a specific standard achieves its aims depends on numerous contextual factors.

To account for such complexities, Wiegmann et al. (2017) suggest focusing on the interplay of standardization modes, *market-based, committee-based, and government-based*, which incorporate the main actors responsible for the emergence and diffusion of standards. The authors emphasize the increasing prevalence of multi-mode standardization but limited recognition of the interplay of the modes in prior literature where the dominant assumption is “that every standardisation process relies on only one of these three modes” (Wiegmann et al., 2017, p. 1370). With the diverse nature of standards (local, national, transnational) and many potential interactions and interdependences, standardization is case-specific and depends on
the participants, their goals and their strategies to attain these goals. Table 1 highlights the modes of standardization (Wiegmann et al., 2017), which we summarize next.

**INSERT TABLE 1 ABOUT HERE**

The multi-mode perspective recognizes the importance in the standardization process of interactions between the market, committees, and the government. The market-based mode is associated with different standards being developed privately by market participants. These standards compete with each other until coordination leading to a common solution occurs. In the case of financial reporting, market players, including the preparers of financial statements, are not directly responsible for the development of the standards. Those tend to be developed in the committees or by the government. However, market players can choose to support the co-existence of several standards or promote a specific one by lobbying other actors.

In the committee-based approach, standards are developed by groups that create a common solution. Transnational standards span jurisdictions and rely on the expertise of the global professional community (Higgins & Tamm Hallström, 2007; Kerwer, 2005). Prior to the spread of IFRS, accounting standards were developed by national committees for local use. Now in many jurisdictions, the development of standards has become disembedded and detached from the national context (Botzem, 2012). The IASB, a transnational committee, developed the IFRS that have become a crucial part of reporting. In order to incorporate the needs of different jurisdictions, the IASB considers geographic diversity in appointing board members, cooperates with consultative groups that focus on specific issues, and receives input from different constituencies on proposals.

Governments can use their *hierarchical position* to intervene in standardization and, given their regulatory remit, impose the mandatory use of standards developed elsewhere or develop their own and mandate their use (Wiegmann et al., 2017). EU/EEA countries are an example of jurisdictions with a plurality of legislation, both national and transnational. Such a
structure is referred to as multi-level governance where authoritative decision making is dispersed across multiple territorial levels. In the context of the European integration, it has challenged the state’s role (Hooghe & Marks, 2001). In addition to national government actors who propose and pass laws, the European Commission (EC), a transnational actor, also disseminates directives and regulations that can specify which standards to adopt and when. The co-existence of standards developed nationally and by transnational actors has implications for the comparability of financial information.

**Comparability**

Accounting researchers highlight the importance of comparability for a range of stakeholders. It is widely agreed that the objective of financial reporting is to provide information that is useful in decision making and comparability enhances the usefulness of financial reporting. Standard setters consider capital providers to be the primary users of financial reporting. Indeed, the accounting literature emphasizes the benefits of comparability for these stakeholders. Lack of comparability is considered an impediment to the efficiency of the capital markets. Comparative information reduces information acquisition costs and levels the playing field by minimizing information asymmetries and estimation risks (Daske, Hail, Leuz, & Verdi, 2008; Habib, Hasan, & Al-Hadi, 2017). It allows users to observe longitudinal trends for a single entity and also compare the performance and financial position of different entities. Other stakeholders also benefit from comparability. For example, it is easier for tax authorities to identify the discretion used to minimize tax payments and for auditors and management to identify mistakes (Gross & Perotti, 2017).

Despite the perceived importance of comparability, the concept is not well defined (Zeff, 2007). Accounting textbooks, regulatory pronouncements and academic research tend to refer to comparability in broad generalities (De Franco, Kothari, & Verdi, 2011, p. 896; Emmanuel & Garrod, 2002). Researchers who do describe the meaning of comparability
commonly refer to similarities and differences in Trueblood’s (1966) terms where “like things look alike, and unlike things look different” (p. 189). However, it is not clear what the things are and when they are alike and unlike (Zeff, 2007).

The IASB’s conceptual framework (IFRS Foundation, 2018) defines comparability as “the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items.” Again, comparability is broadly defined as referring to similarities and differences without any further specificities. The framework also distinguishes comparability from consistency and uniformity. Consistency refers to the use of the same methods for the same items and is a means of achieving the goal of comparability. Uniformity may enhance comparability when it makes like things look alike, but it does not enhance comparability when it makes different things look alike. Although the IASB explicitly distinguishes consistency and uniformity from comparability in its conceptual framework, occasionally its IFRS standards allow for inconsistencies and require uniformity that conflicts with the goal of comparability. There is no agreement on how to best achieve comparability. As Zeff (2007) noted,

There are those who believe … that comparability is promoted, or assured, by all companies being required to use the same accounting methods, that is to say, ‘standardisation’ or ‘uniformity’ of method. On the other hand, there are those who argue that there must be some options available to take into consideration differences in ‘circumstances’ among companies or among countries (pp. 293-294).

With the globalization of financial markets, international comparability is becoming increasingly important (Gross & Perotti, 2017). Part of the IASB’s mission is to develop the IFRS to be standards that can “bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions” (IASB, 2018b). Comparability has been a central concept in developing and legitimizing accounting standards and used as an argument to justify the decision to adopt IFRS in the EU/EEA, Australia, and Canada (Durocher &
Studies examining the impact of IFRS on comparability among listed firms provide mixed evidence. While some have found that IFRS adoption contributed to greater cross-country comparability (Barth et al., 2012; Yip & Young, 2012), others highlight the decline in comparability in the years subsequent to the adoption (Liao et al., 2011) and the persistence of country-specific patterns years after the mandatory adoption of IFRS (Kvaal & Nobes, 2012; Nobes, 2013).

The adoption of IFRS by listed companies also had implications for the reporting of listed and private firms. Cascino and Gassen (2015) highlight the decline in comparability between listed and private firms within the same jurisdiction as one of the potential costs of IFRS adoption. Given that private and public companies provide financial information for different sets of users, it is not certain if, and to what degree, the financial statements of these sets of companies should be comparable. In order to provide a standard more suitable for private companies, the IASB developed the IFRS for SMEs.

The IFRS for SMEs

The IFRS for SMEs were introduced to promote standardization in the financial reporting of private firms. IASB board members had differing views on whether to maintain the focus on listed companies and continue with a single standard or to expand its scope and develop a standard for private firms. Ram and Newberry (2017) examined how the IFRS for SMEs project became part of the board’s agenda in 2003. One of the motivating factors was to discourage efforts by some European countries to develop their own simplified IFRS. The comparability of private companies with listed businesses was another justifying factor. Furthermore, “representatives from such influential bodies as the UN, the World Bank and the IMF, and the EU urged the IASB to include the SME project on its standard-setting agenda” (Ram & Newberry, p. 498).
In 2009 the IASB issued the IFRS for SMEs, which were developed to accommodate the needs of private companies. At that time the standard was based on the same conceptual framework as the full IFRS but reduced the disclosure requirements substantially (around 90%), omitted certain topics not relevant for private companies (for example, segment reporting, interim financial reporting, and earnings per share), and excluded more complex options (such as the impairment of goodwill) (ICAEW, 2018). In contrast to the 4800 pages of the full IFRS (according to 2018 Red Book), the IFRS for SMEs is approximately 230 pages. It focuses “on the information needs of lenders, creditors and other users of SME financial statements who are interested primarily in information about cash flows, liquidity and solvency. And it takes into account the costs to SMEs and the capabilities of SMEs to prepare financial information” (IFRS Foundation, 2020).

