I UNDERSTANDING THE FRAMEWORK OF PERFORMING A TRANSITION TO IFRS-BASED FINANCIAL REPORTING

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1 INTERNATIONAL FINANCIAL REPORTING IN CONTEXT

Financial reporting is essentially a method of communication whereby a reporting entity presents financial information to interested external parties. As with any communication process, there need to be in place mechanisms for ensuring that the information being communicated is understandable and pertinent to the needs of users.

It was not until the mid-twentieth century that significant thought was given to how financial reporting should be regulated. The first part of this chapter considers how the international community began to debate the benefits of international harmonisation of financial reporting standards, and the steps taken to achieve that goal.

When the move towards an international financial reporting framework gathered momentum, a new regulatory framework began to develop, leading to today's environment in which the IFRS Foundation, through the International Accounting Standards Board (IASB), aims to develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards. The second part of this chapter summarises the role and status of the IASB and IFRSs, including a discussion of the main features of the standard-setting process.

The final parts of this chapter look at the current state of harmonisation with IFRS around the world, and given that more and more countries are adopting or converging with IFRS (a distinction that will also be explored), there is a preliminary discussion on the main accounting impacts that may arise when a reporting entity moves to follow the requirements of IFRS. It is important to note that both the accounting and non-accounting impacts of the transition vary greatly between reporting entities, even those operating in the same industry and in the same jurisdiction, and one of the themes running through this book is that the impact of IFRS must be assessed at the level of an individual reporting entity. However, it is useful in this first chapter to look at some examples to illustrate the type of accounting impacts that can take place, and the magnitude of them, as this helps in understanding the importance of planning the transition process properly.

1.1 THE DEVELOPMENT OF INTERNATIONAL FINANCIAL REPORTING

This section explores how international financial reporting has developed in the last 60 years or so, beginning with the development of national accounting standards. As economies expanded and companies and other organisations grew in size and status, individual countries tended to develop their own accounting rules, which were entirely appropriate to their own needs but arguably became less relevant with growth in international business and cross-border investment. The response to this was a demand for an international set of financial reporting standards, and this section will describe the development of the first stage of the international financial reporting regime, namely the International Accounting Standards Committee (IASC).

1.1.1 The Initial Development of Accounting Guidance and Reasons for, and Problems Caused by, National Differences in Accounting Requirements

In the late 1940s and the 1950s there was an unprecedented increase in international trade, leading to the formation and growth of multinational corporations. During this time barriers to international trade were lessened, which encouraged direct investment overseas, with the United Kingdom and United States being major contributors to the flow of capital around the world (Camfferman and Zeff, 2007). Economies encouraged international trade through the creation of international trading blocs; for example, the European Economic Community (EEC) was created by the Treaty of Rome of 1957, and through many stages evolved into the European Union, which has played a significant part in shaping the harmonisation of financial reporting. A major objective of the EEC was to promote the flow of capital between member countries, fuelling the movement of funds, people and goods between countries.

At the same time as the increase in cross-border investing and the development of multinational organisations, different jurisdictions were creating their own local financial reporting rules. National standard-setting bodies were established to oversee the development of accounting and financial reporting rules and regulations, leading to discrepancies in the accounting treatment of transactions and balances between different jurisdictions.

Regional accountancy bodies had been established, such as the American Institute of Certified Public Accountants (AICPA), the Institute of Chartered Accountants in England and Wales (ICAEW), the Canadian Institute of Chartered Accountants (CICA) and multinational organisations such as the Confederation of Asian and Pacific Accountants (CAPA). At conferences held in the 1950s and 1960s, discussions relating to the standardisation of accounting practices took place and the first calls for a harmonisation of accounting practice were heard. There were already inconsistencies in accounting treatments in different countries. An example of an early study into this issue found that some countries were very rules-based, while others allowed more flexibility in accounting practices; factors shaping the way a country developed its own accounting standards included the influence of the political and economic structure of the country, whether inflation was an issue, the influence of taxation policy, and the organisation of accounting and audit firms within the country (Kollaritsch, 1965).

There are many reasons for national differences in financial reporting, which include:

- Whether providers of finance are primarily creditors or equity holders – for example in countries such as the UK and USA, shareholders traditionally provide a significant proportion of finance, whereas in Germany, France and Spain, finance tends to be from external sources including banks or the state.
- The basis of the legal system including whether law is based on a common law or a code law system – for example in China the existence of code law creates a very different framework for business activity and financial reporting than in other countries where common law prevails.
- The relationship between taxable income and accounting income and how tax liabilities are determined, with this often helping to shape whether the financial reporting framework is more prescriptive or principle-based in nature – for example, in Japan a combination of code law and reporting primarily for tax reasons led to the development of a very prescriptive accounting regime.

- Cultural differences, such as attitude to secrecy of financial information and language and whether there is state control or professional regulation of financial reporting – this is discussed with relevance to Islamic finance principles later in this chapter.

One of the main problems with the development of different accounting regulations in different countries is that it acts as a barrier to the movement of funds between countries. A comparison between financial statements issued in different jurisdictions becomes problematical due to a lack of consistency in preparation and disclosure requirements, hindering cross-border investment. Hence, the move to an international regulatory framework, making comparability easier, should encourage both individuals and companies to invest overseas, having confidence in their analysis of financial statements which, though prepared in a different jurisdiction, follow familiar accounting principles and disclosure requirements.

For preparers of financial statements of multinational reporting entities, the lack of consistency when not using an international set of accounting rules means that time is spent preparing multiple sets of accounts using different principles and rules, and reconciliations between the different sets of accounts may be necessary. International harmonisation should allow the accounting processes of the individual components of a group to become streamlined, improving the efficiency of the accounting function and making consolidation a smoother process. It follows that there should be a reduction in the costs of preparing the financial statements and having them audited.

There are, of course, many commentators who argue that moving to IFRS does not necessarily lead to lower costs, and indeed the costs of transition itself can be significant. Others argue against the use of a global set of financial reporting standards and that individual jurisdictions should continue to play an important role in determining the financial reporting framework. However, the pace of harmonisation has gathered momentum over the last few decades, and the rest of this section will look at the development of the international regulatory regime for financial reporting.

1.1.2 The International Accounting Standards Committee

In 1973 the International Accounting Standards Committee (IASC) was formed. As discussed in Section 1.1.1, there had been a growing opinion in the accountancy profession that an international approach should be considered in the development of accounting standards. The aim was to develop accounting standards, to be called International Accounting Standards (IAS), with a general objective of promoting international harmonisation of accounting treatments.

