

Frankfurt, 25<sup>th</sup>-26<sup>th</sup> October 2007

**III WORKING GROUP ON IFRS IMPACT AND  
CBSO DATABASES**

**Document n° 1**

**IFRS IMPACT**

**European Committee of Central Balance Sheet Data Offices (CBSO)**

# CONTENTS

## I. INTRODUCTION

## II. IFRS IMPLEMENTATION IN EUROPE. CURRENT DEVELOPMENTS IN THE EUROPEAN UNION AND SELECTED COUNTRIES. OPPORTUNITIES AND RISKS.

### II.1. CURRENT SITUATION IN THE EUROPEAN UNION (FINANCIAL REPORTING STRATEGY)

### II.2. CURRENT SITUATION IN SELECTED COUNTRIES

#### II.2.1. SUMMARY TABLE

#### II.2.2. IFRS APPLICATION IN SELECTED COUNTRIES

### II.3. OPPORTUNITIES AND RISKS

#### II.3.1. OPPORTUNITIES

#### II.3.2. RISKS

### II.4. AVAILABLE REPORTS ON IFRS IMPACT

## III. IFRS IMPACT ON CBSOs (DATABASES AND/OR SYSTEM OF ANALYSIS)

### III.1. INTRODUCTION AND SUMMARY

### III.2. CURRENT SITUATION IN SELECTED COUNTRIES

#### III.2.1. SUMMARY TABLE

#### III.2.2. DESCRIPTION BY COUNTRY

Members of the III WG on IFRS impact and CBSO databases						
Manuel Ortega (chairman)	<a href="mailto:manuel.ortega@bde.es">manuel.ortega@bde.es</a>	Banco de España		Saskia Vennix	<a href="mailto:saskia.vennix@nbb.be">saskia.vennix@nbb.be</a>	Banque Nationale de Belgique
Jesús María Martínez	<a href="mailto:martinez.moreno@bde.es">martinez.moreno@bde.es</a>	Banco de España		Vincenzo Favale	<a href="mailto:v.favale@centraledibilanci.it">v.favale@centraledibilanci.it</a>	Centrale dei Bilanci
Antonio Sánchez	<a href="mailto:antonio.sanchez@bde.es">antonio.sanchez@bde.es</a>	Banco de España		Dominik Elgg	<a href="mailto:dominik.elgg@bundesbank.de">dominik.elgg@bundesbank.de</a>	Deutsche Bundesbank
Ana Bárbara Pinto	<a href="mailto:apinto@bportugal.pt">apinto@bportugal.pt</a>	Banco de Portugal		Michael Weisbecker	<a href="mailto:michael.weisbecker@bundesbank.de">michael.weisbecker@bundesbank.de</a>	Deutsche Bundesbank
Margarida Ramos	<a href="mailto:mpramos@bportugal.pt">mpramos@bportugal.pt</a>	Banco de Portugal		Sabine Wukovits	<a href="mailto:Sabine.Wukovits@oenb.co.at">Sabine.Wukovits@oenb.co.at</a>	Oesterreichische Nationalbank
Jean Luc Cayssials	<a href="mailto:jean-luc.cayssials@banque-france.fr">jean-luc.cayssials@banque-france.fr</a>	Banque de France		Carlos Sánchez Muñoz (observer)	<a href="mailto:carlos.sanchez_munoz@ecb.int">carlos.sanchez_munoz@ecb.int</a>	European Central Bank
Sylvie Marchal	<a href="mailto:sylvie.marchal@banque-france.fr">sylvie.marchal@banque-france.fr</a>	Banque de France		Antonio Baigorri (observer)	<a href="mailto:antonio.baigorri@ec.europa.eu">antonio.baigorri@ec.europa.eu</a>	Eurostat
Jean Bernard Salles	<a href="mailto:jean-bernard.salles@banque-france.fr">jean-bernard.salles@banque-france.fr</a>	Banque de France		Josef MacDonald (observer)	<a href="mailto:jmacdonald@iasb.org.uk">jmacdonald@iasb.org.uk</a>	IASCF-XBRL
Camille Dümm	<a href="mailto:camille.dumm@nbb.be">camille.dumm@nbb.be</a>	Banque Nationale de Belgique				

## I. INTRODUCTION

This document, which is the updated version of the original produced in 2001 with the same title, is mainly intended to report to and inform the European Committee of Central Balance Sheet Data Offices (ECCBSO) of recent developments on the following matters:

- Implementation of INTERNATIONAL FINANCIAL REPORTING STANDARDS (IAS and IFRS) in the European Union<sup>1</sup>: report on the current legal situation until the day of the plenary session of the European Committee.
- Maintenance and update of a report about the foreseeable changes in European Union's accounting legislation, caused by implementation of IFRS.
- Presentation of a summary of the main developments in the European countries participating in the III WG of the ECCBSO related to the application of IFRS, and of the foreseeable changes in these countries.
- Provision of updated information on the foreseeable impact of IFRS on the databases / questionnaires and / or the analysis applied by the Central Balance Sheet Data Office (CBSO) participating in the III WG.

Therefore, this document will be updated in parallel with the European accounting standardisation process.

---

<sup>1</sup> From 1<sup>st</sup> April 2001, new standards issued are named International Financial Reporting Standards (IFRS), instead of International Accounting Standard (IAS)..

## II. IFRS IMPLEMENTATION IN EUROPE. CURRENT DEVELOPMENTS IN THE EUROPEAN UNION AND SELECTED COUNTRIES. OPPORTUNITIES AND RISKS

### II.1. CURRENT SITUATION IN THE EUROPEAN UNION (FINANCIAL REPORTING STRATEGY)

No major changes in the European Union legislation related to the IFRS implementation process happened during last year. As this process is rather an intricate issue, what sometimes encompasses steps forward and backward, the III WG believes that it is interesting to keep a record of the main changes occurred since its beginning.

The problem of Global Players producing two different sets of consolidated accounts, one for European markets and another for the USA, obliged the European Commission to seek mutual recognition of the accounting rules applied in both regions. It was an almost impossible target, insofar as the Directives do not provide detailed sets of standards fulfilling the USA requirements and due to the fact that the number of options accepted by the Directives means that there are still significant differences among Member States.

#### IMPLEMENTATION OF IFRS IN EUROPE: RECORD OF LEGISLATION PROCESS

1. In 1995, the Communication "Accounting Harmonisation: a new strategy vis-à-vis international harmonisation" **proposed that the member states allow the Global Players to use IFRS**, as long as these standards were in conformity with the Accounting Directives and their implementation in the European countries. As shown in the summary table, some European countries adopted this proposal (namely, Austria, Belgium and Germany). It was accepted that Accounting Directives would be amended to eliminate conflicts -if any- with IFRS.

2. **From 1996**, a Task Force and the Contact Committee first, and EFRAG<sup>2</sup> since 2001, studied the conformity between European Directives and IFRS, as published. In 1996 it was concluded that no major conflicts between both regulations existed. Afterwards, with the approval of new IFRS, some conflicts were identified (fair value, investment properties, biological assets, et cetera) that have been solved, with the approval of new regulations in Europe (see following paragraphs).

3. In **June 2000**, and as a result of the Lisbon European summit and the Communication on the "**EU Financial Reporting Strategy: the way forward**"<sup>3</sup>, the Commission proposed that **all listed EU Companies should prepare their consolidated accounts in accordance with IFRS, at the latest in 2005**. This strategy was established in European Law, through a **system of recognition of the IFRS (endorsement mechanism)**. It is important to highlight that whereas the target of the 1995 Communication was to provide an answer to a specific problem of several listed groups in non-European countries, the new strategy had a more ambitious objective: to implement the requirements **to build a European capital market**. To this end it was necessary to make financial reporting and disclosure in Europe more comparable.