Since its creation, the IFRS for SMEs has been adopted in some jurisdictions but has not experienced widespread diffusion. The standard is permitted or required in a number of countries in Latin America and Africa. No countries in the EU/EEA permit or require the standard as published by the IASB. One of the explanations for the lack of adoption is that accounting regimes in the EU/EEA are intertwined with national regulations related to dividends, insolvency, and taxation (Kaya & Koch, 2015). As Nobes (2010) emphasized, the adoption of the IFRS for SMEs as a primary standard for private companies would be very costly because the change in the accounting rules would require the modification of other laws. Several countries including Estonia, Sweden, Ireland and the UK used the IFRS for SMEs as the basis for national standards for private companies but added modifications to accommodate local laws (Gassen, 2017). Consistency and the comparability of financial reporting within the same jurisdiction were important factors for using the IFRS for SMEs as the basis for national reporting (Gassen, 2017). During 2014-2015, two different committees in Norway proposed using the IFRS for SMEs as the basis for a national standard. We study
these developments and examine the role of comparability, which is considered an important factor in the adoption of transnational accounting standards (Durocher & Gendron, 2011).

**Methods and data**

We utilize a historical case study approach (Eisenhardt & Graebner, 2007; Yin, 2008) to examine standardization, including the interplay of transnational and local standards, the role of comparability in the process, and the ensuing dynamics between actors. An extensive collection of empirical materials was undertaken during 2018-2019. Documentary materials (government reports, legislative documents, the NASB pronouncements, journal articles, press releases, comment letters) were collected to understand the historical developments and changing context surrounding the accounting standards for private firms in Norway. We documented important milestones related to accounting legislation starting from 1995. At that point, the government-appointed committee issued its report and proposed a new Accounting Act to improve accounting quality and implement the Accounting Directives of the European Community (the predecessor of the EU). It became the basis of the existing Accounting Act issued in 1998. More recently, the EU Directive 2013/34, which aimed to reduce administrative burdens, particularly for SMEs, introduced changes related to financial reporting obligations. We focus on the period subsequent to the directive (2013-2018) and the events connected to the standardization efforts.

In the first phase of the analysis, we adopted a ‘temporal bracketing strategy’ (Langley, 1999, p. 703) to trace the dynamics of the standardization efforts and examine the activities of the participants in the process. As Table 2 indicates, we mapped the important milestones and related documents chronologically during 2013-2018. The first important event was the NASB’s exposure draft in April of 2014 that proposed revamping the NGAAP to replace the existing standards and use the IFRS for SMEs as a basis for a new standard. In order to align with the requirements of the current Accounting Act, the standard would have
to make numerous departures from the IFRS for SMEs. In September 2014, to comply with the EU Directive 2013/34, the Norwegian Ministry of Finance appointed the Accounting Act Committee (AAC) to revise the Accounting Act. Thus, around the same timeframe, the NASB and the AAC independently proposed the IFRS for SMEs as the basis for the national standards. They received comment letters but, following a back and forth between the government, the committees, and market participants, both proposals were put on hold. We conducted a 60-minute interview with three representatives from the Ministry of Finance with responsibility for the accounting regulations and a 90-minute interview with a contributor to the AAC. The interviews helped us situate the collected documents in the context of the ongoing standardization process.

(INsert table 2 about here)

We organized the participants and documents in the categories specified in the multi-mode standardization model (Wiegmann et al., 2017). In addition to the committee, market players and the government, we added categories to acknowledge the multi-level dimensionality of the modes. We identified the following committees: the NASB (national - responsible for the NGAAP), the IASB (transnational - responsible for the full IFRS and the IFRS for SMEs), and the AAC (national government-appointed - tasked with revising the Accounting Act). For the market perspective, three sets of comment letters were analyzed: 74 letters regarding the NASB proposal on the use of the IFRS for SMEs as a basis for the NGAAP, and a total of 85 letters in response to two of the AAC’s proposals regarding modifications to the Accounting Act and the use of the IFRS for SMEs. We organized the letters based on the type of contributor (individuals/users, preparers, audit firms, professional associations, unions, academic institutions, non-profits, and government agencies).

In the second phase we analyzed the documents identified in Table 2 along two main dimensions 1) the standardization process and the role of various participants, and 2)
comparability and the participants’ views of it. With regard to standardization, we recorded the views of the participants on the standard setting process and how it should be organized. To analyze comparability, we read the documents and looked for different forms of the words ‘comparability’, ‘consistency’, ‘uniformity’ and ‘harmonization’. Based on prior studies of comparability, we identified areas for detailed coding: the type of comparability and why it is needed, the means for achieving comparability and the barriers to doing so. The main emphasis is on the types of comparability: international, where the focus is on the comparability of financial reporting across different jurisdictions; national, meaning comparability between entities of one jurisdiction and comparability within the organization (Cascino & Gassen, 2015; Gross & Perotti, 2017; Zeff, 2007). Within entity comparability refers to the ability to compare the same entity over time. During the analysis we refined this category after noting comparability challenges between the parent company and its subsidiaries if different standards are applied. We refer to comparability across different periods for the entity as horizontal and between organizational parts of the entity as vertical. All of the study’s authors were involved in the analysis of the empirical materials and in discussing the coding and findings. The authors also translated the quotes from the Norwegian-language documents included in the paper.

**Multi-mode standardization and comparability: Empirical analysis**

*Overview of the existing reporting structure*

Regulatory requirements for the financial reporting of private firms vary significantly across countries. In contrast to private firms in the US and Canada, in the EU/EEA many are required to prepare audited financial statements (Minnis & Shroff, 2017). Norway joined the EEA in 1994 and implemented the EU’s Accounting Directives as part of the Accounting Act
enacted into law by the government\(^5\) in 1998. All companies need to prepare financial statements as specified in the Act. It is designed for three tiers of companies: *small* (defined by size), *large* (listed and other public limited liability companies), and *medium*.\(^6\) The medium tier represents a significant segment of the economy and is the main target of the Act. There are simpler requirements for *small* companies and extra requirements for *large* companies. Consequently, the Act impacts a diverse set of companies such as for-profit enterprises, including cooperatives, not-for-profits of certain size and enterprises with state ownership. The Act permits most companies to choose among three reporting regimes: the NGAAP, full IFRS, and *simplified* IFRS. They can also choose different regimes for consolidated and parent statements, except for listed companies, which must use IFRS for consolidation.

