The Effects of Applying the IFRS for Tech Companies in Spain

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Abstract: This paper explores the effects of applying International Financial Reporting Standards (IFRS) to technology companies in Spain. As the Spanish tech sector expands and becomes increasingly globalized, the demand for transparent and internationally comparable financial reporting has grown. While IFRS adoption is mandatory for listed companies, many unlisted tech firms choose to adopt IFRS voluntarily to attract investors, improve credibility, and prepare for cross-border operations. The study analyzes the regulatory framework in Spain, highlights practical case studies such as Glovo and Wallapop, and evaluates the challenges tech startups face in implementing IFRS, particularly related to complexity and the treatment of intangible assets. A comparative perspective with Italy further reveals how Spain's rigid accounting structure may limit startup competitiveness at the European level. The findings suggest that while IFRS can serve as a valuable strategic tool, its benefits are maximized only when supported by appropriate guidance, resources, and investor understanding.

Key words: IFRS, Tech Companies, Venture Capital, Internationalization, Spain

JEL classification: M41, G24, L26

1. Introduction

In recent years, Spain has experienced a rapid expansion in its technology sector, with startups and innovative firms playing a growing role in driving economic development. As these companies seek to scale and attract investment, the quality and transparency of their financial reporting have become increasingly important. The application of International Financial Reporting Standards (IFRS) offers a potential solution by promoting consistency, comparability, and investor confidence across borders. However, the adoption of IFRS—whether full standards or adaptations such as IFRS for SMEs—raises both opportunities and challenges for tech companies operating in Spain. This study explores the effects of applying IFRS within the Spanish tech ecosystem, focusing on how these standards influence financial transparency, access to capital, and long-term growth strategies.

2. Literature review

The adoption of International Financial Reporting Standards (IFRS) has been a significant milestone in enhancing the comparability and transparency of financial information across jurisdictions. Since its mandatory application for listed companies in Spain following EU Regulation No. 1606/2002, IFRS has become a focal point in discussions on accounting harmonization and investor confidence (Callao et al., 2007). The European Commission (2019) emphasizes the importance of standardization particularly in transnational contexts, where access to finance depends heavily on the clarity of reporting.

Although IFRS is mainly targeted at large and listed entities, its use among unlisted technology companies has gradually increased due to growing internationalization and investor expectations (Berenguer and Esteban, 2023). Spanish tech firms aiming for cross-border investment often face challenges related to the compatibility of their local accounting practices with global investor needs, particularly when using the Plan General de Contabilidad (PGC), Spain's national framework.

Comparative studies highlight the role of IFRS in improving the relevance of financial statements (Callao et al., 2007), while other research raises concerns about the complexity of applying IFRS in innovation-driven sectors (Strydom, 2022). In Spain, IFRS is rarely adopted by early-stage startups due to reporting burdens, yet larger firms preparing for IPOs or acquisitions have implemented IFRS voluntarily to enhance transparency and appeal to international capital markets (IFRS Foundation, 2024; IMF, 2023).

In contrast, countries like Italy have implemented institutional frameworks that indirectly support IFRS adoption through policy incentives targeting "innovative startups," thereby improving financial signaling capacity and competitiveness (Ministry of Enterprises and Made in Italy, 2024). These contextual differences inform the broader European debate on how IFRS influences financial quality and capital accessibility in the tech sector.

3. Research methodology

This paper adopts a qualitative exploratory methodology to examine the effects of IFRS on Spanish technology companies. The research is based on a multi-source literature review, focusing on peer-reviewed journal articles, regulatory documentation, and institutional reports. Sources include academic research on IFRS adoption in Spain, such as Callao et al. (2007) and Berenguer and Esteban (2023), as well as empirical observations from case studies involving tech firms like Glovo, Wallapop, and Cabify.

Case study analysis was selected due to the lack of standardized public datasets on private startup accounting practices in Spain. Public filings, investor presentations, and industry news provided insight into how these firms have approached IFRS implementation, particularly during growth or exit phases. The paper also incorporates a comparative policy analysis with Italy, evaluating how national innovation policies impact the strategic adoption of IFRS.

