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The Adoption and Implementation of IFRS / IAS - European and International Context

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Abstract

The requirement of using the IFRS as adopted in the European Union Regulation was enlarged, by means of the prospectus regulation, so that it should be applied to third country issuers proposing a public offer of securities in the EU and by means of the transparency directive, so that it should be applied to the third country issuers conducting securities transactions on the regulated community market. This directive provides that issuers must submit financial information in accordance with IFRS or accounting standards of the third country (third country GAAP Principles) that are "equivalent" to adopted IFRS.

Keywords: Accounting, International Accounting Standards, Enterprise, financial statements

Introduction

The first report to the European Securities Committee and the European Parliament on the convergence between International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP), national accounting of the third countries, focuses on the work schedule set by national authorities in Canada, Japan and United States for the convergence between IFRS and Generally Accepted Accounting Principles thereof. The report contains also some preliminary information on the convergence efforts made by some third countries.

The Scope and Authority of the International Financial Reporting Standards

As part of the Foundation of the International Accounting Standards Committee (International Accounting Standards Committee - IASC), the International Accounting Standards Board (International Accounting Standards Board - IASB) was established in 2001 with main activity the approval of the International Financial Reporting Standards (IFRS) and other documents related to it, such as the general Framework for the preparation and presentation of the financial statements exposure draft and other documents for discussion.

The preparation of the IFRS interpretations for their approval by the IASB as well as providing timely guidance on the financial reporting elements that have not specifically addressed elements in IFRSs, are the responsibility of the International Financial Reporting Interpretations Committee (International Financial Reporting Interpretations Committee -

IFRIC), organization which replaced the former Interpretations Committee (Standing Interpretations Committee - SIC) in 2002:

IASB Objectives are [1]:

- ✓ to Develop, for the public interest, a single set of high quality global accounting standards that can be understood and implemented and that require transparent and comparable information in financial statements and other financial reporting to help participants on various capital markets and other information users make economic decisions;
- ✓ to promote the rigorous use of these standards;
- ✓ to work actively with national standard normalizations to achieve convergence of national accounting standards with IFRS, building high quality solutions.

IASB achieves these goals through the development and publication primarily of IFRSs and by promoting the use of those standards in general purpose financial statements and other financial reports [2]. IASB cooperates, in their preparation work on IRFS, with national standard normalizations to maximize the convergence of IFRS and National Standards.

International Financial Reporting Standards establish requirements for recognition, measurement, presentation and description which apply to transactions and events that are important in the financial statements of public interest. IFRS are based on the general framework that approaches the concepts underlying the information in the public interest financial statements.

The objective of the general Framework is to facilitate consistent and logical formulation of IFRSs. The General Framework provides the basis for using the professional judgment in solving accounting problems [3].

IFRS are designed to be applied to general interest financial statements and other financial reporting interest of all for profit-oriented entities. The profit oriented entities include those entities that are engaged in commercial, industrial, financial and similar activities, regardless of the legal form of organization. These include organizations such as Insurance Companies and other entities organized on mutual cooperatives offering direct and proportional dividends or other economic benefits to shareholders, members or participants. Although IFRS are not designed to be applied to non-profit activities in the private sector, public sector or governments, entities with such activities can consider them as appropriate.

The objective of financial statements is to provide information about the financial position, the performance and cash flows of an entity, that are useful to a wide range of users (investors, creditors, managers, employees, the general public) in the decision making process.

IFRSs are developed using an internationally established procedure involving accountants, financial analysts and other users of the financial statements, the business community, stock exchanges, regulators and lawmaking authorities, academics and other individuals and organizations around the world. IASB consults Standards Advisory Council (SAC), in some public hearings, in relation to major projects, decisions on the agenda and work priorities and discusses technical issues in sessions opened to observers from the public. The procedure laid down for the projects normally involves, but not necessarily, the following steps [4]:

- ✓ the staff is required to identify and review all elements associated with the subject and consider applying general framework to these elements;
- ✓ -the study of the requirements and national accounting practices and exchange views with the national standards normalizators about these elements;
- ✓ SAC consultation to advise the addition of a theme on the agenda of the IASB;