The IASC was based in London and in its early years was a small organisation that met several times a year. Its members were representatives of national standard setters who contributed on a part-time basis to the work of the IASC (Kirsch, 2012). The national accounting bodies of the UK and Ireland, the United States, the Netherlands, Australia, Canada, France, Germany, Mexico and Japan were invited to join the IASC (Zeff, 2012). Each member body agreed to promote the use of IAS in their countries, but it is worth noting that many countries, in particular the UK and the US, continued to invest in the development of a robust set of national accounting standards. It was mainly developing nations that adopted IAS as their own financial reporting framework.

The IASC existed for 27 years and during that period its membership grew, with representatives from countries such as South Africa and Nigeria joining the committee, increasing the geographical spread of the organisation. A major event in the development of the IASC occurred in 1987 when the International Organization of Securities Commissions (IOSCO), of which the US Securities and Exchange Commission (SEC) had recently become a member, discussed with the IASC the possibility of IOSCO endorsing IAS for use on the securities markets of its members. The IASC worked on producing a set of core standards that would be submitted to IOSCO and this was a lengthy process. The IASC's first attempt at developing a core set of standards was the "Comparability/Improvements" project, which culminated in 1993. IOSCO did not endorse the IAS standards at this time, leading to the IASC developing a revised work programme called the "Core Standards Program".

A further driving force encouraging the IASC to develop its core standards was the increased appetite for a European capital market, the achievement of which it was believed would be helped by the use of international accounting rules. In addition, by the late 1990s the SEC had hinted that, subject to the core standards being of "high quality" and meeting certain criteria, their acceptance in US capital markets would be debated further. The SEC and AICPA were particularly critical of the many permissible accounting treatments of IAS (Kirsch, 2012), and the Core Standards Program looked closely at eliminating choice in the standards.

1.1.3 The Formation of the International Accounting Standards Board, and Endorsement of IAS by IOSCO and the EU

The membership of the IASC had grown in the 1990s, yet it was still essentially a relatively small organisation faced with an ever-increasing number of projects to deal with. The IASC issued 41 IASs during its existence, as well as numerous Standing Interpretation Committee documents, a Conceptual Framework and other guidance.

There was concern that high quality standards to meet the demands of a global set of stakeholders could not be developed realistically within the existing structure of the IASC. In particular there were calls for input from a wider geographical perspective, for more formal liaison with national standard setters, and for those appointed to deliberate and decide on financial reporting standards to have appropriate technical expertise. In May 2000 the IASC's member bodies, numbering 143 at the time (Zeff, 2012), approved the formation of the International Accounting Standards Board. The first chairman was David Tweedie, the former chair of the UK's Accounting Standards Board. Members of the IASB's board included representatives from a range of countries comprising the UK, USA, Australia, Canada, France, Germany, Japan, South Africa and Switzerland. Some of the members had a responsibility to liaise with national standard setters. The IASB was to issue accounting standards known as International Financial Reporting Standards (IFRSs) and adopted the IAS issued by the IASC.

One of the main objectives of the IASB in its early years was to agree with the US Financial Accounting Standards Board (FASB) a programme of convergence. In October 2002 the two bodies issued a Memorandum of Understanding (MoU), which became known as the Norwalk Agreement. The MoU's main objective was to start a series of projects that would ultimately remove differences between US GAAP and IFRS, a process that would involve the revision of existing standards and the development of new standards. The MoU has been revised periodically, and while there have been many success stories in terms of the alignment of US

GAAP and IFRS, at the time of writing full convergence has not been achieved and remains a controversial issue.

Several key events, which were to be fundamental to the international harmonisation of financial reporting, occurred at the start of the twenty-first century. Firstly, in May 2000, at the same time as the formation of the IASB, IOSCO endorsed the core IAS standards that had been developed by the IASC, recommending that its members permit incoming multinational users to use the standards for cross-border offerings and listings. This was a big step in establishing the credibility of IAS globally and was seen as a landmark decision for improved financial reporting at an international level.

Secondly, in June 2002 the European Commission announced that as part of its strategy towards a single capital market across its member states, EU listed reporting entities would be required to prepare financial statements using IAS from 2005. This ruling resulted from a disharmony that had developed in the member states over the previous two decades when accounting rules had been based largely on the fourth and seventh directives on company law issued by the European Commission. The directives had not led to the desired accounting harmonisation across the member states, leading to discussion of whether an alternative approach to harmonisation would be preferable. The directives were legislation and therefore cumbersome to issue, amend and enforce in different countries, and the attractiveness of the IASB's perceived more flexible approach to standard setting grew. In addition, in the 1990s there was a substantial increase in the number of European companies listing on non-European stock markets, notably the New York Stock Exchange, which encouraged the European decision makers to move away from an objective of accounting harmonisation within Europe to one of embracing a more global approach to harmonisation. The EU decision was momentous, as it was the first time that there was a commitment for IAS to be adopted as the primary reporting mechanism for such a large number of reporting entities.

There was, however, a controversial part of the EU policy on adoption of IAS. Part of the EU's strategy on IAS adoption was that the IAS followed by EU listed reporting entities would be those IASs that had been reviewed and endorsed for use in the EU. This led to concerns that the EU would cherry pick from IAS and only endorse those standards that suited implementation in the EU, leaving other less appealing standards un-endorsed. This led to some problems in the transition for EU companies, which will be discussed in subsequent chapters.

1.2 THE REGULATORY FRAMEWORK OF IFRS TODAY

1.2.1 The Overall Governance Structure and Standard-setting Bodies

The key bodies in the regulatory framework of IFRS are the IFRS Foundation, the IASB, the IFRS Interpretations Committee, and the IFRS Advisory Council, as summarised below.

The IFRS Foundation is a not-for-profit, private sector organisation, operating independently with the following principal objectives:

- To develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;
- To promote the use and rigorous application of those standards;

- To take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and
- To promote and facilitate adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.[1]

The Foundation's trustees oversee the standard-setting process and appoint members to the other bodies. The trustees also review the effectiveness of the regulatory framework, safeguard its independence and are tasked with raising finance for the structure. The trustees come from geographically diverse areas and a range of professional backgrounds. The key objective is to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. The Foundation wants to ensure that the standard-setting process is open and transparent, and that there is full consultation with investors, regulators, national standard setters, business leaders and the global accountancy profession.

