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IFRS: INTERNATIONAL FINANCIAL REPORTING STANDARDS - A step closer to international convergence?

This article discusses International Financial Reporting Standards (IFRS) which have been introduced by the International Accounting Standards Board (IASB). As at the date of this article, IFRS encompass 7 specific IFRS together with 31 International Accounting Standards (IAS). IFRS and the IASB should not be confused with International Standards on Auditing - UK and Ireland (ISA) or the work of the International Audit and Assurance Standards Board (IAASB). ISA took effect in the UK and Ireland for all audits of financial statements, regardless of the size or status of a company, for periods commencing on or after 15 December 2004.

The implementation and reporting under International Financial Reporting Standards "IFRS" has generated much debate over the last year or so. Reports in the UK accounting press have suggested that companies have generally struggled with the transition, directors have failed to understand the new standards, companies have a long way to go in improving consistency and comparability and there is resistance to IFRS for smaller companies. Academics at the University of Lancaster are due to study the impact of IFRS across Europe but the results will not be known until the four year project is completed! Therefore now is probably a good time to look back on the convergence process in the UK and Europe, Japan and the US.

In the UK, for companies and groups adopting IFRS in 2005, new provisions in the Companies Act 1985 were effected in respect of companies' financial years which began on or after 1 January 2005. The amended legislation gave individual companies and groups a choice between preparing accounts under UK GAAP and IFRS. Parent companies whose shares were fully listed and who were required to prepare consolidated accounts, had to adopt IFRS for 2005. For financial years commencing on or after 1 January 2005, all UK companies have had the option to adopt IFRS as an alternative to UK accounting standards. This includes small and medium sized entities as well as large unlisted companies. For unlisted companies, the choice between UK GAAP and IFRS is likely to remain a voluntary option for several years.



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In Germany, enterprises preparing consolidated financial statements in accordance with the German Commercial Code (HGB) should apply German Accounting Standards (GAS). However, in accordance with S292a HGB, German parent enterprises were permitted to prepare consolidated financial statements complying with internationally recognised accounting principles if at least one group company had listed securities. IFRS and United States Generally Accepted Accounting Principles (US GAAP) are internationally recognised accounting principles within the definition of S292a HGB. In July 2002, the EU regulation on the adoption of international accounting standards was adopted by the European Parliament and Council. Therefore, German enterprises whose securities are publicly traded have been required to prepare their consolidated financial statements in compliance with IFRS starting for financial years beginning after 31 December 2004. Furthermore, the EU regulation gives Germany and other EU member states the option to permit or require all other enterprises to apply IFRS in separate financial statements or consolidated financial statements.

In October 2004, the International Accounting Standards Board (IASB) and the Accounting Standards Board of Japan (ASBJ) agreed to initiate discussions about a joint project to minimise differences between IFRS and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences and in March 2005 the boards met to decide on the initial programme of work for the project. More recently on 28 and 29 September 2006 in London, the ASBJ and IASB held their fourth joint meeting towards the final goal of achieving convergence between Japanese GAAP and IFRS. Both boards believe that these discussions are useful in promoting mutual understanding that will contribute to subsequent deliberations at their respective boards. In addition, the boards confirmed their plans to continue their joint work and reviewed their respective project plans. The next meeting will be held in Tokyo in March 2007.

National standards in most countries around the world have been based either on IFRS or US GAAP. Consequently, the IASB has adopted a strategy to achieve a single set of global accounting standards by working towards the convergence of IFRS and US GAAP. The IASB and the US Financial Accounting Standards Board (FASB) have various joint initiatives to accomplish the goal of convergence. High on the agenda will be to achieve acceptance from the main US regulator, the Securities and Exchange Commission (SEC) that companies with a US listing will no longer have to produce parallel accounts under both IFRS and US GAAP. Despite the ongoing projects, differences exist between the two accounting frameworks.