Challenges encountered during the research process include limited access to SME-level financial disclosures, due to the absence of centralized repositories detailing which companies apply IFRS voluntarily. As a result, the study relies on triangulating publicly available secondary data, institutional commentary, and financial assessments from regulatory sources such as the IFRS Foundation (2024), OECD (2021), and IMF (2023).

4. Results and Discussions

4.1. Regulatory Framework of IFRS Application in Spain

Spain's financial reporting framework is significantly shaped by its obligations as a member of the European Union, particularly through EU Regulation No. 1606/2002, which mandates that companies with securities listed on EU-regulated markets must use International Financial Reporting Standards (IFRS) for their consolidated financial statements. In Spain, this affects entities listed on major exchanges such as the Bolsa de Madrid, ensuring that their consolidated accounts are globally comparable and aligned with international capital market expectations.

However, Spain maintains a dual reporting system. For statutory purposes, both listed and unlisted companies are required to prepare individual (separate) financial statements under the Plan General de Contabilidad (PGC), the national accounting standard. The PGC is rooted in Spanish commercial and tax law, and although it has integrated certain elements of IFRS such as the accrual basis of accounting and limited use of fair value accounting its structure remains predominantly legalistic and tax-oriented. This means that the Spanish system, unlike a full IFRS environment, emphasizes compliance with fiscal regulations and creditor protection rather than international investor transparency.

Importantly, Spain has not adopted the IFRS for SMEs, a simplified version of IFRS designed for smaller, non-publicly accountable entities. The absence of this transitional framework has significant implications. It results in a fragmented financial reporting environment where startups and unlisted entities often operate under national rules that may not adequately reflect their economic realities or facilitate international comparability. In practice, this forces some growing firms to maintain two parallel accounting systems one under PGC for domestic compliance, and another aligned with IFRS to attract global investors or prepare for cross-border transactions.

This situation leads to several inefficiencies and increased administrative burdens. The need for dual reporting not only drives up costs but also causes delays in financial reporting and decision-making.

4.2. IFRS Landscape in Spain and Its Application to the Tech Sector

Spain's burgeoning technology and innovation ecosystem has made substantial progress over the past decade. The country has become home to numerous promising startups, particularly in areas such as fintech, e-commerce, mobility services, marketplace platforms, and software-as-a-service (SaaS). These sectors often rely heavily on digital infrastructure, platform economics, and rapid scalability. As such, access to international funding, including venture capital and private equity, becomes a central factor in their development. This need creates growing pressure for these companies to adopt internationally recognized accounting standards, particularly IFRS.

While mandatory IFRS application in Spain is limited to listed companies' consolidated accounts, some of the country's leading tech firms have taken proactive steps to voluntarily apply IFRS or at least align key disclosures with IFRS principles as part of their strategic growth plans. For instance, Glovo, a prominent on-demand delivery startup, began adopting IFRS-aligned practices as it scaled internationally and attracted foreign investors. Its compliance with IFRS principles enhanced its transparency and comparability, which ultimately facilitated its acquisition by Germany's Delivery Hero, itself an IFRS-reporting entity.

Similarly, Wallapop, a second-hand goods marketplace, adopted IFRS-style reporting to signal readiness for international funding and possibly prepare for a future IPO. This trend illustrates how IFRS adoption can serve as a tool for credibility building, even in the absence of legal obligation. Cabify, another tech unicorn operating in urban mobility, struggled with applying IFRS 15, which requires detailed disaggregation of revenue streams. With complex business lines spanning transport services, B2B logistics, and software partnerships, the company faced technical and operational hurdles in aligning its revenue recognition policies with IFRS requirements.

Despite these success stories, most early-stage Spanish tech startups continue to rely on the PGC. This is due to both resource constraints and the practical alignment of the PGC with local tax filing needs. IFRS implementation requires significant accounting expertise, system upgrades, and advisory costs, which are often infeasible for pre-seed and seed-stage companies. Moreover, the absence of an IFRS for SMEs framework in Spain means there is no gradual pathway for small but growing businesses to transition to international standards. This forces a binary choice: either incur the full cost of IFRS implementation or remain within the local PGC system.