The IASB is the independent standard-setting body tasked with developing and issuing IFRSs and the IFRS for Small and Medium-sized Entities (IFRS for SMEs). From July 2012 the IASB has 16 board members drawn from a wide geographical background, and the current Chairman is Hans Hoogervorst, who succeeded David Tweedie in July 2011. IFRS is developed via a consultation procedure known as "due process" which involves a number of stages:

1. **Setting the agenda, planning and research**
   The decision as to whether an item is added to the agenda is driven by the information needs of users of financial statements, in particular investors. Matters such as the possibility of increasing convergence, whether there is existing guidance, and resource constraints are also considered. Planning involves deciding whether to conduct the project alone or to involve another standard setter, and a working group may be formed to conduct the necessary research for a larger project.
2. **Discussion Paper**
   The issuance of a Discussion Paper (DP) is not a mandatory part of due process, but one will usually be issued for larger projects as a way for the IASB to obtain early feedback on the project and gauge the response of interested parties. A DP would normally include an overview of the issue, an outline of possible approaches that may be used including the IASB's views, and an invitation to comment.
3. **Exposure Draft**
   An Exposure Draft (ED) is a mandatory step in due process that describes in detail a proposed accounting treatment, taking the form of a proposed accounting standard (or amendment to an existing standard). An ED will be drafted based on comments from various sources including those invited from a DP (if issued), input from IASB staff researchers, the IFRS Advisory Council, and discussions held at public meetings. As with a DP, an ED includes an invitation to comment.

[1] *Extracted from the IFRS Foundation website at http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx.*

4. **IFRS**
   Comments on an ED are considered by the IASB and, if necessary, the ED is re-exposed. Once the IASB is satisfied that the proposed accounting treatment has been debated appropriately, based on feedback from the ED, the IFRS is drafted and a ballot held. There may be several rounds of comments before this stage is reached if the IASB wishes to re-expose the matter in a series of EDs. After an IFRS has been issued, there will be a post-implementation review, involving meetings with national standard setters and other parties. The IASB aims to understand any practical issues and impacts that may have arisen in the implementation of the new accounting requirements.

The implication of the due process involved in developing or revising IFRSs is that for preparers of financial statements, including those planning a transition to IFRS, they should bear in mind that potential changes to existing accounting rules may influence the selection and development of accounting policies. It is therefore crucial to have an understanding not only of the existing IFRS requirements, but also the changes that may take place over the next few years, as indicated by the existence of DPs and EDs.

The IFRS Interpretations Committee (formerly known as IFRIC) is the IASB's interpretative body. The Committee looks into issues relating to existing IFRS, such as matters that arise on their practical application, and produces interpretations known as IFRICs, often on specific and specialised matters. The IASB approves the Committee's interpretations. The Committee comprises 14 members drawn from a variety of professional backgrounds and geographical areas.

The IFRS Advisory Council is not itself a standard-setting body. It provides advice to the trustees of the Foundation and to the standard-setting bodies and reflects the views of a wide range of interested parties including academics, investor groups, auditors, professional bodies, analysts and preparers of financial statements. The members are appointed by the trustees.

1.2.2 IASB Standards

At the time of writing there are 13 IFRSs issued by the IASB, as well as 27 IASs, which were issued by the IASC and remain effective. There are also many Interpretations and SIC documents which form part of IFRS. Appendix 1 sets out a list of all issued standards and documents.

The standards are published in hard copy annually in the "Red Book", which is the only official printed version of the IASB's pronouncements. As well as containing the full text of the standards, the "Red Book" also contains accompanying documents, such as illustrative examples, implementation guidance, bases for conclusions and dissenting opinions. There is also a "Green Book", which is a guide through the standards, and a "Blue Book", which contains the standards without early application. The IFRS Foundation offers a subscription service that provides access to all relevant IFRS information.

The standards and their technical summaries (but not accompanying documents) can be accessed free of charge on the IFRS Foundation website on registration with the site.

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As part of its objective of encouraging the global adoption of IFRS, the IFRS Foundation considers it important that IFRS is translated into different languages. Indeed, it recognises that having IFRS translated into a particular language can have a crucial impact on whether IFRS is adopted by a country using that language. The IFRS Foundation has several policies on translation, including that there is only one translated version of IFRS, and that the translation process involves native speakers who are accounting experts.

The paragraphs contained in an IFRS are either bold type or plain type, and they have equal authority. The bold type paragraphs indicate the main principles of the IFRS. In addition, IFRSs have accompanying guidance which may or may not be an integral part of the IFRS, and if it is integral to the IFRS it is a mandatory part of the standard. Guidance states whether it is integral to the IFRS or not.

1.2.3 The Conceptual Framework

In 1989 the IASC issued the Framework for the Preparation and Presentation of Financial Statements (the Framework) that was subsequently adopted by the IASB. The Framework contains basic concepts that underpin the detail given in IFRS such as definitions of elements of the financial statements, measurement principles and the desired characteristics of useful information.

The Framework principles should be used in the absence of any specific requirements or guidance in financial reporting standards. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the preparer of the financial statements to use judgement in developing and applying an accounting policy in the absence of any such specific guidance, and in making that judgement, the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the Framework should be considered. These issues are discussed in more detail in Chapter 2.

In 2004 the IASB and FASB agreed to begin work on a joint project to develop a common conceptual framework. FASB has its own conceptual framework contained in documents entitled Statements of Financial Accounting Concepts, which, while containing some similar principles to the IASB's Framework, also contain many areas of difference. Without a common conceptual framework it was difficult to see how the IASB and FASB financial reporting standards could be harmonised. Progress on the joint project was slow for a number of reasons, and it was not until September 2010 that the first phase of the project was completed with the issuance by both the IASB and FASB of Phase A of the revised Framework, dealing with objectives of financial statements and qualitative characteristics. This was the first revision by either Board to their respective conceptual frameworks for several years, making the revisions noteworthy (Pounder, 2010).

Late in 2010 the project was paused while the IASB worked on more urgent projects, and the project was restarted in September 2012, but as an IASB-only project. A Discussion Paper dealing with the remaining chapters of the Framework was issued in July 2013.

The content of the Framework and its relevance to IFRS transition is discussed in Chapter 2. It is particularly important that the Framework principles are adhered to in selecting and developing accounting policies, so for first-time adopters of IFRS a sound understanding of those principles is essential.