*Norwegian GAAP*

The Accounting Act of 1998 established ten basic principles that guide accounting practice (Chapter 4) and stipulate recognition and measurement (Chapter 5) and presentation and disclosure requirements (Chapter 6 and 7). It does not specify that more specific accounting standards need to be established (Kvaal, 2017). That task was taken on, without a legal remit or public funding, by the private body, the NASB. It was established in 1989 and has developed NGAAP within the ten principles and requirements specified by the Accounting Act. “The Government and the Parliament have never recognized any right for the NASB as a private body to issue binding standards, but they have on the other hand acknowledged the utility of the effort done to improve accounting practice” (Kvaal, 2017, p. 5).

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\(^5\) In Norway, the executive branch proposes bills that the legislative branch (Parliament) approves and enacts into law. We refer to the whole apparatus as ‘the government’.

\(^6\) Small companies must meet two out of three of the following criteria: revenue less than 70 million NOK, assets less than 35 million NOK, and fewer than 50 employees. The Act defines the small and large tiers, and we refer to others as medium sized.
NGAAP can be used by private companies and by listed companies for parent statements.

The members of the standard-setting committee are elected by the supervisory board and tend to come from audit firms, academia and business. All work is done on a voluntary basis. There are also observers from the Ministry of Finance and the Financial Supervisory Authority of Norway (Finanstilsynet – the independent government agency responsible for enforcement) (NASB, 2018). NGAAP is an amalgamation of IFRS and localized approaches. Standards are mostly rooted in the income statement view of financial reporting, including matching, and focus on results driven by revenues and expenses (Alexander & Schwencke, 2003). Fair value valuation for fixed and intangible assets is not permitted.

*IFRS*

Norway is not a member of the EU. However, it has a formal association with it through the EEA agreement and is obligated to implement EU legislation (Kvaal, 2017, p. 150). Norway adopted the Fourth and Seventh Directives and the EU’s *Regulation (EC) No. 1606/2002* on the application of international accounting standards. The latter was confirmed by the Parliament in 2004, and the Accounting Act of 1998 was amended to incorporate the IFRS into the legal framework. In contrast to the revenue/expense emphasis of the NGAAP, IFRS have a balance sheet and valuation focus. Its inclusion into law gave the IFRS a formal legal status not afforded to the NGAAP. While listed companies are required to utilize IFRS in their consolidated statements, all Norwegian companies are permitted to use IFRS.

*Simplified IFRS*

In 2005, another amendment to the Accounting Act by the Parliament gave the government the go-ahead to issue regulations for the simplified IFRS. Given that it is part of the legal framework, the simplified IFRS have the same legal status as the full IFRS. The simplified IFRS regulation refers to the full IFRS for recognition and measurement and to the
Accounting Act for presentation and disclosures. It also lists specific paragraphs in the IFRS standards that entities are exempted from when using the simplified IFRS. For example, in contrast to the full IFRS, which requires recognition in the period of declaration, under the simplified IFRS (as in the NGAAP) proposed dividends can be recognized in the financial statements for the reporting period even when declared after the year end. Finally, it lists additional note requirements that are considered necessary because recognition and measurement are based on different IFRS-based principles than what is specified in the Accounting Act.

The regulation contains several references to specific paragraphs in the full IFRS. When the IASB amends these paragraphs or issues new standards, the simplified IFRS become outdated. The updates to the simplified IFRS follow the government’s process for changing regulation and have been done only in 2008, 2014 and 2018. Consequently, entities tend to apply the simplified IFRS, which is based on “old” IFRS standards and depart from the full updated IFRS. The NASB does not have a formal role in the maintenance of the simplified IFRS.

In summary, standards for private companies remain under national control but are increasingly shaped by the transnationalization of accounting standards. Companies can report according to the NGAAP, the national committee-developed standards; the IFRS, a transnational committee standard adopted at the national level; or the simplified IFRS, a nationally modified transnational committee standard. The income statement focus of the NGAAP contrasts with the balance sheet orientation of the full and simplified IFRS. The Norwegian government has some level of involvement with each of the standards. More specifically, while the NGAAP is produced by the NASB, the standards are based on the principles and approaches established by the Accounting Act of 1998. The government
approves the EU-endorsed IFRS for adoption in Norway and is responsible for the updates to the simplified IFRS.

The availability of multiple standards provides flexibility, as companies can choose a set of requirements that meets their needs. At the same time, having three sets of standards that vary in their conceptual focus (balance sheet vs. income statement), valuation approaches, and timing of updates creates complexity and undermines comparability across entities. These conditions have contributed to the government’s initiative “to overhaul the entire accounting legislation with the view of simplification and modernization” (Kvaal, 2017, p. 151). Next, we examine how different actors have influenced the process and their perspective on comparability.

**Government**

*The EU*

The standardization model (Wiegmann et al., 2017) describes the hierarchical role of the national government. Nevertheless, given the EU’s multi-level governance arrangement, it is also impacted by the decisions made at the EU level. The 2013/34 EU Directive that triggered the revision of accounting regulations across the EU/EEA highlights the importance of SMEs for the Union’s economy. The directive is part of the Europe 2020 strategy “to reduce administrative burdens and improve the business environment, in particular for SMEs, and to promote the internationalisation of SMEs” (17- EU Directive, 2013, p. 182/19).

The directive does not define comparability specifically but describes it as a desirable outcome. One of the objectives is “facilitating cross-border investment and improving Union-wide comparability” that “cannot be sufficiently achieved by the Member States and can therefore, … be better achieved at Union level” (1 - EU Directive, 2013, p. 182/26). The

7 Numbers refer to documents in the list of empirical materials in Table 2 with sources provided in Appendix 1.
legislation aims to harmonize the disclosure requirements and limit deviations where
“Member States shall not require disclosure for small undertakings beyond what is required or permitted” in the directive (1 - EU Directive, 2013, p. 182/35). It lists principles that should be applied, such as going concern, prudence, and the accrual basis, “to ensure the disclosure of comparable and equivalent information” (1 - EU Directive, 2013, p. 182/21). It also uses the “need for comparability of financial information throughout the Union” as a justification to “require Member States to allow a system of fair value accounting for certain financial instruments” (1- EU Directive, 2013, p. 182/21) and permit or require it for other assets. To improve comparability, a limited number of layouts for the balance sheet are specified as well as a common framework for the recognition, measurement and presentation of different elements of financial statements. Comparability of items over time for the same entity is also highlighted with the requirement to include them where “any case of noncomparability or any adjustment of the figures shall be disclosed, with explanations, in the notes to the financial statements.”

In summary, the main goal of the directive is simplification and greater internationalization, while addressing cross-border comparability within the EU/EEA. The directive discusses the consistency in presentation and in the accounting policy as a means of achieving comparability across member states. It notes some approaches such as fair value that should be required or permitted, but does not require a specific set of standards to be followed. Different options available within the directive make it easier to implement it at the national level but are likely to contribute to varied treatments of similar items.