- ✓ the formation of an advisory group to advise the IASB on the project;
- ✓ the publication of a discussion document for public comment;
- ✓ the publishing for public comment of an exposure draft approved by at least nine votes [5] of the IASB;
- ✓ the publication of the bases for conclusions in an exposure draft;
- ✓ the assessing of all comments received in the period intended for these comments based on the documents for discussions and on exposure projects;
- ✓ the assessing of the need for public hearings and of some field tests and, if deemed necessary, the achievement of such hearings and the application of such tests;
- ✓ the approval of the standards with at least nine votes of the IASB and the introduction of all contrary opinions in the standards publications;
- ✓ -the publication in the standards of a basis for conclusions, explaining the stages of the established procedures of the IASB and how public comments addressed in the exposure draft were;
- ✓ IFRS interpretations are developed using an internationally established procedure involving normally, but not necessarily, the following steps [6]:
- ✓ -the staff is required to identify and review all the elements associated with the subject and consider applying the general Framework to these elements;
- ✓ the study of the requirements and national accounting practices and exchange views with the national standard normalizators about these elements, including National Committees with responsibilities for the Interpretation of National Standards;
- ✓ the publishing of an interpretation project for public comments, if no more than three IFRIC members voted against the proposal.
- ✓ the assessment of all the comments received in the period intended for these comments on the interpretation draft;
- ✓ the approval of an interpretation by IFRIC if no more than three members voted against the interpretation after the evaluation of the public comments on the interpretation project .
- ✓ Interpretation Approval with at least nine votes of the IASB.

The situation of IFRS implementation by Member Countries of the European Union

Since 2002, Parliament has in mind the IFRS Implementation by Member Countries of the European Union. According to art 5 letter a of Regulation 1606/2002 [7] adopted by the European Parliament, "|The member state will use the option of allowing the use of IFRS in the annual accounts of listed companies." The following countries expressed their option of YES or NO by national laws, as follows [8]:

- ✓ "Yes" without other indications:
- ✓ Finland; Luxembourg; Netherlands; UK; Norway; Iceland; Lichtenstein; Poland; Slovenia; Ireland.
- ✓ Belgium is to decide after accounting Examining issues together with the tax and legal;
- ✓ Germany allows the use of IFRS in the annual accounts of companies listed only for information (second set of financial statements).The financial statements, that are aligned with the national accounting law, will continue to be required for distributing profits, taxation and the prudential supervision of financial institutions
- ✓ Denmark allows the use of IFRS for annual financial statements of the financial institutions and for other entities until 2009

- ✓ Portugal has chosen to allow other types of entities than banks and other financial institutions
- ✓ Hungary allows applying IFRS, only for information needs. Companies are required to prepare annual accounts according to national regulations. It doesn't anticipate modifying these positions until they resolve legal and tax issues.
- ✓ For the other Countries the option is "No", which means that it is not permissible to apply IFRS in order to prepare annual financial statements of listed companies.

According to art 5 (b) of the Regulation: "Member State will use the option of allowing the use of IFRS in the consolidated accounts of other companies." The member states expressed the following options:

a. "Yes" to all types or perhaps all types: Austria, Belgium, Denmark, France, Germany, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, Norway, Iceland, Lichtenstein, Rep. Czech, Estonia, Hungary, and Slovakia
b. "Yes", mentioning only companies audited by Certified Auditors: Finland and Greece
c. "Yes", excepting small companies: Italy
d. "Yes", with the exception of charity sector: UK
e. " Yes ", for companies that applied to be admitted to public trading and any parent company that is a subsidiary of another parent –company that prepares consolidated accounts under IFRS: Poland
f. f)" Yes "to all the companies that choose to apply IFRS for at least five years.

Using IFRS / IAS in Europe

As it is known, at present IAS / IFRS has become the new lingua franca of the European Union accounts with their adoption on 19 July 2002 and being applicable to consolidated accounts of listed companies from1 January 2005. It is the most important change in financial reporting in the last 25 years that affected 7,000 companies reporting after their national standards.

If at first they were reserved for companies listed for their consolidated accounts, IAS / IFRS reached now a new stage: EU legislation allows member states to choose for extending the use of International Standards for unlisted companies, the same way as for the parent-company.

Of course, there are larger or smaller differences between national and international standards. We believe that over time, differences will subside. But until then, they should be known and managed.