1.2.4 The IFRS for SMEs

IFRS was developed to meet the needs of equity investors in companies in public capital markets. IFRS is therefore perceived as a detailed set of rules and principles, requiring comprehensive disclosures in the notes to the financial statements, which may not be entirely suitable for small and medium-sized entities with simple transaction streams and whose users have less need for detailed disclosures. The crux of the issue is that preparers of financial statements of small and medium-sized entities are reluctant, given the choice, to follow IFRS because the cost and effort of preparing IFRS-compliant financial statements would outweigh the benefit provided.

In 2003 the IASB began to deliberate views on a separate financial reporting standard for small and medium-sized entities, with the objectives being to meet user needs while balancing costs and benefits from a preparer perspective. A Discussion Paper was issued in June 2004, and an Exposure Draft in 2007. Field testing of the Exposure Draft was conducted, involving 116 small companies in 20 countries. Following largely positive feedback in relation to the field testing and Exposure Draft, the IFRS for Small and Medium-sized Entities (IFRS for SMEs) was published in July 2009.

The IFRS for SMEs is a self-contained standard of only 230 pages, representing a practical and cost-effective alternative to "full" IFRS. It is available for any jurisdiction to adopt, whether or not it has adopted full IFRS. Each jurisdiction must determine which entities should use the standard and so far, over 80 countries have adopted, or plan to adopt, the IFRS for SMEs.

Compared with full IFRS, it is less complex in a number of ways:

- Some topics are omitted because they are not relevant to typical SMEs.
- Some accounting policy options are not allowed because a more simplified method is available to SMEs.
- Simplification of many of the recognition and measurement principles.
- Substantially fewer disclosures (IFRS Foundation, 2012).

According to the IFRS for SMEs, small and medium-sized entities are entities that do not have public accountability, and publish general purpose financial statements for external users.

Although the title of the standard refers to the terms "small" and "medium", there is actually no size criterion used to determine which entities fall under its scope. Eligibility to use the IFRS for SMEs is largely dependent on whether the reporting entity has "public accountability". Essentially, an entity has public accountability if its debt or equity instruments are traded in a public market or if this is likely to be the case in the near future. The definition means that listed entities irrespective of size may not use it, and it effectively bars most financial institutions such as banks and building societies from being eligible.

It seems that the IFRS for SMEs should remove a potential barrier to harmonisation, as its conciseness, clarity of explanation and simplified accounting treatments have been well received by preparers of financial statements, encouraging those who may have been put off by the burden of full IFRS adoption to move to a more workable version of IFRS. Compliance with the IFRS for SMEs should bring similar benefits in terms of the comparability of financial

statements, and may also improve access to capital from international banks and other investors abroad, who are already accustomed to IFRS (Miller, 2010).

One section of the IFRS for SMEs deals specifically with transition to the standard, which can mean transition from national GAAP, from full IFRS, or a situation where an entity has not previously before published general purpose financial statements.

1.3 THE CURRENT POSITION ON INTERNATIONAL HARMONISATION OF FINANCIAL REPORTING

Earlier in the chapter, the harmonisation of accounting standards was discussed in relation to the history of the IASB. This section will further explore the situation today, and consider whether true global harmonisation will ever be achieved.

1.3.1 Convergence and Harmonisation

Convergence refers to the process of narrowing differences between national Generally Accepted Accounting Practice (GAAP) and IFRS, such that a country retains its own financial reporting standards which become more consistent with the rules and principles of IFRS (Kothari and Barone, 2011). There may be a number of reasons for a country deciding to retain its own GAAP, including political, legal and cultural issues which mean that the wholesale adoption of IFRS in place of national GAAP is not possible. The IASB will help countries following this route, recognising that convergence is a powerful driving force in the adoption of globally accepted financial reporting standards.

Currently the most common route to convergence involves the retention of partially or substantially converged national GAAP at the same time as allowing or permitting the use of IFRS for some reporting entities, for example, in many EU countries listed entities use IFRS (as adopted by the EU) and other entities are usually given the option to use national GAAP or IFRS. Other countries, notably those with no pre-existing national GAAP, may decide simply to adopt IFRS as their own financial reporting regulation. The IASB's Director of International Activities argues that this is "the simplest, least costly and most straightforward approach" (Upton, 2010).

According to the IASB, all major economies have established timelines to converge with or adopt IFRSs in the near future and it has been reported that approximately half of the Fortune Magazine Global 500 companies use IFRS (Danjou, 2013). It cannot be denied that the transition to IFRS has gathered pace in the last decade, and IFRS reporting is now the norm, rather than the exception, for major companies around the world.

As previously discussed, a major boost for harmonisation was the EU regulation requiring that from 2005 all EU listed reporting entities are to publish their consolidated financial statements using IFRS rather than national GAAP. This spurred other countries such as Australia, South Africa, and Hong Kong, amongst many others, to adopt a similar regulation. There then followed a second tranche of countries converging with IFRS, including Argentina, Canada, Mexico, and Russia. At the time of writing many more countries are deliberating convergence and others, for example, Japan and India, are at various stages in the process of convergence.

In June 2013, the IFRS Foundation released information on a survey completed on the adoption of IFRS around the world, which represented the first phase of an initiative to assess the progress

towards global adoption of IFRSs. The work so far completed indicates that IFRS is being adopted on a wide scale, with 95% of the jurisdictions included in the survey having made a public commitment supporting IFRSs as the single set of financial reporting standards suitable for global application, and with 80% having already adopted IFRSs as a requirement for all or nearly all companies whose securities are publicly traded (IFRS Foundation, 2013e).

It is not just the IASB championing the use of globally accepted financial reporting standards. The international convergence efforts of the IASB are also supported by the Group of 20 Leaders (G20) who, in 2009, called on international accounting bodies to redouble their efforts to achieve this objective within the context of their independent standard-setting process. In particular, they asked the IASB and the FASB to complete their convergence project. The fact that the G20 leaders specifically highlighted the issue of US convergence (or lack of) with IFRS indicates that this is seen as a significant problem for harmonisation.