National

In Norway, the government’s remit over accounting and company law affords it a gatekeeper position in the standardization process because standards are guided by the legal framework. For decades, comparability has been an important issue in the government’s
regulation of accounting in Norway. In the 1990s it considered the standardization of the presentation of accounting information as means to achieve comparability (7 – Ministry of Finance, 2015, p. 39). The Accounting Act requires most companies to use a predefined format for the income statement and the balance sheet, and to provide comparative amounts for the current and prior year.

When the Accounting Act Committee proposed a new Accounting Act in 1995, the proposal referred to the IFRS\(^8\) but did not call for harmonization with IFRS. However, when the Act was enacted in 1998, the government took a clear harmonization stand (7- NOU 2015:10, p. 344) and proposed more alignment with specific IFRS than proposed by the AAC (7 - Ministry of Finance, 2015, p 135). With regard to consistency and uniformity, following the perspective of the IASC\(^9\), the Act states that, “the annual financial statements shall be prepared on the basis of uniform principles that are applied consistently over time” (Regjeringen, 1998, para. 4-4). While the Norwegian discussion focused on uniformity as applying the same accounting policy for similar transactions, the IASC also warned against uniformity when it hinders relevant information (IASC, 1989, para. 41). The latter view is not reflected in the Act.

In summary, comparability has been an important issue for the government and is operationalized through predefined formats for financial statements and prior year comparatives. Uniformity and consistency are principles included in the Accounting Act that are expected to contribute to the comparability of financial reporting. However, emphasis on the uniformity of method may not account for differences among companies and make unlike things look the same instead of different.

\(^8\) At that time called International Accounting Standards (IAS). We use IFRS throughout for consistency. 
\(^9\) Predecessor of the IASB.
**Committees**

*The IASB*

The IASB, a transnational committee, is responsible for the full IFRS and the IFRS for SMEs. In both formats, comparability is considered an important qualitative characteristic of financial information (IFRS Foundation, 2015; IFRS Foundation, 2018). The conceptual framework for the full IFRS was revised in 2018. It views comparability as an enhancing characteristic contributing to the usefulness of information that is relevant and faithfully represented (two fundamental characteristics). The IFRS for SMEs is based on the older IFRS conceptual framework, issued in 1989, and considers comparability equal to other qualities. It does not distinguish between fundamental and enhancing characteristics. Users compare trends over time and the financial statements of different entities “to evaluate their relative financial position, performance and cash flows” where “the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way across entities” (IFRS Foundation, 2015, p. 13). Comparability in the IFRS for SMEs is operationalized through the requirement to disclose the accounting policies applied and comparative information for the previous year. In contrast to the EU and Norwegian requirements, the IFRS for SMEs also require comparative information in disclosures, not only in the statements (7 - Ministry of Finance, 2015, p. 162).

Non-listed companies may seek comparability with listed companies. An example is a company that is considering becoming listed but does not want to use the full IFRS. Proponents of the IFRS for SMEs argue that it will meet these needs of private companies because it is based on concepts similar to those of the full IFRS. However, the IASB changes
the full IFRS more frequently than the IFRS for SMEs.\textsuperscript{10} These changes may, temporarily or permanently, create differences between the standards and reduce the desired comparability.

\textit{The NASB}

The NASB’s role diminished abruptly when IFRS became required for listed entities in 2005. Without a formal legal remit, it continued work on the NGAAP as a standard for private entities based on the principles and guidance of the Accounting Act and aiming to harmonize the NGAAP with IFRS (NASB, 2008). In 2010, the NASB sent a letter and asked the Ministry of Finance to evaluate the feasibility of applying the IFRS for SMEs in Norway. The NASB also performed its own review and concluded that the IFRS for SMEs was suitable for replacing the current Accounting Act and existing standards. The justification for their conclusion was the need for simplification and international harmonization with the range of standards utilized (NASB, 2010). Although the Ministry did not examine the issue and did not signal its willingness to revise the Accounting Act, in 2012 the NASB announced it would develop an accounting standard based on the IFRS for SMEs but within the requirements of the Accounting Act to replace the existing NGAAP (NASB, 2012).

In 2014, the NASB proposed a new standard for private entities based on the IFRS for SMEs and highlighted the importance of international comparability. The proposal contained a similar discussion of comparability as in the IFRS for SMEs. To achieve comparability, the proposed standard emphasized the importance of \textit{consistency} in accounting policies over time and across entities. The NASB included some options beyond those included in the IFRS for SMEs (e.g., for hedging: 2 - NASB, 2014, p. 65) but required the consistent use of a chosen option (2 – NASB, 2014 p. 44).

\textsuperscript{10} Since the debut of the IFRS for SMEs in 2009, a single revision was finalized in 2015 and became effective for 2017 reporting. More recently, a comprehensive review of the standard began in 2019 and is ongoing.
The NASB’s proposal to revise the NGAAP and base it on the IFRS for SMEs had to be within the existing Accounting Act and departed from the IFRS for SMEs in a number of ways. In contrast to the balance-sheet view of the latter, the Accounting Act is rooted in income statement-based concepts such as matching. Whereas this is one of the basic principles in the Accounting Act, the IFRS for SMEs explicitly disallows entities to recognize assets or liabilities “that do not meet the definition of assets or liabilities regardless of whether they result from applying the notion commonly referred to as ‘matching concept’ for measuring profit or loss” (paragraph 2.45). The proposed standard included the balance-sheet based definitions from the IFRS for SMEs with the modification that assets could be recognized without meeting the definition of assets when they are a result of applying the matching principle (2 – NASB, 2014 p. 4). Another example of a departure is accounting for transactions and balances in foreign currency. While the IFRS for SMEs requires measurement in functional currency, the Accounting Act also permits measurement in Norwegian krone (NOK) regardless of whether NOK is the functional currency. It is important to note that Norwegian companies commonly use NOK as a measurement currency and tax reporting is required to be in NOK. Further, in contrast to the IFRS for SMEs, revaluation options are not available in the Accounting Act, except for a limited group of liquid financial instruments.

Overall, due to differences in the treatment of the same transactions in the NASB’s proposed standard, the IFRS for SMEs, and the full IFRS, international comparability would not be attainable. Similar comparability challenges occur at the national level, as companies can choose the NGAAP, full IFRS, or simplified IFRS that allow, and in some cases require, different treatments for similar items.
The AAC

Starting in 2015, the government-appointed AAC was to undertake the revision of the legal framework guiding financial reporting. Their mandate was to investigate the modernization and simplification of legislation for private firms. In addition to identifying changes needed in the national law to implement the EU Directive, the AAC was tasked with evaluating whether the Accounting Act should be revised to include more from the international accounting standards. The AAC was also to consider if reporting requirements should be differentiated for different preparers, the need to continue with the simplified IFRS, the relationship between the NGAAP’s conceptual framework and international standards, the role of the NASB and alternative approaches to standard setting. As the Ministry of Finance noted, although the EU Directive was the trigger for the mandate, other areas that needed attention were also included.