<sup>2</sup> European Financial Reporting Advisory Group

<sup>3</sup> [http://europa.eu.int/eur-lex/en/com/cnc/2000/com2000\\_0359en01.pdf](http://europa.eu.int/eur-lex/en/com/cnc/2000/com2000_0359en01.pdf).

**IMPLEMENTATION OF IFRS IN EUROPE: RECORD OF LEGISLATION PROCESS**

4. In **February 2001**, the **proposal for a Regulation of the European Parliament and of the Council on the application of International Financial Reporting Standards<sup>4</sup>**, introduced the requirement for all EU listed corporations to produce their consolidated accounts in conformity with the IFRS, at the latest in 2005, and proposed the **setting up** of an **Accounting Regulatory Committee (ARC)** mandated by the Commission, at the political level, and the **European Financial Reporting Advisory Group (EFRAG)**, a private group of European experts in accountancy to act as a liaison between the EU and IASB<sup>5</sup>. It was decided to **introduce this by means of a Regulation, rather than a Directive**, because a Regulation does not need specific implementation by EU countries, thus avoiding delays and national variations.

5. In **September 2001**, a Directive of the European Parliament and the Council was passed to amend Directives 78/660/CEE, 83/349/CEE and 86/635/CEE, relating to valuation rules applicable to individual and consolidated accounts of limited liability companies, banks and other financial institutions, in order to introduce fair value in the valuation of certain financial instruments.

6. In **June 2002**, the EFRAG issued an opinion recommending endorsement of IAS (1 to 41) and SIC (1 to 33) extant at 1 March 2002 "en bloc", once the above-mentioned Directive eliminates all remaining conflicts. However, the decision of the European Commission excluded IAS 32 and 39 (and their related interpretations) from the initial endorsement of IFRS/IAS.

7. In **July 2002**, the European Council approved the EU regulation. Companies listed in Europe have to establish their consolidated accounts in accordance with IFRS by 2005. Postponement until 2007 was granted to companies that use another reporting system, due to quotation on a non-European stock market, and to companies that only quote fixed-interest rate securities. The Regulation set a deadline to decide on the applicability of the IFRS: 31 December 2002.

8. In **July 2002**, the IAS Directive<sup>6</sup> was approved, defining the legal framework of the implementation of IFRS, determining the scope of companies which have to adopt IFRS compulsorily and the possibility given to member states of going further in the application of IFRS.

9. With respect to Council Directive 78/660/EEC on annual accounts of certain types of companies as regards amounts expressed in euro, there is a project to change the current requirements to present annual accounts using the abbreviated format. It is foreseen the amendments to be in force by 2009.

10. In **June 2003: adoption of Directive 2003/51/EC to modernise and update accounting rules**. A new Directive was issued, amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. The directive allows Member States to be able to modify the presentation of the profit and loss account and balance sheet in accordance with international developments, as expressed through standards issued by the International Accounting Standards Board (IASB) as well as to permit or require the application of revaluations and of fair value in accordance with issued by the IASB. The information should not be restricted to the financial aspects of the company's business. It was expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position. The Directive also points out the necessity of consistency with the audit reports in Europe.

11. In **July 2003**, the ARC voted unanimously in favour of the draft Commission Regulation proposing the endorsement of all existing IFRS and related interpretations, with the exception, at this stage, of IAS 32 and 39.

<sup>4</sup> [http://europa.eu.int/eur-lex/en/com/pdf/2001/en\\_501PC0080.pdf](http://europa.eu.int/eur-lex/en/com/pdf/2001/en_501PC0080.pdf).

<sup>5</sup> International Accounting Standards Board, formerly known as IASC

<sup>6</sup> [http://europa.eu.int/eur-lex/pri/en/oj/dat/2002/l\\_243/l\\_24320020911en00010004.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2002/l_243/l_24320020911en00010004.pdf)

**IMPLEMENTATION OF IFRS IN EUROPE: RECORD OF LEGISLATION PROCESS**

12. In **September 2003**, the European Commission adopted the regulation endorsing IFRS. As agreed by the ARC in July, IAS 32 and 39 as well as their related interpretations (SIC 5, 16 and 17) were not included in the scope of the endorsement. The endorsement referred also to banks and insurance companies, as stated by the IAS Regulation adopted in 2002 by the Council and the European Parliament. In October 2003, the endorsed IFRS were published in the official languages of the EU and in the Official Journal of the EU.

13. At the end of **March 2004**, the Council of Ministers gave the final approval to a new Transparency Directive, which will improve the information investors receive. Amongst the provisions, it is stated that half-yearly reports will be based on IAS 34, that quarterly financial reports are not compulsory, although an interim management statement is, and that more information about related parties will be required.

14. In **April 2004**, the Commission amended the regulation adopting IFRS, in order to include IFRS 1 among the adopted standards. Consequently, IFRS 1 was published in the Official Bulletin of the EU<sup>7</sup>.

15. On **1st October 2004**, ARC endorsed IAS 39, with two parts of it optional (restriction on the use of fair value to liabilities, and permission of use of fair value hedge accounting for interest rate hedges of core deposits on a portfolio basis) under a national decision.

16. On **1st January 2005**, the IFRS regulation came into force, moving over 8.000 listed European companies to IFRS. First financial statements presented according to IFRS were those for the first quarter of year 2005.

17. IFRS 2 was endorsed by the European Commission in **February 2005**. This standard is included in the stable platform, that is to say, standards to be applied by European listed groups when presenting their financial statements.

18. Although in **October 2002**, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly announced their commitment to achieving real convergence between their respective accounting standards by 2005, the agreement was not accomplished finally. The European Commission held a meeting with SEC (Stock Exchange Commission) in **April 2005**, in the search of an agreement between IFRS and US GAAP. Their common plans take into consideration that by no later than 2009; listed companies in USA using IFRS will not have to present a reconciliation statement to US GAAP.

19. In **May 2005**, ARC recommended the endorsement of IFRIC 2 (Members' shares in co-operative entities and similar instruments)<sup>8</sup>; whereas EFRAG did not supported the endorsement of IFRIC 3 (Emission rights). Furthermore, in July, IASB withdrew IFRIC 3 Emission Rights with immediate effect.

20. In **November 2005**, the European Commission adopted a regulation endorsing the fair value option in IAS 39, implying the elimination of one of the two carve-outs to IAS 39. The regulation's adoption is retroactive and companies were allowed to apply the amended IAS 39 for their 2005 financial statements. An amendment on hedging is awaited in order to remove the remaining carve-out of IAS 39 and therefore fully endorse IAS 32 and IAS 39.

21. In the **last quarter of 2005**, the European Commission endorsed the following IFRS, interpretations and amendments: amendments to IAS 39 Transition and initial recognition of financial assets and financial liabilities; amendments to IAS 19 Employee benefits; IFRS 6; IFRIC 4; IFRIC 5; amendments to IAS 39 Cash-flow hedge accounting of forecast intragroup transactions; amendments to IAS 39, amendments to IAS 1 Capital disclosures; IFRS 7; IFRIC 6; amendments to IAS 21; and IFRIC 7.

<sup>7</sup> The regulation is available on the website of the European Union. To gain access to the English version, click on the following link: [Adoption of IFRS 1 by European Commission](#)

<sup>8</sup> IFRIC 2 was officially endorsed (that is, published in the Bulletin of the European Union) in August 2005.

**IMPLEMENTATION OF IFRS IN EUROPE: RECORD OF LEGISLATION PROCESS**

22. In **April 2006**, the European Union adopted a new auditing directive, which broadened the scope of the existing 84/253/EEC Directive. It specifies the duties of the statutory auditors, their independence and their ethics, apart from introducing new requirements for external quality assurance and public oversight of the auditing profession.