Despite the fact that so many countries require or permit the use of IFRS, some commentators argue that there is perhaps a misconception surrounding this, and that actually the adoption of IFRS is less widespread than is commonly thought. For example, in many jurisdictions the use of IFRS is only required for listed entities, leaving the large number of non-listed entities which commonly make up the majority of companies in a country to use local GAAP or, in some countries, giving them a choice to move to IFRS if they wish to do so (in which case many decide to stay with local GAAP). In addition, some jurisdictions require or permit a locally adapted version of IFRS, for example, in the EU, where listed entities follow EU-adopted IFRS rather than IFRS as issued by the IASB. There are also national factors, which means that when IFRS is adopted, it is applied in different ways in different countries, with the legacy of the previously applied GAAP retaining an influence over the selection and development of IFRS accounting policies.[2]

1.3.2 Convergence of US GAAP and IFRS

As discussed in Section 1.1, from its formation a primary aim of the IASB was to work towards convergence with US GAAP, leading to the Norwalk Agreement and the Memorandum of Understanding (MoU) between the IASB and FASB. Although significant progress has been made, there still remains some uncertainty over how fully converged US GAAP and IFRS will ever become.

Since the MoU was first agreed many joint projects have been completed; the MoU was updated in 2008, and in 2009 the IASB and FASB issued a joint statement reaffirming their commitment to the MoU. In this statement strategies were described, which would ensure the timely completion of projects on financial instruments, consolidations, derecognition, fair value measurement, revenue recognition, leases and financial statement presentation. The completion of these projects would eliminate, as far as possible, the areas of significant difference between IFRS and US GAAP. However, progress has not been as speedy as hoped and several of the projects are not yet complete. Three projects have been earmarked as priorities, namely: leases, financial instruments and revenue recognition.

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[2] *For a more detailed discussion of the actual extent of IFRS adoption across the world, academic literature contains debates on this issue, for example "The continued survival of international differences under IFRS" by Chris Nobes (Nobes, 2013b).*

In 2007 two significant announcements were made by the SEC, which led many to believe that the US standard setters and regulators were very much in favour of convergence. Firstly, the SEC eliminated the need for accounts prepared by foreign private issuers to contain a reconciliation between the financial reporting framework under which the financial statements had been prepared, often IFRS, and US GAAP. Secondly, the SEC announced that IFRS might, in the future, be permitted as an alternative to US GAAP as the financial reporting framework for entities filing financial statements in the US. However, progress towards this has been slow, largely due to the MoU projects taking longer than anticipated to complete.

In May 2011 the SEC issued a staff paper which explored the possible methods of incorporating IFRS into US GAAP. In the paper, the idea of convergence had been replaced with the concept of "condorsement", introducing new terminology into the harmonisation debate (SEC, 2011a). The condorsement framework, combining elements of the endorsement and convergence approaches to harmonisation, involves the retention of US GAAP, with the FASB incorporating elements of IFRS into US GAAP over a period of time, the period discussed in the paper being five to seven years, to achieve convergence of US GAAP and IFRS. The FASB would then endorse IFRSs issued by the IASB and have the ability to amend them before incorporating them into US GAAP.

At the time of writing no further major developments have taken place in respect of the US harmonising with IFRS. In January 2013, the Chairs of both the IASB and FASB reaffirmed their commitment to eliminating areas of difference between US GAAP and IFRS, but it seems that progress will continue to be slow. The specific transition issues relating to the USA are discussed in more detail in Chapter 9.

1.3.3 Harmonisation Challenges – a Cultural Perspective

Despite the growth in the use of IFRS across the world, there are some areas and jurisdictions in which the move to IFRS faces significant challenges. A detailed discussion is beyond the scope of this book, but it is important to highlight at least some of the issues, which mean that IFRS may never be truly globally accepted, and that in some locations local GAAP will remain the main mechanism for financial reporting.

Cultural issues are very important and can create a significant barrier to harmonisation. In many parts of the world, Islamic culture has a significant influence on financial reporting. For instance, under Islamic finance doctrines, interest is not charged on borrowings due to a principle which forbids a fixed rate of return. To cope with these cultural influences, a range of Islamic (Sharia-compliant) financial transactions have developed, such as alternatives to traditional commercial mortgage arrangements, and methods of financing new business ventures that do not rely on interest-bearing finance. This clearly causes issues with the application of some financial reporting rules, especially in relation to financial liabilities and finance charges and means that IFRSs such as IFRS 9 *Financial Instruments* and IAS 18 *Revenue* would be extremely difficult to apply to these transactions. There are also Sharia-compliant insurance arrangements and leasing contracts, to which the application of IFRS principles would be difficult. Another example, relating to disclosure requirements, is from Egypt, where the disclosure of related party transactions is prevented by cultural taboo, making application of IAS 24 *Related Party Disclosures* difficult (Outa, 2013).

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Although it would seem that accounting for balances and transactions in a way that complies with both IFRS and Sharia principles is unlikely to be possible, many commentators argue that this is not the case, and indeed many global organisations, including banks, do manage to achieve this. The principles-based nature of IFRS means that there is some flexibility in applying the standards, which eases the situation somewhat.[3]

In response to the specific type of financial arrangements prevalent in Islamic countries, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed a series of standards on accounting, audit, governance and ethics, with many of the financial reporting standards focusing on Islamic finance. The standards are followed by organisations that wish to be Sharia-compliant, including some global banks and finance companies (Krom, 2013).

Countries influenced by Islamic culture have responded to the issue of whether IFRS and Islamic principles of conducting business are compatible in different ways. In Malaysia, for example, the Malaysian Accounting Standards Board has issued IFRS-compliant Malaysian Financial Reporting Standards (MFRS) and has an Islamic Technical Unit to address issues of potential difficulty in applying MFRS to Islamic finance transactions and balances. However, in other countries it would seem that the cultural issues are more of a barrier to IFRS adoption, for example in Iran, where a recent study concluded that for a number of factors it would be difficult to envisage a situation where IFRS was fully adopted (Kangarlouei, Agababa, and Motavassel, 2013).

1.4 THE BENEFITS AND IMPACT OF MOVING TO IFRS

There are many advantages to moving to an IFRS-based financial reporting framework, and while the transition itself inevitably has cost and other implications, for many organisations the move to IFRS brings benefits in the long run. The first part of this section discusses the general potential benefits. The discussion then moves on to provide an overview of the impact that transition can have on reported results, looking at performance and financial position and the relevant disclosures in notes to the financial statements.