With regard to comparability, the AAC was to examine how to balance the capital market’s demands for comparable information with cost-effective options for SMEs and, if relevant, investigate how these issues are addressed in countries similar to Norway. The mandate called for paying special attention to “the capital markets’ need for comparable\(^\text{11}\), relevant and reliable accounting information and SMEs’ need for diminished administrative burden” (7 – Ministry of Finance, 2015, pp. 10-11). In their proposal, acknowledging the increasing globalization of Norwegian businesses, the AAC argued that international accounting standards are important for Norwegian SMEs because “internationally comparable\(^\text{12}\) accounts are of great importance for all companies that are exposed to international competition or interact with foreign companies, also for companies that do not issue equity or debt instruments in international capital markets” (7 - Ministry of Finance,

\(^{11}\) Emphasis added by the authors
\(^{12}\) Emphasis added by the authors
2015, p. 19). In establishing comparability as an important qualitative characteristic, the AAC presented it as “obvious and uncontroversial” (7 - Ministry of Finance, 2015, p. 62) and referred to a long-standing consensus, both in international and national standard setting.

The AAC argued that accounting is universal. It maintained that there is no good reason why Norwegian accounting should be systematically different from other countries and supported the harmonization of accounting standards across jurisdictions (7 - Ministry of Finance, 2015, p. 52). The government mandate did not mention the need to adopt international standards but the AAC proposed changes that would facilitate a move to the IFRS for SMEs. As the existing Accounting Act is rooted in an income statement approach and the IFRS takes a balance sheet view, conceptual differences undermine the harmonization of the NGAAP and the IFRS for SMEs. The AAC acknowledged that the existing principles have served their intended function very well but proposed removing them from the Accounting Act to facilitate full harmonization with the IFRS for SMEs. The proposed change was not expected to have a significant impact on practice, as over the last decade the NASB attempted to converge the NGAAP with the IFRS when possible. It also proposed making the simplified IFRS available only for subsidiaries of companies using the full IFRS for consolidation, which would reduce the number of standards that other companies could choose. The AAC argued that the simplified IFRS was not sufficiently developed for widespread use.

In the discussion about how to achieve comparability, the AAC briefly discussed the advantages of a common framework, terminology and layout (7 - Ministry of Finance, 2015, p. 286). Yet, similar to the IASB and the EU Directive, it put the strongest emphasis on the benefits of consistent accounting policies and comparative information. The AAC explicitly argued for internationalization and referred to international comparability more frequently than to national cross-entity and within-entity over time comparability (horizontal). It noted
that cross-border comparability is most important for listed companies but stressed that it also helps private enterprises assess the financial position of foreign customers, suppliers and potential partners (7 - Ministry of Finance, 2015, p. 52).

The AAC also referred to comparability in its consideration of changes to the fiscal year and currency reporting. Currently, with some exceptions, the fiscal year is required to be the calendar year. Comparability has been the main argument for requiring the same fiscal year, especially the comparability needs of tax and statistics agencies. The AAC recommended allowing companies to choose a fiscal year that best fit their business cycle. It did not expect international comparability to be negatively impacted, as non-uniform fiscal years are common in many countries (10 - Ministry of Finance, 2016, p. 96). In contrast to the IFRS for SMEs’ requirement for measurement in functional currency, the AAC proposed to continue the existing practice and permit the use of either NOK or functional currency. Comparability was used to justify each of these options: functional currency would facilitate international harmonization and NOK would facilitate national comparability, especially the needs of tax and statistics agencies (10 - Ministry of Finance, 2016, pp. 112-113). Although allowing both approaches reduces comparability, the AAC referred to the government’s directive to ease the burden for SMEs and argued that it would be less burdensome to continue with NOK.

The existing NGAAP provides small companies with many exemptions and reporting options in order to simplify the requirements and reduce the cost burden. These companies can choose among alternative accounting policies on an à la carte basis and are exempt from many of the comparative information requirements (7 - Ministry of Finance, 2015, p. 119). This approach contrasts with that of the IASB’s approach to simplification where in the IFRS for SMEs the available options are minimized. Although the AAC strongly argues for the importance of comparability, its proposal would give a standard setter the opportunity to
exempt small companies from certain requirements. Notably, the AAC acknowledges that options reduce comparability (7 - Ministry of Finance, 2015, p. 119) but has a minimal discussion about the consequences of this exception for comparability between SMEs of different sizes. Furthermore, when companies move below or above the threshold that qualifies them to utilize the exception, it reduces comparability due to the changing requirements that apply (7 - Ministry of Finance, 2015, p. 295).

The AAC also supported continuing another form of differential reporting: allowing any company to use the full IFRS. It acknowledged that this option reduces comparability but considers the full IFRS to be a better standard than the IFRS for SMEs (7 - Ministry of Finance, 2015, p. 304). In addition, the comparability with listed enterprises is more important for some companies, including those planning a public listing (7 - Ministry of Finance, 2015, p. 304). In summary, in its proposal to modify the Accounting Act, the AAC emphasized the IFRS for SMEs as a way to streamline financial reporting and improve comparability, particularly internationally. At the same time, exceptions for certain companies and the continued use of multiple standards with different requirements would undermine such aims.

**Market**

We examined the comment letters to the NASB’s and the AAC’s proposals discussed above to gain insights into the perspective of the market participants on the comparability and standardization initiatives. As discussed, the population of companies that need to comply with the Accounting Act and accounting requirements is very diverse. Balancing the demands on and needs of different segments complicates the standardization project and simplification efforts.

The NASB’s proposal received 74 letters and was based on using the IFRS for SMEs with modifications to align with the existing Accounting Act. The two parts of the proposal based on the work of the AAC and issued by the government received 85 letters. The
overview of the contributors is presented in Table 3. In general, comparability (especially international) was secondary to the desire for simplification and a better understanding of the costs and benefits of the proposal. Some argued that simplification would be achieved by creating the accounting standards for all types of companies based on the IFRS-based framework. Others wanted a more customized approach that accommodated size, industry, and structural differences.

(INsert TABLE 3 ABOUT HERE)

The not-for-profits, including foundations, hospitals and charities, provided feedback on the NASB’s proposal and contributed 65% (48) of the comments. The comment from most of these entities was identical and focused specifically on the change related to the pension standard where the liability amount would be higher under the IFRS for SME-based standard than is currently required by the NGAAP. Preparers highlighted that their business model differs and asked to maintain the current method for calculating pension obligations. These entities were concerned only with consistency in the treatment of their segment and comparability between Norwegian not-for-profits.

In their input to the AAC, the preparers and professional associations representing a wide range of sectors, including finance, energy, oil and gas, lessors, cooperatives, auditing, and accounting, focused on changes impacting their sector. Some supported the proposed changes. For example, auditors’ professional association argued for a common IFRS-based framework for companies of all sizes, with some simplifications for small ones (8 - Revisorforeningen). However, many questioned the need to move to the IFRS for SMEs, as the EU Directive did not require it and the NGAAP was regarded as sufficient. Recognizing that few EU countries that used IFRS for SMEs as the basis for national standards did so with local modifications, adopting the IFRS for SMEs with Norwegian modifications was not expected to improve international comparability and was not seen as achieving the goal of
simplification. Professional associations representing different cooperatives (8 - Norsk Landbrukssamvirke, Norske Boligbyggelags Landsforbund) argued that the proposed treatment of contributions from shareholders as liabilities did not reflect their business model and wanted the current practice of treating it as equity to continue.