23. In **June 2006**, a Directive<sup>9</sup> modified the 4<sup>th</sup> and 7<sup>th</sup> company law directives (78/660/EEC and 83/349/EEC) as well as the accounting directive for banks (86/635/EEC) and for insurance undertakings (91/674/EEC). Main amendments introduced are the following:

- collective responsibility of board members for the financial statements and annual reports is established.
- transparency in related parties' transactions and off-balance arrangements is enhanced.
- a corporate governance statement is required for publicly traded companies.
- size thresholds for small and medium-sized entities are raised (balance sheet total and net turnover thresholds are increased by 20%, to 17.500.000 € and 35.000.000 € respectively).

24. In **July 2006**, the IASB announced that application of new IFRS or major amendments will not be established before 2009, providing four years of stability in the accounting framework to those institutions which applied IFRS for the first time in 2005.

25. In **September 2006**, the European Commission published Regulation 1329/2006, adopting IFRIC 8 (Scope of IFRS 2) and IFRIC 9 (Reassessment of embedded derivatives).

26. In **November 2006**, a new procedure for endorsement of IFRS was set up. According to it, the European Council will decide on those issues where the European Commission and the European Parliament can not reach an agreement.

27. In **December 2006**, the European Commission extended two more years the exemption granted to foreign companies presenting financial statements under national GAAP and issuing securities in EU stock markets (see paragraph 7). These non-EU companies are not subject to present a restatement to IFRS until December 2008 if they prepare their financial statements according to Canadian-GAAP, Japanese-GAAP, US-GAAP or an IFRS equivalent national-GAAP

28. In **March 2007** the European Commission adopted transparency regulations concerning issuers' disclosures of half-yearly financial information, investors' disclosures of major holdings, minimum pan-European information disseminated to the public, and minimum requirements for acceptance of third-country regulations.

29. In **April 2007**, the European Parliament opposed to implementation of IFRS 8 (Operating segments) in European Union, mainly because segments are not univocally and objectively defined in the new standards and its adoption would mean the acceptance of an "alien" standard (from USA) into European legislation.

30. In **April 2007**, the European Commission reported on IASB/IASCF governance areas which shall be improved:

- accountability of the Board and the Trustees to their constituents
- role of the IFRIC should be strengthened by means of explaining relationships with shareholders, reporting in writing reasons why topics are not addressed and establishing liaisons with national standards setters
- more representation should be given to those countries already using IFRS

<sup>9</sup> Full text of the Directive can be found by clicking in the following link:  
[http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_157/l\\_15720060609en00870107.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_157/l_15720060609en00870107.pdf)

**IMPLEMENTATION OF IFRS IN EUROPE: RECORD OF LEGISLATION PROCESS**

31. In **June 2007**, the European Union published two Commission Regulations adopting IFRIC 10 (Interim financial reporting and impairment), and IFRIC 11 (IFRS 2 – Group and treasury share transactions).

32. In **June 2007**, the European Commission published a public consultation regarding the endorsement of IFRS 8 (Operating segments), for its consideration by European Parliament when it decides about the matter in September 2007. The consultation is addressed to a wide range of constituents: users, preparers, auditors, academics and standard setters.

**II.2. CURRENT SITUATION IN SELECTED COUNTRIES**
**II.2.1. SUMMARY TABLE <sup>(1)</sup>**

<b>CURRENT DEVELOPMENTS IN THE COUNTRY</b>							
<b>CONCEPT</b>	<b>AUSTRIA</b>	<b>BELGIUM</b>	<b>FRANCE</b>	<b>GERMANY</b>	<b>ITALY</b>	<b>PORTUGAL</b>	<b>SPAIN</b>
<b>1. Accounting legal framework, based on:</b>	Ministry of Justice: Commercial Code	Ministry of Justice: Commercial Code	Ministry of Economy: Commercial Code	Ministry of Justice: Commercial Code	Ministry of Justice: Civil Code	Ministry of Finance	Ministry of Justice: Commercial Code Regulation under revision process (see detailed information).
<b>2. Accounting bodies (public / private).</b>	Semi-public: Chamber of Auditors (Kammer der Wirtschaftstreuhänder)	Public: Accounting Standard Commission (ASC)	Public: Accounting Regulation Committee (CRC) and Accounting National Committee (CNC)	Semi-public: German Accounting Standards Committee (DRSC)	Private: Italian Accounting Body (OIC)	Semi-public: Portuguese Accounting Standards Board (CNC)	Public: Institute of Accounting and Auditing (ICAC)
<b>3. LEGAL AUTHORISATION TO USE IFRS INSTEAD OF NATIONAL GAAP (in brackets, accounting year of application):</b>							
<b>a) LISTED CORPORATIONS:</b>							
<b>a.1) Consolidated Accounts:</b>	X (since 1999 voluntary; compulsory with the beginning of the financial year 2005)		X (2005/2007)			X (2005)	X (2005/2007)
<b>a.1.1) National groups. Global players (listed in other countries)</b>	"	X (since 2003 on a voluntary basis; obligation as from 2005/2007)	"	X (since 1998 on a voluntary basis; obligation as from 2005/2007)	X (2005)	"	"
<b>a.1.2) Other national groups</b>	"	X (since 2003 on a voluntary basis; obligation as from 2005/2007)	"	X (since 1998 on a voluntary basis; obligation as from 2005/2007)	X (2005)	"	"
<b>a.1.3) Foreign groups.</b>	"	X	"	Not applicable.	X (since 1991)	"	"
<b>a.2) Individual Accounts.</b>	NO	NO	NO	Voluntary, but only for information purposes (publication in the federal gazette)	2005 voluntary basis 2006 mandatory (only listed)	Voluntary in the first year of adoption, but compulsory afterwards	NO (but an IFRS reconciliation statement must be made) from 2005
<b>b) UNLISTED CORPORATIONS.</b>							
<b>b.1) Consolidated Accounts</b>	X (voluntary since 1999)	X (since 2005 no longer subject to authorisation)	Option to follow on a voluntary basis either IFRS or French GAAP	Voluntary	2005 on a voluntary basis (mandatory for financial institutions)	Voluntary in the first year of adoption, but compulsory afterwards	Option to follow either IFRS or Spanish GAAP according to IFRS 2005

CURRENT DEVELOPMENTS IN THE COUNTRY							
CONCEPT	AUSTRIA	BELGIUM	FRANCE	GERMANY	ITALY	PORTUGAL	SPAIN
<b>b.2) Individual Accounts</b>	NO	NO	NO	Voluntary, but only for information purpose (publication in the federal gazette)	2005 on a voluntary basis (2006 mandatory for financial institutions)	Voluntary in the first adoption, but compulsory afterwards, just for companies belonging to the scope of consolidation of a group that adopts IFRS	NO
<b>4. LEGAL AUTHORISATION TO USE US GAAP INSTEAD OF NATIONAL GAAP (in brackets, accounting year of application):</b>							
<b>a) LISTED CORPORATIONS:</b>	Same rules as IFRS (see point 3)		NO		NO	NO	NO
<b>a.1) Consolidated Accounts:</b>			"		"	"	"
<b>a.1.1) National groups. Global players (listed in other countries)</b>		X (only until 2007, subject to authorisation)	"	X (only until 2007, since 1998 on a voluntary basis)	"	"	"
<b>a.1.2) Other national groups</b>		NO	"		"	"	"
<b>a.1.3) Foreign groups.</b>		X	"		"	"	"
<b>a.2) Individual Accounts</b>		NO	"		"	"	"
<b>b) UNLISTED CORPORATIONS</b>			NO	NO	NO	NO	NO
<b>b.1) Consolidated Accounts</b>		X (since 1998, subject to authorisation)	"	X (only until 2007, since 1998 on a voluntary basis)	"	"	"
<b>b.2) Individual Accounts</b>		NO	"	No	"	"	"
<b>5. FORESEEABLE USE OF IFRS</b>							
<b>a) Consolidated accounts of unlisted corporations</b>	YES (without authorisation)	From 2005 on a voluntary basis + probable obligation as from ? (date not yet determined)	From 2005, on a voluntary basis.	From 2005, without authorisation on a voluntary basis.	Probable, on a voluntary basis	On a voluntary basis	YES Option to use IAS / IFRS or Spanish GAAP
<b>b) Individual accounts</b>	NO (only for information purposes; not instead of national GAAP)	Indirectly through the revision of Belgian accounting law (Exception: real estate investment funds (IFRS obliged as from 2007))	Selective convergence of French GAAP : new rules applicable from 2005	See above	Yes in the individual accounts of listed companies; for the rest, very infrequent; forbidden for SME	Selective convergence of Portuguese GAAP: new rules compliant with IFRS are being published.	Indirectly, through the revision of the Accounting Plan

(1) Current situation at October 2007.

