IAS: The view from the top

In this exclusive piece to coincide with the launch of our IAS campaign, Sir David Tweedie explains why the time to act is now.

Sir David Tweedie, Accountancy Age 03 Sep 2003

Link: IAS special report

Last year, the member states of the European Union joined a growing list of countries, now numbering more than 90, that will either require or accept International Financial Reporting Standards (IFRS) for the purposes of financial reporting by 2005. Substantial time and investment will be spent on preparing for the 2005 deadline, but the potential of long-term sustained economic benefits certainly justifies this short-term disruption.

As with any major change, the move to IFRS by 2005 poses challenges.

To be IFRS compliant by the 2005 deadline in Europe, companies will need to prepare comparatives for 2004 as well. With the third quarter of 2003 nearly complete, the time to prepare is now.

Switching to international accounting standards will require companies to invest in new systems, and to explain the differences in financial reports due primarily to changes in accounting practices. This is a process that should be well under way, and should include company directors and management, auditors and IT specialists. Regulators and tax authorities should also consider the change to IFRS, particularly regarding the application of tax policy.

Indeed, IFRS will transform the basic infrastructure underpinning Europe's capital markets and provide impetus to Europe's effort to unite its many national markets. For companies, it should expand the pool of potential investors, bringing down cost of capital, and reduce the expenditure needed to consolidate the accounts of their subsidiaries.

At the same time, EU investors will be more readily able to understand the financial statements of companies outside their home jurisdiction.

The economic result should be a more efficient allocation of capital, leading to increased economic growth in Europe.

The impact of Europe's decision extends beyond its borders. A source of frustration for many companies in Europe wanting access to US capital markets remains the requirement to reconcile their accounts to US generally accepted