As observed by Berenguer and Esteban (2023), voluntary IFRS adoption is generally reserved for firms that are post-Series A and actively targeting foreign markets or strategic investors. Without a standardized intermediate framework, the IFRS landscape in Spain remains bifurcated, with relatively few technology firms bridging the gap. Consequently, many promising startups may appear less transparent or mature to international stakeholders, even if their underlying business models are sound.

4.3. Opportunities and Challenges of IFRS for Spanish Tech Companies

For Spanish tech companies, IFRS adoption can be a strategic decision rather than a regulatory requirement. The main opportunity lies in improving access to international capital. IFRS is the most widely recognized financial reporting standard globally, used in over 140 jurisdictions. Its consistent application enhances comparability, which is essential when foreign investors evaluate startups from different countries. Presenting financial statements under IFRS can strengthen investor confidence by signaling transparency, financial discipline, and a long-term vision aligned with international norms.

However, this opportunity is accompanied by significant challenges. Implementing IFRS is complex and resource-intensive. Startups must invest in updated accounting systems, specialized personnel, and often external consultants to meet the technical demands of standards such as IFRS 9 and IFRS 15. For smaller companies, this becomes a disproportionate burden compared to the benefits they receive, especially if they are not yet engaged with international capital markets.

Another major challenge is how IFRS treats intangible assets. In technology-driven companies, value is often generated from software, intellectual property, branding, data, and digital infrastructure. IFRS does not permit the capitalization of most internally developed intangible assets unless they meet strict criteria of identifiability, probable future economic benefits, and development phase confirmation. As a result, many key assets of tech startups are recorded as expenses, which leads to lower book values. This misrepresentation can negatively affect valuation and investor perception, particularly when comparing these firms to industrial companies that hold tangible assets.

Nonetheless, IFRS serves an important purpose even when its application does not directly influence valuation. For venture capitalists and institutional investors, the use of IFRS may act as a signal of financial maturity and governance readiness. Although not always a decisive factor, IFRS reporting enhances the credibility of the company and prepares it for future due diligence, acquisitions, or public listing processes.

4.4. Investor Interpretation and Market Confidence in IFRS-Based Reports

The application of IFRS, particularly IFRS 16 (Leases), has introduced substantial changes in how investors interpret financial statements, especially within asset-light and lease-intensive sectors such as technology. This standard requires firms to capitalize lease agreements as right-of-use assets, with corresponding liabilities, thereby fundamentally altering both the income statement and the balance sheet presentation. In the Spanish context, where many high-growth technology firms rely on operating leases for offices, logistics, software, or equipment, the effects of this change are particularly notable. The implications for investor perception are profound, influencing key indicators such as profitability, leverage, and capital efficiency.

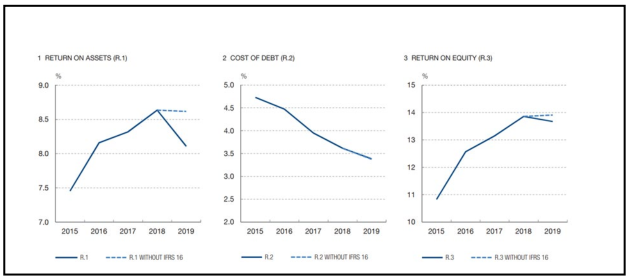

Figure 1. Impact of IFRS 16 on profitability and cost of debt ratios.
Source: Banco de España, Notas Estadísticas No. 14 (2020).

Figure 1 illustrates the consequences of IFRS 16 on performance indicators such as Return on Assets (ROA) and Cost of Debt. With leases now capitalized, the value of total assets increases, which in turn reduces ROA, even if operating performance remains unchanged. Simultaneously, the elimination of lease expenses from the income statement inflates EBITDA, potentially overstating operational profitability. The cost of debt also appears to decline, as the higher operating profit reduces leverage ratios on paper. These changes, if not properly disclosed, can distort investor interpretation, especially for early-stage investors unfamiliar with the technical adjustments behind IFRS 16.

