

A shock wave could hit the UK's financial markets if the impact of International Accounting Standards (IAS) is not properly explained to analysts and investors warned Eric Anstee, Chief Executive of the Institute at the professional body's annual conference on Tuesday. He revealed the results of ICAEW research showing that more than a quarter (27%) of UK listed companies surveyed expect that their key performance indicators will be negatively affected as a result of the introduction of International Accounting Standards in 2005.

If the reasons for these changes are not communicated effectively to analysts and investors, downward movements in indicators such as earnings-per-share could surprise the markets, the Institute's chief warned. So far only 17% of the listed companies surveyed have a plan for communicating the impact of International Accounting Standards on their financial statements, although 53% expect to have one in place shortly.

Commenting on the survey results, Eric Anstee said: "With only six months left until the introduction of International Accounting Standards, the clock is ticking loudly for listed companies. It is hugely important that they explain to the market likely changes to their financial statements ahead of 2005 to ensure there are no shocks or surprises. Otherwise, for analysts and investors it will be like doing a jigsaw puzzle in a snowstorm at night. They won't have all the pieces and they won't have the picture to work from."

He stressed that "Companies must ensure now that they have an effective communications plan in place to brief these groups if they are to avoid unnecessary panic."

In its response to the Committee of Securities Regulators' consultation paper last year, the ICAEW suggested that companies might provide narrative explanation of key changes to accounting policies in their 2004 annual report or preliminary announcement. In a later exercise, restated 2004 GAAP numbers could be published together with explanatory material, ideally in advance of the 2005 interim statements. This would provide users with the opportunity to understand the impact of IFRS on the reported financial performance and subsequently to interpret the 2005 numbers more effectively.

The Institute has just launched a new global assessment programme in IAS (and International Financial Reporting Standards) to help prepare analysts, financial staff and the wider business community for the introduction of IAS. Preparers and users of financial statements around the world can now enrol for a certificate in International Financial Reporting Standards, which offers accreditation to ICAEW members and non-members who demonstrate knowledge and competence in IAS and IFRS. The Institute will also be launching a Diploma later this year.

Commenting on the new certificate, Eric Anstee said: "It is not too late to prepare staff and analysts for the introduction of International Accounting Standards, provided companies act now. We've developed a global assessment programme to plug knowledge gaps and help ensure the transition goes as smoothly as possible. That will only happen if users understand the standards and the impact they will have on financial statements."

#### Key ICAEW survey findings on awareness and likely impact of IAS:

- Awareness of International Accounting Standards has generally increased among surveyed businesses since the Institute carried out initial research a year ago, with the majority (81%) aware of the publication of the EU Regulation requiring listed companies to adopt IAS by 2005, compared with 66% in 2003. Predictably UK listed companies are significantly more aware than other types of company, with 96% either 'very' or 'fairly aware', compared to around 70% of unlisted companies and owner-managed businesses.
- Listed companies are also much more likely to rate their understanding of the implications of IAS as good. Almost three-quarters (74%) say it is 'very' or 'fairly' good, although worryingly almost one in ten (9%) still believe that their organisation's understanding is poor.
- Although there has been a significant increase in the level of awareness of IAS, preparation for the transition is not as advanced as might be expected at this stage. While 77% of listed companies state that they are prepared for IAS, most of these (61%) report that they are only 'fairly well prepared', suggesting that there is still some groundwork to do before IAS is implemented in 2005.
- Over half (58%) of respondents from UK listed companies stated that their key performance indicators will be affected as a result of the introduction of IAS. Of these, almost half (48%) foresee that the impact will be a negative one (33% 'slightly negative' and 15% 'very negative'), while 23% envisage a positive impact.

The ICAEW is committed to raising awareness of IAS/IFRS. To help facilitate this, it has set up a website ([www.iasknowledge.com](http://www.iasknowledge.com)) as a resource for the business community to keep track of developments as the 2005 deadline draws closer.