In a summary presentation, the main differences between European Standards and IFRS / IAS are:

a. IFRS / IAS have been designed to feature the communication of information to capital markets, while the National Standards of many European countries have sought to support the fiscal policy and other regulatory purposes.
b. IFRS / IAS have been designed to ensure transparency by publishing and the use of fair value for assets and liabilities. Thus, they can conflict with national rules permitting limited presentation and an evaluation governed by prudence and historical cost.

Speaking concretely, the effect of adopting the International Standards will manifest more strongly on the following elements: deferred taxes, financial instruments, provisions for pensions, employee benefits and the depreciation tests that will use discount rate and will lead to reduction in value of the assets.

A lot of these elements will have a significant impact on profit or loss account and therefore on the performance reported by companies. The effect on the reported net profit will depend on the differences between the major accounting policies contained in the International Accounting Standards or National Standards. However, a common effect for various countries could be:

- ✓ Attribution on costs earlier and deferring the recognition of Income and / or
- ✓ Cancellation of the provisions and an increase of the depreciation period and / or
- ✓ Higher provisioning for deferred taxes and Pensions and / or
- ✓ Volatility of all elements of the profit and loss account as a result of the requirement of using more assiduous fair value, for financial instruments particularly.

Another effect of the adoption of IFRS / IAS is expected in relation with capital markets businesses. An increase for the comparability of financial statements by adopting IFRS / IAS will increase the number of questions, of the checks done by financial analysts and other users, because the differences between businesses will be more evident. Where possible, companies should limit these effects. Their managers will have to provide clear explanations for significant variations between their own indicators and those of the sector. Moreover, they will be checked in another way by owners of shares, who will be able to validate decisions and briefings much faster than before.

Following the same idea, the adoption of International Accounting Standards will bring a significant financial development communication: on the one hand, due to rupture of accounting and financial series that will result from the introduction of new rules, on the other hand, due to the New Accounting Concepts that will be introduced. It is therefore a transformation that is not just an accounting matter.

Finally, in terms of tax effects, most of the European companies have made a diagnosis of the accounting implications of adopting the International Standards, but not a tax one, considering that, for the beginning, these developments related to consolidated accounts remain without tax implications. Instead, companies that were concerned about tax issues analysis found that:

- ✓ -the use of International Standards or national ones may change the taxable income, because the international rules were designed without tax considerations.
- ✓ -there are areas in IFRS / IAS where professional judgment should be exercised for determining which elements / Operations would have major impacts on gross profit, such as the amortization or depreciation ones.
- ✓ -the International Standards will allow the recognition of certain gains which some would not consider feasible and therefore needed to be charged (ie, gains from the revaluation of tangible or fair values of financial instruments)

In conclusion, in order to correct implementation of IFRS / IAS a decoupling should be done between profit and tax accounting or, if this release already exists, the tax rules should be adjusted to reduce the differences between National Standards and IFRS / IAS.

The Advantages of adopting IFRS / IAS in Europe

- ✓ Those who see the advantages of adopting IFRS / IAS indicate that this process is an opportunity for businesses to optimize the way in which:
  - Assess and measure internal performance
  - communicates with the outside world on more information, about faster one and offered to a higher frequency

- and finally, obtain a competitive advantage, greater value for shareholders, responding to market expectations

- ✓ In our opinion, the advantages of adopting International Standards in Europe can be shown precisely as follows:
- ✓ A better comparability of financial information is ensured.
    - The construction of a unified European capital markets regulated by a European stock market (based on mutual accounting rules) would have been favored.
- ✓ The increasing transparency of accounting information will lead to new business opportunities because they will reduce the cost of attracting the capital by increasing investor confidence in financial reporting and therefore reducing the risk premium that they require.
    - Consolidation of the results on subsidiaries and activities will be achieved so that the performance of enterprises will be known considering the geographical areas and activity sectors.
    - Analysts and investors will have more information on business units so that the poor performance of such enterprises will no longer be hidden.
    - Providers of accounting and computing services themselves will get benefits. The first ones, because they will be involved in explaining, implementing and enforcing the new rules, and those in the second category because, for applying the rules, businesses will have to change software (eg to take into account the principle of fair value, of useful life, residual value for assets and the net realizable value of stock, the which includes different expenses for estimation, including transportation).
    - Enterprises will be able to enter the capital markets around the world without existing hardships and expenses to convert the set of financial documents.
    - Some European firms and their analysts, who are represented on the international capital markets, are familiar with U.S. GAAP and UK GAAP and therefore know the Accounting Principles for communication with the capital markets (taking into account the Anglo-Saxon inspiration for the international standards).