1.4.1 The Benefits of Moving to IFRS

There are many benefits cited for organisations that use globally accepted financial reporting standards. The first is the greater comparability that using such standards can bring. The idea is that by using IFRS, the financial statements of reporting entities being produced from a consistent framework and set of requirements should be comparable, allowing existing and potential investors, as well as other users of the accounts, the ability to compare more easily their reported results and financial position. This should, in turn, encourage investment. The theory is that for investors the improved information environment creates lower risk investments; for companies there should be better access to capital from a range of investors all over the world, and there should be a reduction in the cost of capital. Much academic work has been performed on the cost of capital issue, some of which concurs with the suggestion that cost of capital does decrease subsequent to IFRS adoption, but overall the results are not overwhelmingly conclusive on this point (Brüggemann, Hitz, and Sellhorn, 2013). However,

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[3] *For a discussion of the application of IFRS to Islamic finance transactions, the PwC report "Open to Comparison: Islamic Finance and IFRS" is a good point of reference (PwC, 2010a).*

from a purely practical point of view it is undoubtedly easier to make comparisons between two sets of financial statements prepared under IFRS than if they were prepared under completely different accounting standards, so the ease of comparability is enhanced even if there is not a marked effect on capital markets.

There are also more direct benefits to businesses. For example, the use of financial reporting standards that are consistent with industry peers across the world can open up business opportunities and make companies themselves more willing to invest overseas, and not just attract an inflow of overseas funding. The use of the same financial reporting framework removes barriers to overseas investment. For instance, an American study suggests that migrating to IFRS-based financial reporting allows even small companies to reduce operating costs when engaging in overseas business and to reduce the risk of investing overseas (Etnyre and Singhal, 2011). And other studies indicate that by using IFRS, companies are able to more effectively contract with customers and suppliers (Hail, Leuz, and Wysocki, 2010).

In addition, there might be actual cost savings in the long run; for example, where there is no longer a need to reconcile financial statements produced under one country's GAAP to that of another in the case of companies with multiple stock exchange listings. Some companies will take advantage of the transition project and build into it other changes that benefit the business; for example, improving information systems or strengthening controls over financial reporting. It then becomes difficult to differentiate the benefits directly consequential to the IFRS transition from the other added-value benefits, but overall it is a positive experience for these companies. For multinational companies there are definite advantages in terms of simpler consolidation processes, and when all accounting staff are IFRS-literate there are benefits of easier labour mobility and economies of scale from standardised financial reporting packages.

However, despite the benefits outlined above, it cannot be denied that for many businesses the transition to a new set of accounting standards is costly, time-consuming and disruptive. When surveyed, many accountants respond that they feel the benefits of moving to IFRS do not outweigh the costs involved. This attitude is hopefully only short term, as in the long run there are definite advantages to companies, especially if they embrace the potential opportunities offered by the transition to engineer business improvements and improve both internal and external communication of financial information.

1.4.2 Impact on Profitability and Performance

There is plenty of evidence available on the impact of IFRS on financial statements, but this is a very difficult issue to generalise, as the nature and significance of impacts will vary depending on factors such as:

- The level and nature of differences between previous GAAP and IFRS – this will affect the impact on a jurisdiction level basis – for example, whether previous GAAP is based on similar principles to IFRS. Research shows that there are big differences in the impact of moving to IFRS on a country-by-country basis.
- The existence of any industry sector factors that necessitate the application of IFRS requirements with particular impacts on certain line items in the financial statements – this includes, for example, financial institutions applying hedge accounting.

- The degree to which organisations are inclined to make changes to accounting policies, i.e., whether they only make absolutely essential changes to comply with IFRS or embrace a wider consideration of their accounting policies.
- The influence of audit firms in the selection and development of accounting policies, and the required level of disclosure in notes to the financial statements.

The specific impacts of moving to IFRS on financial performance and position will depend on matters such as those listed above, and vary from country to country. To provide an example of the impacts seen when companies move to report under IFRS, this section will take perhaps the most significant wave of transitions to IFRS, that of EU transition in 2005, and consider the impacts seen there to illustrate the effect of adopting IFRS. As discussed in Section 1.1, the EU passed legislation in 2002 that mandated the use of IFRS by EU listed groups from 2005. This affected more than 8,000 reporting entities and is the wave of transition that has been most studied by academics, professional firms and regulatory bodies, and therefore provides some important insights into the impact of transition.

Generally, for EU companies, profit was found to increase on the move to IFRS. This is demonstrated in several studies. In an academic study of 241 UK listed companies (excluding banks, insurance and pension firms), it was found that IFRS implementation generally improved profit measures such as operating and net margins, and earnings per share figures also were higher under IFRS than under UK GAAP (Iatridis, 2010).

Another study looked at the impact of IFRS transition on equity for firms in different industries. It showed that the impact varied even within the same industry, indicating that the impact of transition depends largely on the accounting policies of individual companies within an industry sector (Aisbitt, 2006). For example, the research looked at the impact on equity for companies within the consumer services industry when they moved to IFRS reporting. The results showed that for 8 of the 25 companies their equity figure increased under IFRS; for the remaining 17 companies their equity figure decreased under IFRS.

A study by the Institute of Chartered Accountants in Scotland (ICAS, 2008) examined the impact of moving to IFRS on the financial statements of Italian, UK and Irish companies.The average increase in net profit on moving to IFRS was found to be 48.5%. The accounting areas that contributed most to the increased profit were business combinations, financial instruments and investment properties, though there were some accounting areas that tended to reduce profit, namely tax, share-based payment and leases. Similar results were seen in an academic study of companies in the same three countries, which found that business combinations, tax and pensions accounted for much of the reconciling items between previous GAAP and IFRS as disclosed in the first IFRS financial statements (Fifield *et al.*, 2011).

Literature on this topic stresses that impacts will be different for individual companies, but the general trend of increased profit is interesting. To show the magnitude of some profit impacts, example reconciliations from profit as reported under previous GAAP to that reported under IFRS are shown below. For detailed discussion of the accounting policy changes giving rise to the adjustments, explanations are provided in the notes to the financial statements which can be accessed on the company websites. For ease of comparison, the reconciliations have not been taken from the annual reports as published, the data have been extracted and converted to simple tables.

Case Study 1.1: BSkyB Plc's Reconciliation of Profit on Transition to IFRS

	£ million
Profit for the year as reported under UK GAAP	**425**
IFRS adjustments:	
Share-based payments	(13)
Financial instruments and hedge accounting (IAS 21)	(34)
Financial instruments and hedge accounting (IAS 39)	45
Goodwill	148
Intangible assets	8
Others	(1)
Total IFRS adjustments	**153**
Profit for the year as reported under IFRS	**578**

Source: British Sky Broadcasting Group plc website www.corporate.sky.com (Sky Annual Report, 2006). Reproduced by permission.