## II.2.2 IFRS APPLICATION IN SELECTED COUNTRIES

As mentioned above, the fact that there are no conflicts between European Directives and IFRS does not necessarily mean that there are no conflicts with the national laws of the European countries. For the consolidated accounts of listed groups the situation is clear because conflicting situations have been removed from the national legislation: in such a case, the Regulation approving the IFRS is the one applicable. The options remain open for unlisted consolidated groups and for individual accounts of, both, listed and unlisted companies. Some European countries have decided to introduce in their national legislation the accounting options accepted by IFRS, which are available in the Accounting Directives, but which have not yet been implemented in the country (for instance, Spain is rewriting its national accountancy laws and, in addition, individual and consolidated accounts of financial institutions and also individual accounts of listed corporations must include from 2005 an IFRS reconciliation statement). Adopting this solution is very difficult in those countries with a close link between accounting and taxation (Germany and France, for example), and, consequently, it is rather difficult to adopt IFRS as the basis for the individual accounts. To sum up, for the individual accounts of all countries studied, except the Italian exemption mentioned below, there is no obligation to use IFRS directly.

### a. Austria

The Austrian Commercial Code was amended in 1999 and allows all Austrian groups, whether listed or not, to use international standards instead of Austrian financial standards, if they comply with the EU Directives.

According to the regulations of the European parliament capital-market oriented companies are compelled to establish their consolidated accounts under IFRS with the beginning of the financial year 2005 as far as they are listed at a stock exchange within the European Union. Non capital-market oriented enterprises will still have a choice to establish their consolidated accounts under IFRS. The individual accounts of not capital-market oriented and capital-market oriented enterprises have to be established only under the Austrian commercial code.

As it stands only for information it will be allowed to establish the individual accounts under IFRS. This IFRS accounting will have no discharging effect because of the dependence between the Austrian commercial code and the Austrian tax law.

Similar to the situation in Germany those enterprises that are capital-market oriented will have to create three different sets of annual accounts:

- tax accounts (tax law),
- individual accounts (Austrian commercial code),
- consolidated accounts (IFRS).

## b. Belgium

Belgium's accounting framework is based on the Commercial Code of May 1999 and it's implementing royal decree of 30 January 2001, while consolidated accounts are based on a particular royal decree of March 1990. The authorities set up the accounting regulation after taking into consideration the opinion of the ASC (Accounting Standard Commission). The main differences between Belgian legislation and IFRS are chiefly based on the prudence principle and on the existence of a tax burden that heavily influences Belgian rules, since Belgian financial statements are the main basis for corporate tax returns. **Global players are allowed to use IFRS (not subject to authorisation) or US GAAP (only until 2007 and subject to authorisation from the Ministry of Economy) to prepare consolidated accounts** (also including medium-sized companies to be listed on the EASDAQ). This is called the "Global Player Policy". 282 out of 886 companies used non-Belgian standards when preparing consolidated accounts (database on consolidated accounts filed with the NBB for the year 2005). Of these 282 companies, 166 used IFRS.

On the 9th of February 2005, a Royal Decree was published to regulate the use of IFRS in **consolidated** accounts:

- Quoted companies:
  - compulsory application of IFRS as from the 1st of January 2005, by virtue of the direct effect of the European IFRS Regulation
  - postpone the application of IFRS until 2007 for companies that use another reporting system, due to quotation on a non-European stock market, and for companies that only quote fixed-interest rate securities
- Unquoted companies:
  - possibility to apply IFRS on a voluntary basis for accounting periods starting on or after 31st of December 2003

Regarding the **statutory** financial statements, the Belgian Accounting Standards Committee proposed<sup>10</sup> four years ago to proceed to a practical adjustment of the current Belgian accounting law to the IFRS standards. To study this issue, three working groups have been established that concentrate on the following topics: tax law, company law and SMEs.

By means of the Royal Decree of the 8th of March 2005, Belgium decided not to introduce into Belgian accounting law, for the time being, the framework created by the European Directive relating to the valuation at **fair value** of financial instruments. The Royal Decree only requires information on the fair value in the notes to the financial statements.

---

<sup>10</sup> "Policy plan concerning the application of the IFRS Regulation and the convergence of the Belgian accounting law towards IFRS", published in December 2003

Taking into account the non-existence of a tax burden in the case of **real estate investment funds**, and taking into account the limited number of such funds, a Royal Decree has been published on the 29th of June 2006, in order to oblige real estate investment funds to establish their statutory financial statements in accordance with IFRS as from 2007. Real estate investment funds are allowed to draw up IFRS-compliant statutory accounts as from 2005, on a voluntary basis. The Royal Decree also defines the format that should be used for these IFRS-compliant accounts.

As a result of the discussion paper written by the European Commission<sup>11</sup> regarding the simplification of accounting rules for small and medium-sized companies, it is unlikely that any other convergence towards IFRS will come into force in the near future.

### c. France

In April 1998, the CRC (Accounting Regulation Committee) was created with legal authority to approve new accounting standards. In practice, **only French standards are allowed**<sup>12</sup>. In 1999 a new methodology on consolidation was passed by the CRC in order to reconcile, to a certain extent, French GAAP with IFRS. Significant differences still remain (intangible assets, goodwill, business combinations, fair value and optional adjustments).

In June 2003, the National Accounting Body (CNC) has restated its preference as regards the faculty given to each member states to adopt IFRS for individual accounts. At the latest in 2004, the French Parliament has followed CNC's preferences.

CNC's preferences:

<b>Consolidated accounts</b>	Listed groups	IFRS compulsory from 01.01.2005 onwards with postponement until 2007 for companies that only quote fixed-interest rate securities (approximately 970 groups concerned)
	Unlisted groups	Option given to the groups to adopt IFRS in 2005. Progressive convergence of national GAAP towards IFRS (approximately 8,000 groups concerned)
<b>Individual accounts</b>		<b>Option not allowed.</b> <b>Progressive convergence of national GAAP towards IFRS with simplifications for SME</b>

<sup>11</sup> The reference is MARKT/F3/AD/KnT/UL D(2006)

<sup>12</sup> The accounting law of April 1998 allowed companies raising funds on international capital markets to adopt IFRS or US GAAP. The legal decree of implementation regarding this regulation has never been followed through because the Accounting Regulation Committee found the existence of conflicts between the European Accounting Directives and the IFRS and US-GAAP.

From 2005 listed companies must apply IFRS for their consolidated accounts (postponement until 2007 for companies that only quote fixed-interest rate securities), while unlisted groups have the option to adopt IFRS or national GAAP. Adaptation of regulation CRC 99-02 relating to consolidated accounts was completed in November 2005: new rules came into effect from 1<sup>st</sup> January 2006.