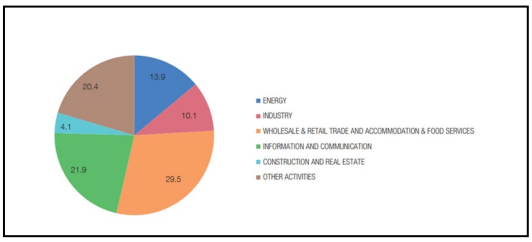

Figure 2. Distribution of right-of-use assets by sector of activity.
Source: Banco de España, Notas Estadísticas No. 14 (2020)

The effects of IFRS 16 are not uniform across all sectors. Figure 2 presents a breakdown of right-of-use assets by sector, highlighting that the Information and Communication sector, where most tech startups, SaaS providers, and digital platforms are classified, bears a disproportionately high exposure. This concentration suggests that technology firms are particularly vulnerable to balance sheet expansion and increased reported debt under IFRS 16, even when their operational model remains asset-light and scalable. Consequently, investors must exercise caution when comparing IFRS-compliant reports across industries, as traditional ratios may not accurately reflect economic reality in tech-driven enterprises.

Together, these figures underscore the necessity for a more nuanced interpretation of IFRS-compliant financial reports, especially in the case of high-growth startups. While IFRS adoption may signal increased transparency and readiness for international investment, its mechanical application, particularly under IFRS 16, can obscure the operational dynamics of technology firms. The appearance of rising debt, declining asset efficiency, or inflated profitability can either mislead cautious investors or fuel overvalued expectations if not paired with explanatory disclosures and adjusted metrics.

For Spanish tech companies seeking to scale, secure venture capital, or prepare for a public offering, adopting IFRS should be accompanied by robust communication strategies. These should include reconciliations between pre- and post-IFRS figures, qualitative explanations of accounting impacts, and tailored performance indicators that reflect the startup's true value drivers. Without such measures, the credibility benefits of IFRS adoption may be undermined by investor uncertainty or skepticism.

4.5. Compliance Costs and Organizational Impact

The operational demands of IFRS can be especially burdensome for startups and SMEs. Preparing IFRS-compliant reports requires trained accounting staff, advanced enterprise resource planning (ERP) systems, and frequent collaboration with auditors or external consultants. The costs involved can be considerable. According to the International Monetary Fund (2023), Spanish firms with annual revenues under €20 million often cannot afford to prepare IFRS-compliant reports without third-party assistance.

Beyond cost, firms must also manage a dual reporting system. Spanish tax authorities only accept reports based on the PGC for tax filing purposes. This means that companies adopting IFRS must maintain both IFRS and PGC records, leading to increased complexity, potential inconsistencies, and administrative overhead. In startups where resources are limited and operational focus is paramount, this requirement can divert attention away from product development and business growth.

Certain IFRS standards pose technical challenges. For example, IFRS 15 requires companies to recognize revenue based on a five-step model, which includes identifying contracts, performance obligations, transaction prices, and their allocation. Companies like Cabify, with multiple customer types and bundled services, must apply this standard to diverse income sources. Ensuring compliance in such cases demands internal coordination between finance, sales, and legal departments, further straining smaller firms' capabilities.

To further support IFRS compliance, some Spanish firms are adopting cloud-based Enterprise Resource Planning (ERP) systems such as SAP Business ByDesign or Microsoft Dynamics 365. These tools are particularly valuable for startups that lack internal accounting infrastructure and need IFRS-compliant automation for leases (IFRS 16), revenue recognition (IFRS 15), and financial instruments (IFRS 9).

An additional complexity lies in cross-departmental coordination. Revenue recognition under IFRS 15 requires legal, sales, and accounting teams to align on contract terms, performance obligations, and variable pricing mechanisms. Without mature internal processes, this becomes a bottleneck for fast-scaling startups.