There was also resistance to the proposed changes and preference for the existing approaches related to hedging, valuation, and dividends (8 - Agder Energi, Energi Norge). The effect of the difference in the treatment of hedging was evident when Agder Energi issued financial statements for 2018. In the consolidated IFRS statements the group showed a loss of 198 million in NOK, but a net income of 874 million NOK under the NGAAP principles. The main reason for the difference was the unrealized loss on financial hedging instruments that is recognized under the IFRS through profit and loss but not under the NGAAP. The dividend is calculated based on the parent’s NGAAP as specified in the Accounting Act and ensures “that shareholders receive a predictable dividend income” (Agder Energi, 2018, p. 25). The company is owned by the municipalities (55.5%) and by a state-owned company (45.5%). Thus, accounting treatment has implications for the payouts received by the government entities and their budget. Overall, international comparability was not a central issue for these contributors. Many wanted the standards to accommodate the needs of their sector and voiced the need for a greater focus on comparability between companies at the national level and within their industry.

Although the proposed changes focused on SMEs, only the largest audit firms provided feedback. The Big 4 (Deloitte, E&Y, KPMG, PwC) and BDO responded to all of the proposals. Most supported international harmonization but questioned the need for some of the changes.

13 IFRS statements are prepared because Agder Energi has publicly traded debt.
Many of the smaller and medium-sized enterprises are nationally oriented in their operations and financing, and do not, in the same way as larger enterprises, need financial reporting that facilitates communication abroad (8 – PwC).

KPMG highlighted the issue we refer to as *within entity vertical comparability* where the use of different standards by the parent and in consolidation undermines comparability between parts of the organization. Fewer than 30% of the listed companies use the simplified or full IFRS in parent reporting and utilize the NGAAP instead (4 - KPMG). The disadvantages of multiple accounting languages in terms of increased complexity and reduced comparability were acknowledged. However, at the same time, there was no support for the proposal to limit the use of the simplified IFRS. The goals of simplification and related differentiation versus comparability and consistency of accounting policies were seen as conflicting.

We agree that the law should allow for differentiation, both for simplification purposes and for the need for adaptation to certain types of business, but the possible scope of different accounting requirements challenges comparability requirements and contributes to complex accounting regulation, both for preparers and users (8 – PwC).

E&Y was the only firm strongly opposing the proposal, stating that, “we are not aware that key groups of accounting users have expressed the need to replace the current accounting rules with an IFRS-based accounting language” (8 – E&Y). It was also noted that international comparability would not improve due to the limited diffusion of the IFRS for SMEs.

Other contributors provided input regarding the internationalization of the standards. Two leading business schools (NHH and BI) that submitted comments conveyed different perspectives. While BI supported the internationalization of the standards, NHH questioned whether the extensive changes were needed and whether “the proposal meets the requirement of the mandate to modernize and simplify the regulations” (8 – NHH). Unions representing employees or employers focused on issues relevant for their constituencies. For example, NHO, the largest union representing enterprises, voiced support for the internationalization of Norwegian accounting regulations but did not think that sufficient input from enterprises of
different sizes and from other stakeholders was obtained to evaluate the practical and financial implications of the changes. LO represents employees from different sectors. This group argued that the income-statement focus of the Norwegian accounting regulations should be maintained and questioned the appropriateness of IFRS for the public sector entities owned by the national and municipal governments.

**Denouement**

In June 2017, the Ministry of Finance proposed changes to the Accounting Act that followed some of the AAC’s suggestions. However, these were few and focused mainly on reducing the burden for smaller companies. The Ministry did not act on the AAC’s major proposals, such as facilitating the use of the IFRS for SMEs. In the same month, the NASB sent a letter asking the Ministry of Finance to prioritize the proposed revision of the Accounting Act (14 – NASB, 2017). The Ministry of Finance responded, stating that the delay was due to the need for more information about the impact that the adoption of the IFRS for SMEs would have on companies, as the AAC’s report did not provide an estimate of how much it would cost to implement the changes. Furthermore, the limited international diffusion of the IFRS for SMEs was seen as an important argument against changing the Act (16 – Ministry of Finance, 2017). With that, the effort toward the standardization and internationalization of accounting standards came to a halt. In 2018, the NASB announced that it would stop the work on its proposed standard based on the IFRS for SMEs and would no longer maintain and revise the existing NGAAP. The delay and the absence of any plans for further steps by the government caused uncertainty about the future direction of the NGAAP and the NASB.

**Discussion: Standardization and comparability**

Our study focused on standardization and the following questions: What role does comparability play in the standardization process of financial reporting for private (non-listed)
enterprises? What dimensions of comparability are important for the participants of the standardization process?

The search for greater comparability has contributed to the effort to standardize financial reporting in Norway. The attempt was not successful and provides insights into how different standardization modes interact to promote or impede the process. The standardization model (Wiegmann et al., 2017) highlights three modes of standardization. We complement it by emphasizing the complexities of governmental mode and transnational-national dynamics. Multi-level governance with increased vertical interdependence between actors at different territorial levels (Bache & Flinders, 2004) gives the EC, a transnational player with a legal remit to pass regulations, the right to set boundaries that national governments adopt and, when possible, adapt to national particulars.

The mandate given by the government to the AAC committee focused on a broad range of issues, including simplification, internationalization and differentiation for companies of varied sizes and types. Many market participants regarded the AAC’s proposal to introduce the IFRS for SMEs and replace the existing NGAAP as an overreach of the mandate. For example, hybrid organizations such as large not-for-profits, state-owned medical service providers and energy companies with state ownership that fall under the purview of the Accounting Act indicated that their model was not well served by the IFRS-based standards and wanted to utilize the options currently available under the NGAAP.

By examining the standardization process, we observed points of tension in the existing structure including the inconsistent legal status for the available sets of standards, the lack of a formal remit to set standards and the lack of public funding for the national standard setter, and the extent to which the accounting policies were specified in the law or should be elaborated by the standard setter. The AAC recommended that the new accounting act provide less specific guidance than the existing act. Consequently, accounting standards would
become more important than now, as more of the regulation would occur through standards and not the law. In contrast to the undefined legal status of the current NGAAP, the AAC proposed that the accounting standards be legally binding. However, doing so would require an increase in the state’s involvement in the process. Consequently, the preferred structure was for the NASB to continue to develop standards but the government would play a more active role in the appointment of members, approval of the standards, and provision of funding. In general, market participants questioned the appropriateness of extending regulatory authority to a private body and whether such a body could safeguard the public interest. The NASB tends to be dominated by members from one group of stakeholders: the accounting firms. Having private standard setters with public funding is a model utilized, for example, in the US, and is seen as a way to protect the public interest. However, in Norway, more involvement from the government is expected if the standards become legally binding. Overall, the importance of context in the standardization process cannot be understated, as existing institutional structures are not easily replicated in different settings.