As regard individual accounts, the wish of the National Accounting Body (CNC) is a progressive endorsement of IFRS through a selective approach.

**National rules have already evolved with the partial adoption of four IFRS, namely IAS 16, 36, 37 and 38.** Besides, **changes in tax regulation** seem to have preserved so far the link between accounting and tax.

The CNC worked on the impact of IFRS related to taxation, SMEs, and law issues. Reports were published in 2005 and 2006. About the SMEs project of the IASB, the CNC has analyzed the discussion paper, during regular meetings, focussing on four topics:

- consolidation
- financial instruments
- recognition of assets and liabilities
- presentation of financial statements

At least a new organization of the National Accounting Body (CNC) has been studied to increase its resources so as to improve its functioning and its influence in the decisions process.

#### **d. Germany**

In 1993 Daimler-Benz AG decided to expand its activities. To raise additional capital the company applied to the US SEC for permission to be listed on the New York Stock Exchange. To this end, the company had to comply with the US accounting standards (US GAAP). At the same time, it was still obliged to publish its financial statements in Germany in accordance with the German Commercial Code. Therefore, two kinds of financial statements had to be prepared. Under German Commercial Code, the company reported a profit of DEM 615m, and in accordance with US GAAP, a loss of DEM 1.839m. Thus, German accounting rules obtained a bad reputation, even within Germany the rules for consolidated accounts were the target of extensive criticism.

In the same year, Puma AG was the first German company publishing consolidated financial statements according to IFRS. After 1993 more and more German enterprises decided to publish their financial statements voluntarily in accordance with IFRS or US GAAP. Some of them hid the accounts based on the German Commercial Code at the same time, others even stated that they fulfil IFRS and the German rules in one set of statements, so called dual financial statements. However, this was only possible because of the missing enforcement of accounting standards in Germany.

In 1998 the law has been changed and from this year on it has been possible to draw up consolidated accounts under IFRS or US GAAP only, provided that the German company is listed on the German Stock Exchange. This regulation was valid until 2004. At the same time, the German Federal Ministry of Justice founded a Committee to represent Germany in international standard setting committees and to develop new standards for consolidated accounts based on the German Commercial Code.

Currently, a discussion takes place in Germany on the future of individual accounts, especially for these enterprises which are capital-market oriented and have to prepare the consolidated accounts according to IFRS from 2005 on. They prefer the idea of moving towards one commercial code for individual as well as for consolidated accounts.

On the other side, there are a lot of German enterprises which are not capital-market oriented and hence they are not very interested in changing their accounts towards IFRS or even adapting the German Commercial Code in small steps with IFRS-rules.

Another problem is the close relationship of German tax laws and the Commercial Code. There is a lot of conformity between them which enables German enterprises to create only one unified annual accounts. As IFRS can not be used as the basis for German taxes, a liberalization of the individual accounts towards IFRS would make it necessary that the German government establishes independent tax rules.

With the fiscal year 2005 the consolidated accounts of capital-market oriented German enterprises must be established under IFRS rules. Non capital-market oriented enterprises have a choice to establish their consolidated accounts under IFRS or German Commercial Code. Individual accounts of not capital-market oriented and capital-market oriented enterprises have to be established under the German commercial code. Only for information it is allowed to establish additional individual accounts under IFRS, which can be published in the federal gazette instead of the one based on the Commercial Code. This IFRS accounting will have no discharging effect because of the dependence between the German commercial code and the German tax law as well as capital maintenance rules. So far, no individual accounts under IFRS were published in the federal gazette.

A debate about the need to internationalize financial statements for small and medium-sized enterprises is currently taking place in Germany. The positions of the opponents are:

- it is very expensive to switch from German GAAP to IFRS rules with high employee training expenses and large investments in data processing systems,
- IFRS rules are frequently amended,
- many of the IFRS rules are very complex, some even being too complex for big corporations,

- IFRS rules are more comprehensive than the rules of the German commercial code.

The standpoint of the supporters is:

- it is not good to have two accounting classifications,
- banks and rating agencies want to have one system of accounts for their financial statements analyses, and that will probably be IFRS,
- many German small and medium-sized enterprises have a lot of international customers, IFRS financial statements fit their needs,
- some small and medium-sized enterprises look for investors or new owners, therefore it is better to have international accounts,
- some small and medium-sized enterprises are subsidiaries and they need to draw up financial statements based on IFRS in order to be consolidated. Therefore, costs should be reduced for these enterprises.

The publication of the Exposure Draft “IFRS for SMEs” gave this discussion a new direction. More or less all interested parties in accounting do not see this draft standard as appropriate for SMEs in Germany.

#### e. Italy

Beginning from 2003 the national accounting standards are set by a National Accounting Body (called OIC – Organismo Intenazionale della Contabilità), which consists of several members: professional bodies, auditors, banks, universities and securities commission. The Italian Centrale dei Bilanci is one of the 15 members of the Founders Body.

In October 2003 the Italian government approved, by a national law, Directive 2001/65/EC which has amended Directive 78/660/CEE with regard to the application of IFRS in Italy.

The Italian regulator has chosen the following options:

Listed companies, banks and financial companies	The IFRS's adoption is compulsory in consolidated accounts, from 01.01.2005 onwards. The IFRS's adoption in individual accounts is on voluntary basis in 2005 and mandatory from 01.01.2006 onwards.
Insurance companies	The IFRS are compulsory for listed companies: from 1.1.2005 for consolidated accounts and from 1.1.2006 for individual accounts (on voluntary basis in 2005). For unlisted companies the IFRS are compulsory in the consolidated accounts and on a voluntary basis in individual accounts.

Unlisted companies	The IFRS are voluntary (both in consolidated accounts and in individual accounts) from 1.1.2005 onwards for the companies belonging to groups IFRS compliant. For the individual accounts of the other companies the government will communicate the term for using IFRS.
Small-sized companies	Option not allowed

Italian law has established that endorsement of IFRS will be free of economic charges for the State: no charges or lower income will originate from the application of IFRS.

Starting from the month of November 2004 the Italian Government has modified the civil code (Minister of Justice) and the fiscal code (Minister of Economic Affairs) to apply the IFRS rules, in particular fair value and leasing rules.

Contacts between government and technicians (preparers, accounting bodies, users,...) are highlighting certain difficulties in the full application of IFRS rules from 2005 for individual accounts; the Parliament has approved (April 13, 2005) a law that delegates the Government to modify the original law, deferring the compulsoriness for individual account of listed companies in 2006. The application of the law is still in progress.

April 2005: The regulators of Italian Stock Exchange (Consob Spa) established that the adoption of IFRS for listed companies is on voluntary basis in the first quarter report of 2005 and mandatory in the half year report of 2005

On August 2005, the European Commission has decided to send a reasoned opinion to Italy and other 6 Member State asking them to write Directive 2003/51/EC into national law; the Italian Parliament foresees to write the national law within November 2006.

On December 2005, the Bank of Italy issued the regulation for the implementation of IFRS for the banks and financial institutions. The regulation regards the format and the rules of compilation of the financial statement.

The number of companies IFRS compliant in 2005 financial statements is the following:

- Consolidated accounts: 346 (of which 199 listed companies)
- Individual accounts: 403 (of which 58 listed companies)

During 2007 the National Accounting Body worked out a proposal for the accountancy of SMEs; the proposal is in line with IASB ED, but significant differences exist, like a mandatory format and the drop of alternative treatments. The proposal is currently on the hands of Italian government that will decide about its adoption during 2007/2008.