Comment: BSkyB, like many other UK companies, had a significant adjustment to profit in relation to the non-amortisation of goodwill under IFRS, compared with an annual amortisation charge under UK GAAP. Other adjustments typical of many companies were made for employee share-based payment expenses recognised for the first time, and for financial instruments measured at fair value.

Case Study 1.2: Centrica Plc's Reconciliation of Profit on Transition to IFRS

	£ million
Profit for the year as reported under UK GAAP	**675**
IFRS adjustments:	
Petroleum revenue tax	(48)
Leases	4
Retirement benefits	(41)
Goodwill	119
Other income taxes	1
Employee share schemes	(1)
Discontinued operations	(72)
Total IFRS adjustments	**(38)**
Profit for the year as reported under IFRS	**637**

Source: Centrica Group website www.centrica.com (Centrica, 2005). Reproduced by permission.

Comment: For Centrica, a leading supplier of energy to the UK's national grid, a significant industry-specific adjustment was made to revenue, as well as some adjustments common to most companies in respect of pensions and goodwill, and other smaller adjustments. Unlike many companies, Centrica's overall profit was smaller under IFRS than UK GAAP.

1.4.3 Impact on Financial Position

Studies indicate that equity is generally lower under IFRS than previous GAAP for EU companies. The ICAS survey referred to previously reveals that, on average, the total value of

equity reported under IFRS is 85.6% of its value under previous GAAP (ICAS, 2008). In the EU transition, a significant downwards equity adjustment was often recognised in respect of employee benefits. The reason for employee benefits causing a reduction in equity is related to the fact that at the time when defined benefit pension plans were required to be recognised in the reporting entity financial statements for the first time, many of them were in deficit, resulting in sometimes very significant liabilities being recorded in many organisations' balance sheets. The reasons for the reduction in equity caused by the other accounting issues tend to be more entity-specific.

To show the type of adjustments made to equity, reconciliations of equity as reported under previous GAAP to those reported under IFRS at the date of transition are shown below:

Case Study 1.3: BSkyB Plc's Reconciliation of Equity on Transition to IFRS

	£ million
Equity as reported under UK GAAP at 1 July 2004	**90**
IFRS adjustments:	
Share based payments	24
Financial instruments and hedge accounting (IAS 21)	86
Financial instruments and hedge accounting (IAS 39)	(100)
Events after the reporting date	63
Associates and joint ventures	3
Total IFRS adjustments	**76**
Equity as reported under IFRS	**166**

Source: British Sky Broadcasting Group Plc website www.corporate.sky.com (Sky Annual Report, 2006). Reproduced by permission.

Comment: The largest reconciling item relates to financial instruments, these are mainly foreign currency hedges. The amount shown in the reconciliation is net of a deferred tax asset arising on the recognition of the derivative financial liabilities.

Case Study 1.4: Centrica Plc's Reconciliation of Equity on Transition to IFRS

	£ million
Equity as reported under UK GAAP 1 January 2004	**2,737**
IFRS adjustments:	
Intangible assets	388
Property, plant and equipment	(81)
Joint ventures	61
Deferred tax assets	381
Financial assets	22
Current tax assets	(31)
Trade and other receivables	(39)
Other financial assets	(745)
Cash and cash equivalents	723
Trade and other payables	129
Current tax liabilities	(30)
Bank overdrafts and loans	(3)

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	£ million
Bank loans and other borrowings	(326)
Deferred tax liabilities	49
Retirement benefit obligation	(1,108)
Total IFRS adjustments	**(610)**
Equity as reported under IFRS	**2,127**

Source: Centrica Group website www.centrica.com (Centrica, 2005).
Reproduced by permission.

Comment: The biggest item in Centrica's equity reconciliation is the reduction in equity attributable to the defined benefit pension plan, in common with many other companies moving to IFRS at this time. This is, to some degree, offset by the increase in equity caused by recognition of more intangible assets, some of which relate to business combinations. Many of the other adjustments shown are purely cosmetic, presentation adjustments, having no overall impact on equity.

The use of these case studies is partly to illustrate the type and scale of IFRS adjustments made, but also to highlight the fact that IFRS adoption will vary for all reporting entities. Even within the same industry and in the same jurisdiction there is likely to be much variety in the impact that IFRS transition has on reported results and on equity. This is why assessing the accounting impact of moving to IFRS reporting is such a crucial exercise when planning the transition. Despite the plethora of information on the differences between previous GAAP and IFRS for most major economies, this information itself cannot determine the accounting issues and required solutions on IFRS adoption – this must be done for each entity moving to IFRS on a line-by-line basis. Even within a group of companies, each legal entity may have very different accounting issues and therefore different issues to consider on the transition to IFRS, so the IFRS impact assessment must be done for each separate legal entity. Chapter 5 covers assessing the steps involved in accounting impact in detail.

1.4.4 Volatility and Fair Value Accounting

It is often assumed that adopting IFRS will lead to more volatile profit and equity figures. This perception is usually linked to the extensive use of fair values in IFRS, particularly the practice of recognising changes in fair value within profit, often referred to as mark to market accounting. This accounting technique is particularly relevant to accounting for financial instruments, and its effects are seen most readily in the financial statements of banking and finance companies, as well as companies in other industries that make extensive use of hedge accounting techniques. Fewer studies have been made on volatility than on the other impacts of adopting IFRS, but one study concludes that while adopting IFRS is likely to increase volatility in book values and reported earnings due to the use of fair value accounting, it does not necessarily mean that an organisation cannot service its debt or will suffer financial distress (Iatridis, 2010). Another study found that companies adopting IFRS for the first time experience statistically significant increases in market liquidity, especially in jurisdictions with a large difference between previous GAAP and IFRS (Daske *et al.*, 2008).

The IASB supports the use of fair value accounting, the rationale being that for financial statements to truly reflect the financial performance of a business, up-to-date values for assets and liabilities must be included, and that changes in value, where appropriate, should be reflected in performance measurement. The IASB recognises that this may lead to volatility

in profit, but argues that volatility reflects economic conditions and commercial reality, and that it is important for users to understand the true performance of the business and the risk profile of the organisation. Fair value measurements also help users to evaluate the timing and amount of future cash flows.

While fair value accounting is used for many items in the financial statements, it is part of a mixed measurement model, and other measurement techniques such as depreciated cost, amortised cost and recoverable amount are just as prominent in the financial statements of many reporting entities. When given a choice, relatively few reporting entities choose to measure at fair value.