Braithwaite (1999) described the state as the object and subject of regulation, in that it regulates at the national level but is also regulated by transnational bodies such as the World Trade Organization and the IMF. In addition to being regulated by these transnational bodies, we observe that the government is not only a regulator but is also impacted by the approaches to financial reporting as a market participant through its ownership of various entities. The multi-mode model describes the hierarchical power of the government in the standardization process where it is able to impose standards on others (Wiegmann et al., 2017). We see hybrid organizations, specifically market participants with state ownership, as an important but unrecognized segment that crosses the market-government divide because their market activities are driven or impacted by government. Consequently, government at the national and local levels is directly affected by the approaches to financial reporting both as a tax
collector and as a shareholder receiving dividends. Moreover, the diversity in the types and segments in which private companies operate makes standardization where companies utilize the same standard, even at the national level, difficult to achieve.

Comparability

Comparability is considered an important quality for financial reports, and, in general, the actors in our case supported comparability as a desired quality. Nevertheless, none of the participants provided a definition of comparability. The concept tends to be discussed along the two dimensions: over time and across entities. In line with the globalization of business, the latter dimension is increasingly about comparability across borders. At the transnational level the European Commission directed that listed companies had to use IFRS beginning in 2005. The aim was to adopt a common framework to improve cross-border comparability within the EU but it also gave impetus to the widespread diffusion of IFRS outside the EU.

In Norway, in 2014 the NASB proposed replacing the existing NGAAP with the IFRS for SME-based standard without the national government’s support for their initiative, albeit previously the government was most eager to pursue international harmonization. In 2015, the government-appointed AAC proposed changing the Accounting Act to permit the use of the IFRS for SMEs, a proposal that still has not been approved by the government. While the committees argued that the move to the IFRS for SMEs was a response to demands in the market for internationally comparable information, the market actors were not convinced that the benefits justified the costs. The Norwegian market already has a well-functioning system for financial reporting and the existing NGAAP works well for a wide range of companies. One of the AAC’s main arguments for proposing the IFRS for SMEs was the improved international comparability of financial information, but for many market actors national comparability was more important than international comparability. Furthermore, very few of
Norway’s trade partners use the IFRS for SMEs. The government also mentioned the latter argument as a reason for not taking the proposal further.

In the development of Norwegian accounting regulation, the government, committees and market players all refer to comparability as an argument for the preferred solution. However, they emphasize different aspects of comparability and reach different conclusions. All players agree that comparability over time is desirable, and that consistent use of accounting policies and comparative information are important means for achieving it and conducting a trend analysis. In order to improve comparability over time, the government and committees want to minimize the non-comparability that can occur when companies change their accounting policies. Given that the restatement of prior years in accordance with a new treatment is costly, standard setters tend to permit relief from preparing comparatives. In Norway, both the existing Accounting Act and the proposed act state that amounts need to be restated unless accounting standards allow for an exemption. Thus, the regulations allow a standard setter a great deal of leeway to exempt from a commonly agreed approach to comparability over time.

Comparability across companies is not a well-defined concept. Enterprises differ and the users of financial statements have different views on what is relevant information. For listed companies, users might seek information that is comparable between listed companies but are not concerned about comparability with non-listed companies. Some users need comparable information within industries and pay less attention to comparability with other industries. Such varied needs relate to the difference dimension of the comparability concept where making “unlike things look different” is as important as making “like things look alike” (Trueblood, 1966). Both dimensions are included in the IASB’s definition. It approaches differences, such as industry specific issues, by developing accounting standards that address the characteristics of the transactions rather than those of the reporting entity (Røsok, 2020).
In this way, accounts for entities with many transactions of one type, such as insurance contracts (IFRS 17), will look different from the accounts for entities without many such transactions. Both the existing Accounting Act and the proposed refer to the EU’s accounting directive and include a paragraph referring to “uniform accounting policies, which must be applied consistently over time.” The argument for the emphasis on uniformity is to “make like things look alike” but the government and committees rarely discuss how to best reflect differences.

However, when criticizing the proposals, some market players focus on the difference aspect of comparability. Cooperatives and not-for-profit organizations argue that the IFRS is developed for for-profit companies and does not reflect the business models of not-for-profit entities. The IFRS for SMEs as a common framework may therefore obscure the specificities of these entities by forcing them into uniformity. In addition, larger for-profit entities reject the IFRS for SMEs, arguing that the options in the NGAAP are better suited to reflect specific issues in their industry. Although constituents agree that a limited number of options will facilitate comparability, they also prefer options when necessary to reflect their specificities. Regulators also tend to accept some options. For instance, the Norwegian AAC argued that implementation of the IFRS for SMEs should allow for options beyond the IFRS for SMEs to respond to Norwegian needs. It maintained that options might reduce comparability at the issue level but still improve the overall comparability when jurisdictions and companies use a common framework.

Such arguments are made on the tacit assumption that a common framework facilitates comparability. The gold standard of complete comparability is “that two otherwise identical companies reporting in different jurisdictions would report identical financial statements” (Ball, 2016, p. 551). However, several researchers argue that this gold standard is not achievable, even with the worldwide adoption of the IFRS, due to uneven adoption and
implementation (Ball, 2016; Nobes, 2013). Uneven adoption occurs when jurisdictions adopt different versions of the IFRS or when the content of the IFRS is understood differently due to variations in commercial concepts, language and institutions (Ball, 2016). Uneven implementation occurs when actual practice is different due to incentives to deviate from the rules or variations in how discretion is used in estimation. Adoption and implementation are decided locally. Chua and Taylor (2008, p. 471) claim that the IFRS “has diffused quickly partly because it is a principle-based set of rules that enables local customization and local translation.” Local customization may facilitate comparability if it supports the difference dimension of comparability, but reduces comparability if it provides for different accountings of similar events. In addition, the translated version of the standards might not fully reflect the original meaning. Evans (2004, p. 210) maintains “that full equivalence in translation between languages is rare” and some concepts are not easily translatable into another language (Dahlgren & Nilsson, 2012).

The proposed adoption of the IFRS for SMEs in Norway will be an uneven adoption that may hinder the aim of international comparability, which was an important argument for proposing the adoption (Røsok, 2017). One obvious explanation for the uneven adoption is the increasing emphasis on easing the administrative burdens for small and medium sized entities. Governments want to find a good balance between the international harmonization of accounting rules and relief from the same rules when justified by cost-benefit considerations. Despite its comparability argument for proposing the IFRS for SMEs in Norway, the AAC continued the à la carte approach and proposed a categorization for companies that would provide for even more variation in reporting. Some market players warned against the increased complexity in regulations and the reduction in comparability from the proposed approach, but, in general, market players supported differential reporting. This observation is consistent with Evans et al. (2005) who maintain that market players are the main advocates
for differential reporting. For that reason, the simplified IFRS have been a popular alternative in Norway for more than a decade. Indeed, similar reduced disclosure frameworks have been issued in other countries such as the UK and Australia. The high degree of differential reporting in Norway reveals a view that is different from that of the IFRS for SMEs. While the Norwegian approach is to provide entities with many options, the IASB’s approach in the IFRS for SMEs is to limit the number of options. That approach might promote comparability by removing à la carte options (Nobes, 2013), especially when considering similar items. The Norwegian approach addresses the diversity of entities better, which might make it easier to compare different items. However, it also opens the door for policy choices that are motivated by cost considerations rather than comparability.