**f. Portugal**

By Law-Decree 35/2005, on the 17<sup>th</sup> of February 2005, it has been decided that:

- a. All companies that are listed in a regulated European market will produce their consolidated accounts according to IFRS from 2005 onwards, following EU Regulation 1606/2002;
- b. Other entities who were compelled to follow the Portuguese Accounting Plan (POC) have now the option to apply IFRS to their consolidated accounts, provided that their accounts get legal certification;
- c. The individual companies that are included in the scope of consolidation of the entities who apply IFRS to their consolidated accounts (whether voluntarily or compulsorily), have the option to apply IFRS to their individual statements.
- d. Both options are complete and definitive.
- e. The entities who follow IFRS will not apply the POC in the publication of their accounts. However, they will still be compelled to disclose extra information that is required on a national basis.
- f. For fiscal purposes, namely for the determination of fiscal profit, the entities who apply IFRS to their individual accounts will have to keep their books in accordance with national and sector accounting requirements.

The effects of the diploma report back to the 1<sup>st</sup> of January 2005.

**g. Spain**

The Spanish Accounting Standards and legal framework are based on the Commercial Code, the Private Limited Companies Law, the General Chart of Accounts of 1990, the regulations for preparing consolidated annual accounts of 1991 and ICAC Resolutions to extend and clarify the general standards. One of the main features is the separation between taxation and accounting. Accounting principles prevail over tax considerations. The accounting regulation of companies is entrusted to an official institution of the Ministry of Economy: the Institute of Accounting and Auditing of Accounts (ICAC). This public body is also in charge of developing the General Chart of Accounts for all companies and also selected sectors of activity. The accounting regulation for financial entities is delegated to *Banco de España*.

In December 2003 a law was passed to incorporate the European Regulation concerning the obligation for listed consolidated groups to use IFRS into Spanish legislation.

In May 2006 a bill (Proposal of Law) concerning the accounting change was presented to the Spanish Parliament. The proposal contains modifications to current accounting framework for individual companies, as well as some other amendments in the Commercial Code, in the Private Limited Companies Law and in the General Chart of Accounts, in order to converge with IFRS. The bill, finally approved in July, includes some of the conclusions of the study carried out in 2003.

A new accounting set of rules is being developed with the objective to be coherent with IFRS. It is foreseeable to be applied in 2008, but some corporative organizations are concerned about the short period the companies have to adapt the new standards (the first draft was published in February 2007 and a second draft has been published in June 2007).

The main characteristics of the new accounting framework are:

- The New Spanish General Chart of Accounts is adapted to the IFRS general framework, in order to converge with it, eliminating IFRS alternatives.
- Use of Spanish Accounting Standards vs. use of IFRS
  - **Listed groups:** the Spanish Commercial Code does not give any legal personality to consolidated groups and, therefore, they can situate themselves outside the common national legislation and adhere to international regulations. They will apply IFRS entirely (as decided in the EU).
  - **Unlisted groups:** from 2005 they are allowed to follow either Spanish GAAP or IFRS.
  - **Individual corporations:** to follow Spanish standards (expected to be in force by 2008 annual accounts). For listed individual corporations' statements, an IFRS reconciliation statement with equity and the profit and loss account is required.
- The current formats of annual accounts are maintained (balance sheet classification by current/non-current; P&L account by nature; annex), and are complemented with other statements prescribed under IFRS (changes in equity; cash flow instead of the current sources and uses of funds, statement on risk assessment; and so on).

The Spanish accounting body (ICAC) is facing too the development of a new separate set of rules for SMEs, in line with new accounting Spanish policies and with IFRS. It is remarkable that no specific standards for SME's existed in Spain.

## II.3. OPPORTUNITIES AND RISKS

It is clear from above that the accounting changes affect in a different extent depending on the country concerned. It also seems likely that changes occur gradually. Most countries do not initially foresee to introduce IFRS for individual accounts (with the exception explained for Italy), yet the use of these standards by groups may in future affect the large national companies and the small and medium-sized ones within their sphere. The following paragraphs highlight some of the opportunities and risks that are expected to arise.

### II.3.1 OPPORTUNITIES

1. The first and most obvious opportunity is that **financial statements will be fully comparable at an international level**, and not only at the level of listed European consolidated groups. There will also be comparability with the rest of the world, insofar as the IFRS standards are being eventually adopted as the single international standard.
2. In addition, European Union has a procedure for drafting accounting standards (by filtering and approving those drafted by the IASB) which will be more flexible and will adapt regulations to changing circumstances more rapidly.
3. Disclosure of new information such as information on actions taken to protect the environment and environmental risks, assets arising from the knowledge economy (website developments for example), or inclusion in the balance sheet of assets acquired through leasing and of discounted bills in those countries where such data are recorded off-balance.
4. Segmented data, with a more detailed breakdown by productive activity, will be available.
5. New statements are required to all companies: statement of changes in equity (own funds), and cash flow statement.
6. Interim reporting data will be prepared with higher frequency: quarterly, half-yearly.
7. The method of fair value to be used with some assets means an approach to the market value of the concerned assets, much better than the cost method actually into force.
8. Since accounting legislation must be changed, some amendments concerning the issuance of a social balance as well as the speed-up of the process of deposit of financial statements would be easier to introduce in the Accounting Legal Framework.

### II.3.2 RISKS

1. Were IFRS not finally acknowledged by SEC (United States), two sets of accounts would still be submitted by the European global players, in accordance with IFRS and with US-GAAP. Therefore,

total homogeneity will not be reached. In this case, moreover, the IFRS will probably be influenced by the US-GAAP, exerting pressure on European corporations, when several options exist in IFRS, to choose those in line with US-GAAP.

2. One of the most obvious risks is the appearance of breaks in the series maintained by CBSO (for example, the new treatment of leasing transactions or fair value accounting entail breaks in the series or else new estimates).

3. Regarding the possible gain in terms of regulatory flexibility, the concomitant risk is that information requirements of stock markets set the agenda for European standardising institutions. The Directives are geared to guaranteeing the rights of a large set of users, while the IFRS is mainly directed at the interest of investors. This will be referred to again in the next bullet.

4. The gain in terms of international comparability for listed groups of companies may entail a loss of comparability at the national level, in the event that other groups and/or individual companies do not apply IFRS. It will highlight the power of stock markets in those countries in which it occurs, insofar as the information requirements of investors will have adverse consequences for other agents who also use annual accounts of companies (suppliers, clients, employees, management, other users), by making comparisons more difficult between national companies within the country.

5. There are four main risks inherent to IFRS in the process of their adoption by European Union:

- The first one refers to the existence of alternative accounting treatments and valuations. Currently, IFRS establish several alternatives, although it is expected their reduction or even their removal. For example, capital subsidies may be reflected in the liabilities, or offset against assets, so that the assets acquired with the capital transfers disappear from balance sheet. There is clearly a positive side to this risk since currently Accounting Directives foresee the use of a greater set of alternatives. Therefore, European Union will win in comparability; the risk pointed out here is focused on the alternatives which remain.
- The growing complexity of IFRS and the absence of models gives preparers more space for subjective accounting judgements or even for window dressing. In terms of analysis, the effects related to the variation of fair value or to the use of discount rate may be difficult to comprehend. Besides, the measurement of certain assets and liabilities by their fair value may increase the volatility of some key figures of the financial statements.
- For those financial instruments for which there is no reference market (which are expected to be the majority), there are two main ways of determining value: by analogy, which means looking at the behaviour of similar instruments – often unavailable –; or by applying a valuation technique. This second method implies that the values attributed to an instrument will depend on the technique applied and the assumptions made, which differ

from technician to technician, giving more space for subjective accounting or even window dressing. On the whole, there will be less intra-firm comparability and less objectivity.