The disadvantages of adopting IFRS / IAS in Europe

It is normal for the adoption of International Accounting Standards, as well as any change in accounting referential, also have disadvantages, of which seem Significant:

1. Primary users of the information provided by the small enterprises are usually the state (the budget) and banks: the budget using business accounting for the returns and tax changes in this area would be for the state to lose important source of income; banks performing are not necessarily looking for performances at these enterprises, but keeping the heritage that guarantees their relationships with businesses;
2. In most countries many of the enterprises are represented by the small and medium enterprises group for which the application of standards is difficult and expensive;
3. The approaching of the new rules of Anglo-Saxon concepts raises anxiety especially for the countries of Latin origin, because their implementation may give rise to interpretations of broader manner than in those countries where presentation and accounting rules are encoded in a governed manner.

4. Certain IFRS / IAS can not be easily accepted in countries and areas where the specific problem is treated radically different. This is the case in the UK for example, for the accounting treatment of pension costs. Or the enterprises from the banking sector, financial services, energy and insurance would have particular difficulties related to IAS 39 on financial instruments.
5. Enormous legal implications: do not forget the different legal and law systems whose change requires long time and risk of failure, at least temporarily, of the economic and social environment;
6. The introduction of fair value may result in a greater volatility in asset evaluation. It will affect primarily the financial instruments, mergers and acquisitions, tangible assets, employee pension commitments.
7. IASB should complete the text of certain rules, and on the other hand, IFRS / IAS changes continuously (there come new concepts, existing standards are replaced or modified). Accordingly, we find, for example, a reluctance of financial institutions that are directly involved in IFRS / IAS rules because they have great impact, but they are concerned about the development of their content and even about the uncertainty about their development and adoption. That instability leads some national systems / business to selective uptake of some rules or concepts considered to have greater stability.
8. Another criticism relates to the complexity of the rules, the inherent difficulties of understanding and application.
9. For the implementation of the rules usually is necessary external experts' help (especially accountants and financial) and others who offer solutions to enterprises on internal organizational procedures, communication, staff training, informational system diagnosis. All these expertise will involve significant costs for the company.
10. The new normative involve interpreting risks, some even accusing the risk of "manipulation" of the financial statements.
11. There could be difficulties in applying the unique rules, as long as there is a wide variety of sectors and business profiles.
12. Finally, difficulties can be invoked by the unlisted companies that could apply or apply the rules in virtue of their membership to a rated group or their implantation abroad. They see the adoption of the new rules as a long and costly process, given the limited available resources that they accuse and the small impact of published accounts after the new rules (given that these companies do not communicate with the capital market but mostly with customers and suppliers).

Conclusions

The development of society as a whole, the modernization and the restructuring of the economy, lead to the increased demand and to the diversification of the financial-accounting information. The task of the accounting assumes a particular importance in this framework. A performing management, a management of the current situation, with many crisis phenomena, involves an information fundament based on a system of real, pertinent, relevant and timely information.

Accounting is an important component of economic information system, greatly affected by the specter of globalization, because it offers by its means and methods specific features: clarification of the existence of the organization, guidance on future economic strategy, relevant analysis facing the market, new fundaments in decision making, solutions and reasons for the adopted decisions [9].

The dynamism and creativity of the accounting profession are supported by the avalanche of new challenges including: the development of production and trade, the service sector, encouraging private initiatives, increasing the number of organizations, economic operators of all types, the debuts and the intensification of the exchange activity, financial transactions, occurrence of fusion operations and phenomena of bankruptcy, the development of credit institutions, influences such as inflation, constant improvement of quality standards and of international and internal accounting regulations, auditing and financial reporting etc.

All these macro and microeconomic variables cause constant changes in the size and structure of the assets of an organization in its evolution. It notes easily that the accounting profession, continuously benefits of an increased attention from specialists.

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