4.6. IFRS Adoption in Spain: A European Perspective

Comparing Spain with other EU countries highlights the effects of differing national strategies toward IFRS and innovation policy. Italy has introduced a legal framework for "startup innovativa," which allows firms that meet certain innovation criteria to access tax exemptions, R&D incentives, and social security reductions. While this policy is not directly tied to IFRS, it promotes better corporate governance, improves reporting practices, and makes it easier for these startups to align with international standards.

In contrast, Spain has not implemented a similar initiative. Spanish tech startups receive limited government support related to financial reporting, and no official guidance exists to encourage the adoption of IFRS among private, high-growth firms. This absence of public policy creates a reliance on private actors, such as accelerators, venture capital funds, and accounting firms, to support the financial maturation of startups.

Data on foreign direct investment trends further illustrates this disparity. According to the OECD (2021), Italy has seen steady growth in investment in innovative SMEs, partly due to the supportive legal and fiscal environment.

This European comparison emphasizes the need for policy reform in Spain. Introducing transitional IFRS support, offering targeted tax benefits, or recognizing IFRS for tax purposes could significantly increase adoption and improve the competitiveness of Spanish tech firms on the global stage.

4.7. Strategic Role of IFRS for Scaling Firms

As startups grow and enter more mature funding stages, IFRS adoption becomes increasingly relevant. For companies preparing for Series B or C rounds, cross-border mergers and acquisitions, or an IPO on BME Growth or another exchange, IFRS reporting provides clear advantages. It streamlines the due diligence process, enhances comparability with international peers, and increases transparency for investors, underwriters, and regulators.

Wallapop's transition to IFRS-like reporting illustrates how adopting international standards early can ease future access to public markets. The firm's alignment with IFRS has helped it gain credibility with institutional investors and position itself for global growth. Similarly, Glovo's alignment with IFRS ahead of its acquisition facilitated communication and financial evaluation by its international acquirer.

Overall, while not mandatory for most Spanish tech firms, IFRS plays a critical role in supporting the long-term growth strategies of scaling startups. It provides a foundation for investor engagement, improves internal financial management, and prepares companies for the reporting requirements of public capital markets.

5. Conclusions

This study examined the effects of applying International Financial Reporting Standards (IFRS) within Spain's rapidly evolving technology sector, with a particular emphasis on voluntary adoption by unlisted firms. While IFRS is legally mandated only for publicly listed companies, many scaling tech firms have begun to implement IFRS standards to enhance financial credibility, attract international investors, and facilitate future mergers, acquisitions, or public offerings. High-profile examples such as Glovo and Wallapop illustrate how IFRS adoption can serve as a strategic communication tool for investor engagement and market positioning.

However, the findings also highlight substantial challenges. IFRS adoption remains largely inaccessible for early-stage startups due to high compliance costs, dual reporting burdens with the national Plan General de Contabilidad (PGC), and limited institutional support. The case of IFRS 16 in particular demonstrates how mechanically applied standards can distort key financial metrics such as profitability, leverage, and asset efficiency. Figures from Banco de España underscore the disproportionate impact on tech sectors, suggesting that investors may misinterpret financial statements without proper context or reconciliatory disclosures.

Furthermore, the comparative analysis with Italy reveals that Spain lacks supportive policies such as transitional incentives or IFRS-aligned innovation frameworks that could facilitate broader uptake of international standards among SMEs. This policy gap places Spanish tech startups at a competitive disadvantage when seeking cross-border capital.

In conclusion, while IFRS offers substantial long-term benefits for scaling tech companies, its successful adoption in Spain requires more than voluntary initiative. Institutional reforms, investor education, and sector-specific guidance are needed to bridge the gap between regulatory frameworks and the operational realities of innovation-driven firms. Future research should explore longitudinal data comparing IFRS and non-IFRS adopters within Spain's tech ecosystem to evaluate the concrete financial and strategic outcomes of applying international reporting standards.

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