- The absence of standard formats also poses some risks in IFRS implementation. IFRS regulations expressly avoid defining standard formats for balance sheet, profit and loss account and other supplementary information. As a consequence, **1.** the fact that an amount is not disclosed in the financial statements will no longer mean it equals zero. On the other hand, **2.** different companies may choose different disclosure practices for similar events, e.g. the exercise of equity options, and thus it will be impossible to be certain that all aspects of financial events are seized when performing a given analysis of the data. Besides, **3.** analysis of financial statements will be more time consuming, since the necessary information can be located anywhere within the several pages of the financial statements, and **4.** different technical staff might select different treatments for the same reality, which increases the need for a best practices manual. Finally, **5.** for those CBSO who perform macroeconomic analysis or calculate national accounts aggregates, these are new sources of non-measurable error that IFRS will introduce to the ability of inferring universal values from a selected sample, thus affecting the confidence intervals of the estimates.

Future use of XBRL as the reporting language will reduce the need for standard formats, but for the moment the existence of these formats is still deemed as necessary by the III WG. This is the only way to create databases with companies' annual financial statements.

This is probably the greatest challenge facing us. A change from the Anglo-Saxon approach (which does not requires information to be presented according to an standardized format) would be desirable in order to meet the III WG's requirements and enable accounting formats to be developed, with which the continental European countries and their companies are used to work. **Maintenance costs of this practice, which is normal in Europe, is lower than the supposed benefits arising from free choice of format.** More detailed accounting information, but disclosed without officially approved presentation formats, is of no assistance in the analysis and in the awareness of the reality reflected by the data, what is detrimental to statistics compilers, as well as to other users of annual financial statements.

## II.4 AVAILABLE REPORTS ON IFRS IMPACT

The first chapter of this document has presented a brief report of the IFRS implementation process in EU. The III WG deems necessary to supplement the analysis heretofore performed with an informal enumeration of different reports and studies on IFRS impact. This enumeration does not aim to be exhaustive, but only by way of guidance.

The Eurostat-BCE Task Force on Accounting and Statistics has prepared some documents on the matter. David Hobbs, from ONS, prepared a document where he assessed the IFRS implementation in UK, obtaining two main conclusions from this work: companies are not well prepared to IFRS, and it is likely to face a smooth implementation of IFRS through several years.

Dominik Elgg, also member of the III WG, edited a document on IFRS implementation through Europe. He analysed the financial statements of over 100 companies, trying to check the application of IFRS in their balance sheet and income statement.

In June 2004, Banque de France published in its financial stability review a study about the accounting treatment of goodwill and the likely repercussions of the transition to IFRS on the consolidated accounts of listed companies. In the Monthly Bulletin of Banque de France (July 2007)<sup>13</sup>, a study on the impact of the changeover to IFRS for 395 French non financial companies was published as well.

Besides, the creation in France of the “Observatory of the financial communication” in June 2005<sup>14</sup> must be pointed out. This structure aims at analysing practices of companies and exchanging information about financial communication. A study was published the 27<sup>th</sup> of June 2005: “The financial communication and IFRS”.

The Spanish CBSO included a comparison chart between IFRS and Spanish-GAAP figures of listed Spanish groups in its report of the first quarter of 2005. This comparison chart contained quarterly information obtained from the Spanish Stock Exchange Commission, from companies applying IFRS for the first time (which must also provide a reconciliation statement from Spanish-GAAP from IFRS). As information quarterly disclosed by Spanish Stock Exchange Commission is not very detailed, only turnover and net profit could be analysed, with no significant impacts observed.

A similar study has been internally carried out by Centrale dei Bilanci. It has analysed quarterly financial statements of 20 Italian listed groups applying IFRS for the first time, aiming to foresee an impact on equity, net debt and net profit. Changes due to IFRS has been identified, without any common pattern found, except for net debt, which shows an increase with IFRS (but ranging from 0,2% to 19,8%).

In March 2006, the Belgian Banking Commission published a study<sup>15</sup> on the impact of the changeover to IFRS on equity and profit/loss for a limited number of Belgian companies listed at Eurolist by Euronext Brussels:

---

<sup>13</sup> [http://www.banque-france.fr/fr/publications/telechar/bulletin/etu163\\_1.pdf](http://www.banque-france.fr/fr/publications/telechar/bulletin/etu163_1.pdf)

<sup>14</sup> <http://www.observatoirecomfi.com/portal/site/OCF>

<sup>15</sup> French version of the study: <http://www.cbfa.be/fr/publications/stu/pdf/study31.pdf>

- The equity of almost three out of four companies increases under IFRS. However, the size of the impact differs from company to company. The biggest changes in equity mostly result from:
  - balance sheet drawn up before appropriation of profit/loss;
  - valuation of property, plant and equipment;
  - deferred taxes.
- For 56% of the companies, the profit/loss is influenced in a positive way. The biggest impact is caused by:
  - the treatment of goodwill and negative goodwill;
  - property, plant and equipment;
  - deferred taxes;
  - provisions.

Last but not least, the III WG prepared a document on quantitative impact of IFRS in 2006, with data from Belgian, French, Italian and Spanish consolidated groups<sup>16</sup>. Although national-GAAPs are significantly different, some common effects could be isolated such as an increase of borrowings, a slight decrease in turnover or an increase of return on equity (ROE).

---

<sup>16</sup> The document is available at: [http://www.bde.es/cenbal/colabora/wgiii/WGIII\\_quantitativeimpacts\\_2006F.pdf](http://www.bde.es/cenbal/colabora/wgiii/WGIII_quantitativeimpacts_2006F.pdf)

### III. IFRS IMPACT ON CBSOs (DATABASES AND/OR SYSTEM OF ANALYSIS)

#### III.1 INTRODUCTION AND SUMMARY

The IFRS implementation impact on the databases and on the system of analysis of the CBSOs obviously depends on the different impact of the IFRS implementation on accountancy, on one hand, and on the existence and use of the consolidated accounts in the CBSO on the other (the following summary table illustrates this). As the impact of IFRS on accountancy in the European countries is not a closed question, this part of the report should be read as a document subject to yearly updates, to be performed in parallel with the IFRS implementation process in Europe.

To sum up, not all the CBSOs are affected to the same degree by IFRS implementation. The effects depend on the scope of the new regulation (IFRS) in the country as regards corporations other than listed, and on the kind of financial report involved (consolidated accounts and/or individual accounts). The kind of effects foreseen by the members of the working group could be defined as follows:

- a. **Consolidated accounts.** All the CBSOs are affected by the changes entailed by IFRS in the consolidated accounts of the **listed corporations**. Although only three CBSOs (Austria, France and Italy) have special systems of analysis of consolidated accounts, while some members have joint databases (with individual and consolidated accounts integrated, as in the case of Germany, Italy and Spain), and others intend to devise special questionnaires or databases of consolidated accounts (Belgium), **in the final analysis, all countries are affected.**
- b. **Individual accounts.** In this case the matter is not so clear. **Only Spain** foresees IFRS impacts on its individual accounts (questionnaires and/or system of analysis). In Germany the whole matter is under discussion. After a decision of the Ministry of Justice to implement IFRS into the German Commercial Code (HGB), the result may be that individual accounts can be drawn up according to IFRS. In France and Portugal, the impact will be indirect through the progressive move of the national regulation towards IFRS.

## III.2. CURRENT SITUATION IN SELECTED COUNTRIES

### III.2.1. SUMMARY TABLE <sup>(1)</sup>

CURRENT SITUATION IN THE CBSO							
CONCEPT	AUSTRIA	BELGIUM	FRANCE	GERMANY	ITALY	PORTUGAL	SPAIN
<b>1. Database of:</b>							
- Individual Accounts.	---	YES (only non-financial companies)	YES	---	---	YES	---
- Consolidated Accounts.	---	---	YES	---	---	YES	---
- Both, individual and consolidated in the same database.	YES	---	---	YES	YES	---	YES
<b>2. Specific and differential analysis of Consolidated Accounts.</b>	---	---	YES	---	YES	---	---
<b>3. Foreseen changes in the CBSO system of analysis and questionnaires:</b>							
- System of analysis.	Risk assessment (IFRS using companies)	Both (taken into account the evolution of XBRL)	Consolidated Accounts	For consolidated accounts	Risk assessment and income statement by function	NO	YES
- Databases.	Risk assessment (IFRS using companies)	Both (taken into account the evolution of XBRL)	Adaptation for the collection of IFRS consolidated accounts.	For consolidated accounts	New items and new notes for individual and consolidated accounts.	Individual accounts from all non-financial companies and some consolidated accounts	YES

(1) Current situation at October 2007.