Hans Hoogervorst, IASB Chairman, is keen to play down the prominence of fair value accounting in IFRS. In a speech delivered in Tokyo at the opening of the IFRS Foundation regional office in Asia-Oceania in 2012, he emphasised that IFRS favours a mixed measurement approach, and while fair value is relevant for actively traded financial instruments, it is much less relevant to use fair value for assets such as property, plant and equipment (Hoogervorst, 2012).

It seems reasonable to conclude, therefore, that while volatility will be a feature of the financial statements for certain industries, for the vast majority of companies that do not have significant holdings of financial instruments it will not be a significant issue unless an active decision is taken to measure certain items at fair value where that option is permitted.

1.4.5 Impact on Level of Disclosure

A common problem perceived with moving to IFRS is that the level of disclosure required in the notes to the financial statements will increase dramatically. It is true that IFRS is demanding in terms of disclosure and that organisations often underestimate the amount of time and effort that will need to be put into preparing the necessary notes.

A study by Ernst and Young found that the first IFRS financial statements were 20%–30% greater in length compared to the previous year, with the number of pages of notes to the accounts numbering 65 on average (Ernst and Young, 2006). A report by BDO found that first-time adopters of IFRS saw a volume increase of 20–30 pages in their annual reports as a consequence of IFRS adoption (BDO, 2010). And the ICAS study mentioned previously found that for Italian companies there was a particularly pronounced impact on disclosure, with an average of 73 extra pages of disclosure in the first IFRS financial statements (ICAS, 2008).

This illustrates not only the amount of extra disclosure required in the first IFRS financial statements, but also that the application of IFRS and the significance of change that is needed in financial statements to ensure IFRS compliance does vary from country to country.

The disclosures needed in the first IFRS financial statements are extensive, largely down to the one-time requirements of IFRS 1 *First-time Adoption of IFRS* – the application of this standard is discussed in detail in Chapter 3. In subsequent accounting periods, less disclosure specific to the transition will be provided, but it is likely that on an ongoing basis the financial statements will be longer under IFRS than they were under previous GAAP.

Of course, it is not just the quantity but the quality of information that is important to users of the financial statements. If there is no benefit in terms of providing better quality information, then the whole principle of IFRS-based reporting would seem flawed. The quality of information is a subjective matter, but studies have been conducted to try to gauge whether the quality of financial statement disclosures are materially improved on the switch to IFRS. For example, one recent study concludes that moving to IFRS improves the information environment, allowing users of the financial statements to make more accurate forecasts (Horton *et al.*, 2013). A different study also concluded that IFRS adoption leads to better quality of information and in addition that information is more comparable between firms (Yip and Danqing, 2012). Therefore, for users of the financial statements there is some comfort that while they have more information to digest under IFRS, that information should also be more relevant to their needs.

For the preparer of the financial statements, providing all of this additional information can be quite onerous. Anecdotal evidence from those that have gone through IFRS transition indicates that a substantial amount of the transition implementation involves ensuring that the right data are collected for disclosure in the notes. This is particularly the case for companies with complex financial instruments, where a whole standard, IFRS 7 *Financial Instruments: Disclosures*, is devoted to narrative and numerical disclosure requirements. There are also detailed disclosure requirements in many other areas, particularly for defined benefit pension plans, business combinations and segmental reporting, many of which will be new or significantly different in nature and extent to the disclosure requirements of previous GAAP.

As well as disclosures specific to certain accounting issues, companies may be surprised at the extent of general disclosure that is needed in relation to the accounting policies applied, and the areas of significant judgement in the financial statements. While most jurisdictions had some requirement for disclosure of accounting policies in previous GAAP, not all had a requirement specifically in relation to where significant judgement had been applied. It is common to see these disclosures amounting to at least one page of narrative, and often more.

1.4.6 The Influence of National GAAP on IFRS Accounting Policies

It is interesting to note that between countries, the impact of IFRS differed, as some elements of national identity were retained post-IFRS implementation. Financial statements tend to retain legacies of previous local GAAP at the same time as being IFRS-compliant. Evidence shows that companies adopt IFRS by selecting accounting policies that minimise changes from previously applied local GAAP, making the move to IFRS an “easy fix” as far as possible. This is particularly seen in presentation choices. For example, one study looked at how UK and French companies presented statements of changes in equity. The results showed that all French companies surveyed presented a single statement, consistent with previously applied French GAAP; whereas almost all UK companies presented two separate statements, consistent with previously applied UK GAAP (Ernst and Young, 2006). The same review also found that choices relating to the classification of operating expenses by function or by nature also depended strongly on practice under previous GAAP.

Similarly, retention of national identity was seen in a KPMG review which found little similarity in presentation choices between countries, and that the financial statements of different industries within countries were more comparable than those in the same industry but in different countries (KPMG, 2006).

A further academic study provides numerous examples of companies retaining previous GAAP accounting policies where possible under IFRS. The research demonstrates that there is a continuation of national accounting policies and that few companies change their accounting policy where a choice exists between a previously applied policy and a new policy where both are permissible under IFRS. This applied equally to complex matters such as accounting policy choices in relation to pensions, and to more cosmetic presentation differences such as the classification of expenses (Kvaal and Nobes, 2010). This research was updated in 2013 and extended to include the Canadian transition to IFRS, and established that national identity remains a significant determinant of IFRS accounting policies even several years after transition to IFRS (Nobes, 2013a).

CONCLUSION

This chapter has shown how the globalisation of financial reporting has developed over recent decades, beginning with tentative conceptualisations of the benefits of harmonisation, the development of the IASC and IASB, and the IASs and IFRSs, through to the present day, where many of the world's largest corporations report using IFRS-based financial reporting rules. It is clear that IFRS offers a set of principles and rules that are attractive to reporting entities and their stakeholders, and even in countries like the USA, which are more reticent about moving completely to IFRS, there is recognition that a global set of standards is desirable and that there is a risk in being left out of the move to IFRS. In many countries the IFRS for SMEs is a good option for financial reporting in that its simplified rules and disclosure requirements should be relatively easy to implement for smaller organisations.

The final part of this chapter has highlighted the accounting and disclosure impacts of moving to IFRS, focusing on the European experience. The examples used and the results reviewed, and surveys of financial statements post-IFRS implementation indicate that in the case of transition to IFRS, the impacts will differ significantly between reporting entities. This makes the planning of the transition for entities yet to adopt IFRS an extremely important issue. Effective planning can reduce some of the impacts, but where this is not possible, consideration needs to be given to a proper explanation of the impacts, to ensure that they are communicated in an understandable and timely manner.