Our case indicates that local government, committees and market players all consider comparability secondary to cost considerations for SMEs. The Norwegian government supported harmonization with the IFRS. Nevertheless, when the costs of harmonization and local comparability issues, such as the needs of tax and statistics agencies outweighed the benefits, the government abandoned its goal of harmonization. In general, calls for international comparability for private companies do not resonate at the local level.
References


Table 1: Modes of Standardization

<table>
<thead>
<tr>
<th>Main actors driving the process</th>
<th>Committee-based</th>
<th>Market-based</th>
<th>Government-based</th>
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<tbody>
<tr>
<td>Predominately private</td>
<td>Predominately private</td>
<td>Predominately public</td>
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<tr>
<th>Development and coordination</th>
<th>Standards are developed in committees and diffused if members agree on a common solution.</th>
<th>Solutions intended as a standard can be developed by anyone. Coordination through competition between solutions in the market, leading often (but not always) to one de-facto standard.</th>
<th>Solutions intended as a standard can come from various sources. Coordination through governments using their hierarchical position to impose these standards on others.</th>
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| Conditions for cooperation | Willingness to cooperate and sufficient expertise to contribute in committees. Convincing others to participate. | Standard users must be willing to adopt solutions given risk of incurring switching costs. | Governments can become active out of their own volition or if convinced by private actors. |

Source: Based on Wiegmann et al. (2017) and includes categories relevant for the study.
Table 2: Key events (2013-2018)

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Committee</th>
<th>Market</th>
<th>Government</th>
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<tbody>
<tr>
<td>(1) June 26, 2013</td>
<td>EU Directive 2013/34/ introduced changes related to financial information obligations.</td>
<td>NASB</td>
<td>AAC</td>
<td>IASB</td>
</tr>
<tr>
<td>(2) April 2, 2014</td>
<td>The NASB issued an exposure draft for Norwegian Accounting Standard (Norsk Regnskapsstandard) based on the IFRS for SMEs to replace the existing NGAAP.</td>
<td>X</td>
<td>Y</td>
<td>X</td>
</tr>
<tr>
<td>(3) September 19, 2014</td>
<td>The government appoints the Accounting Act Committee (AAC) tasked with drafting a new accounting law.</td>
<td>Y</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>(4) October 31, 2014</td>
<td>The NASB received 74 comment letters on the exposure draft for the Norwegian Accounting Standard.</td>
<td>Y</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>(5) May, 2015</td>
<td>The IASB issues amendments to the IFRS for SMEs.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) June 26, 2015</td>
<td>The AAC concludes part I of its report and delivers it to the Ministry of Finance.</td>
<td>X</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>(7) September 2, 2015</td>
<td>Ministry of Finance issues part I of the AAC’s report - Law on accounting requirements (NOU 2015:10) for consultation.</td>
<td>X</td>
<td>Y</td>
<td>X</td>
</tr>
<tr>
<td>(8) December 2, 2015</td>
<td>Ministry of Finance received 41 comment letters on NOU 2015:10.</td>
<td>X</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>(9) June 24, 2016</td>
<td>The AAC concludes part II of its report and delivers it to the Ministry of Finance. It addresses other issues related to the EU Directive.</td>
<td>X</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>(10) August 17, 2016</td>
<td>Ministry of Finance issues part II of the AAC’s report – Accounting law provisions on annual report and other (NOU 2016:11) for consultation.</td>
<td>X</td>
<td>Y</td>
<td>X</td>
</tr>
<tr>
<td>(11) November 17, 2016</td>
<td>Ministry of Finance received 44 comment letters on NOU 2016:11.</td>
<td>X</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>(12) February 9, 2017</td>
<td>The NASB publishes a working document outlining expected departures from the IFRS for SMEs in the accounting standard proposed by the NASB in 2014.</td>
<td>X</td>
<td>Y</td>
<td></td>
</tr>
</tbody>
</table>

14 X indicates participant initiating communication; Y is the recipient/implementer of it.
<table>
<thead>
<tr>
<th>Date</th>
<th>Modes</th>
<th>Committee</th>
<th>Market</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>(14) June 22, 2017</td>
<td>The NASB sends a letter to the Minister of Finance recommending prioritizing new Accounting Act (as proposed in NOU 2015:10).</td>
<td>X</td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>(15) June 23, 2017</td>
<td>The NASB decides to stop the development of the new accounting standard based on the existing Accounting Act.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(16) June 29, 2017</td>
<td>Reply from Minister of Finance to the NASB: not convinced by all arguments in NOU 2015:10 and impact of the IFRS for SMEs on companies.</td>
<td>Y</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>(18) April-June 2018</td>
<td>The NASB discusses whether to continue the development of a Norwegian accounting standard based on the IFRS for SMEs.</td>
<td>X</td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>(19) October 22, 2018</td>
<td>The NASB decides to stop the work on the new accounting standard based on the IFRS for SMEs and on the NGAAP until further clarification from the Ministry of Finance.</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(20) November 19, 2018</td>
<td>The NASB wrote a letter to Ministry of Finance reminding it to update the simplified IFRS regulation that had not been updated since 2014. The NASB urges an annual update of the Regulation to make it reflect changes made to the IFRS.</td>
<td>X</td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>(21) December 20, 2018</td>
<td>Ministry of Finance updated the simplified IFRS to include new standards (IFRS 16 &amp; IFRS 9).</td>
<td>Y</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Table 3: Market comment letters

<table>
<thead>
<tr>
<th>Proposals</th>
<th>Individual/ Users</th>
<th>Audit firms</th>
<th>Professional associations</th>
<th>Unions</th>
<th>Preparers</th>
<th>Not-for-profits</th>
<th>Academic institutions</th>
<th>Government agencies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASB</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td>48</td>
<td>3</td>
<td>3</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>3%</td>
<td>8%</td>
<td>11%</td>
<td>4%</td>
<td>1%</td>
<td>65%</td>
<td>4%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>AAC’s NOU1</td>
<td>1</td>
<td>5</td>
<td>13</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>3%</td>
<td>13%</td>
<td>33%</td>
<td>18%</td>
<td>13%</td>
<td>0%</td>
<td>8%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>AAC’s NOU2</td>
<td>2</td>
<td>5</td>
<td>8</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>1</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>11%</td>
<td>18%</td>
<td>11%</td>
<td>16%</td>
<td>11%</td>
<td>2%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

15 The letter from NASB, national committee standard-setter, was excluded from the total.
Appendix 1: Materials for each line referenced in Table 2