### **III.2.2. DESCRIPTION BY COUNTRY**

#### **a. Austria**

The CBSO format includes a separate analysing system for individual and consolidated accounts. Consolidated financial statements are analysed in the Austrian CBSO since the end of 1998. By 6/2003 about 150 consolidated accounts are processed. As a new development an IFRS working group has been established to create an IFRS format for consolidated accounts (not for individual accounts). This format is in fact an adoption of the existing CBSO format for consolidated accounts (change of some positions in balance sheet, and profit and loss to make it more suitable for IFRS).

#### **b. Belgium**

The CBSO formats for individual accounts are defined by law and are also used to calculate corporate taxes. The application of IFRS to the individual accounts would involve important changes in the relationship between accounting legislation, tax law and company law. Therefore, a working group (tax law) was created to study a possible break between accounting and taxation, maintaining the current valuation rules to establish the fiscal result. However, as a result of the discussion paper written by the European Commission<sup>17</sup> regarding the simplification of accounting rules for small and medium-sized companies, it is unlikely that any convergence towards IFRS will come into force in the near future.

The format for consolidated accounts is not mandatory, only recommended, and the data are not yet processed. IFRS will affect the CBSO if the consolidated format can be standardised, recommended and handled in a new database.

#### **c. France**

The current connection between accounting legislation and tax law makes it difficult for individual accounts to evolve rapidly. Yet the National Accounting Body favours the move towards IFRS and has already begun to adopt some international standards in its own legislation.

As regards the impact on the CBSO, it is believed that as long as the individual accounts' collection will be based on tax format, which is as long as the connection with tax will remain, there should not be too many impacts on the individual accounts' database.

Concerning consolidated accounts, the database was adapted so as to permit the collection of IFRS financial statements. This work was completed at the beginning of 2006. Although, at this

---

<sup>17</sup> The reference is MARKT/F3/AD/KnT/UL D(2006)

stage, we do not foresee conceptual difficulties adapting the database, we are less confident as regards the adaptation of the system of analysis for credit risk assessment.

#### **d. Germany**

The database on risk assessment includes individual and consolidated accounts. But there is no separate analysis system for consolidated accounts, because the Bundesbank credit rating is based on individual accounts. The credit risk department of Bundesbank exerts a data gathering-program for consolidated accounts under IFRS with the opportunity to analyse these accounts separately.

The database for statistical purposes includes only individual accounts based on the German Commercial Code. However, the statistics department considers integrating consolidated accounts. In addition, from fiscal year 2005 individual accounts based on IFRS are possible for information purpose, but companies are still obliged to create individual accounts based on the German Commercial Code. For the time being (summer 2007) no such financial statement was published in the Federal Gazette.

#### **e. Italy**

The impact of IFRS in Italy is affecting both consolidated accounts and individual accounts, for the reason that Italian law allows the use of IFRS for listed and unlisted companies, even in individual financial statements. Since June 2006, the databases of Centrale dei Bilanci have been updated to store IFRS information; the main changes have been:

- creation of three specific accounting plans to manage IFRS financial statements: IFRS for industrial companies (one for companies with income statement by function and one by nature) and IFRS for financial institution;
- introduction of 150 new items to handle IFRS accounting typicality (fair value, current/non current, equity, impairment,..) both in individual than in consolidated accounts;
- inclusion of supplementary tables to save evaluation rules, movements of new items (like biological assets), fiscal changes, segment reporting and discontinuing operations;
- changes to the system of analysis to compare the companies that adoptee IFRS and the ones that adoptee national rules.

The current update to the database allows to handle in the same databases all the Italian companies and to store the IFRS information for the companies that adopt IFRS.

#### **f. Portugal**

The application of IFRS rules to the consolidated accounts of listed companies will not affect Banco de Portugal's Central Balance Sheet Data Office, since we do not have a system of analysis based on consolidated accounts.

Based on the new reporting system we are receiving annual reports of listed companies in a pdf format. Until now, we do not have any plan to change the information to a database.

We are foreseeing a new Portuguese Chart of Accounts to be in force in 2008 in accordance with IFRS: based in principles, not in rules and flexible enough to account for changes in IFRS. This new Chart of Accounts will affect Portuguese CBSO system of analysis.

**g. Spain**

No special questionnaire is available to collect consolidated accounts. There are three kinds: one for small individual accounts, one for medium and large individual accounts, and one for the quarterly survey. In any event, as the implementation of IFRS is foreseeable for all the accounts, directly or indirectly (consolidated and individual accounts), there will be a certain impact on the questionnaires (probably not very significant, due to the fact that the current Accountancy regulations were drawn up in 1990, taking into account some of the international standards existing at that time). **Once a new Spanish Chart of Accounts is in force and in line with IFRS (foreseen for 2008), the Spanish CBSO questionnaires will include all the information needed to meet new requirements, and this could also, to a certain extent, affect the system of analysis.**

**In addition, a study has been carried out in the CBSO, finished in 2006, to analyse the impact of IFRS in its databases (foreseeable breaks in the time series, changes in the different outputs of financial information disseminated, and so on).**

## Document Management

---

**Document name**      **IFRS impact**  
 This document deals with the main effects of the implementation of IFRS. It begins with a brief description of the current situation in both the EU and the countries which constitute this WG. Next, main opportunities and risks arising in this process are briefly listed. The third chapter is focused on the impacts on each CBSO.

---

**Release**              WGIII\_impact\_2007F  
 Date:08/10/2007

---

**Revision History**      Each distributed document forms a "final version".  
 List of successive "final versions"

Revision version	Revision date	Summary of Changes
WGIII_impact_2007D 1	19/06/2007	First draft with updated information for year 2007.
WGIII_impact_2007D 2	03/08/2007	Second updated draft of the document for discussion in Torino
WGIII_impact_2007D 3	06/09/2007	Third draft of the document, for discussion in Torino
WGIII_impact_2007F	08/10/2007	Final version of the document, for distribution in the ECCBSO meeting

---

**Distribution**              This document has been distributed to:

Version	Date of issue	Name
WGIII_impact_2007D 1	19/06/2007	Members of the IIIWG
WGIII_impact_2007D 2	03/08/2007	Members of the IIIWG
WGIII_impact_2007D 3	06/09/2007	Members of the IIIWG
WGIII_impact_2007F	08/10/2007	Members of the IIIWG Members of the ECCBSO

---

### Version management

Key dates: For each final version of the document, key dates for the national revisions or corrections  
 Name and date of revised document send by each member

Members	Draft		Revision		Approval
	Name	Date	Name	Date	Date
Austria					
Belgium	Saskia Vennix	23/07/2007			
France	Jean-Luc Cayssials Sylvie Marchal	03/08/2007	Jean-Luc Cayssials Sylvie Marchal	21/09/2007	
Germany	Dominik Elgg	18/07/2007			
Italy	Vincenzo Favale	10/08/2007			11/10/2007
Portugal	Ana Barbara Pinto	03/08/2007			
Spain	Antonio Sánchez Jesús María Martínez	19/06/2007 02/08/2007	Antonio Sánchez	08/10/2007	11/10/2007

---