IFRSs going global

Implications for the accounting profession

Adapting to the IFRS revolution has brought more than its fair share of challenges to the accounting profession around the world. But overall the profession is not only adapting well but is mostly enthusiastic about the way forward.

'We are on track to globalisation and convergence', said Ian Ball, CEO of the International Federation of Accountants (IFAC), the body that represents the accountancy profession around the world. 'From the viewpoint of the profession there is no doubt about the economic benefits, and the value of convergence doesn't require debate', he said. 'The benefits are clear.'

Ken Wild, Global Leader, IFRS, at Deloitte, would agree: 'The benefits are self-evident. The more investors and other stakeholders think that they understand something the more likely they are to provide money or invest in it. It all depends on how much confidence they have in the company and there will always be an element of doubt if the language is different.'

Hans van Damme, Deputy President of the European Federation of Accountants (FEE), commented on the success of the convergence process: 'Convergence has been working quite well. We were cautious over the direction it might take. After the first year of application the oversight of the marketplace was a stable one' and added: 'The crossover was very smooth. We were pleased with that.'

'There is a huge amount of commitment around the world', said Ian Wright, recently appointed Director of Corporate Reporting at the UK Financial Reporting Council.

There have, of course, been real costs as well as benefits. 'In some countries', said Ball, 'the costs can be high if their accounting was a long way from what IFRSs are now. There have been costs in changing systems and educating the profession, for example. But while the costs of making the transition are not insignificant the benefits are huge.'

Wild foresees big administrative savings for the profession: 'The more you have people in the same system, the more you can send people round the world knowing they will come across the same stuff. It will become a continuous benefit.' 'Open up trade, which goes beyond the capital markets' benefit', said Ball, 'and accounting can move from country to country, and with technology you can do it without moving physically as well. Add to that the elimination of the overlap of textbooks and translations and you can see how trade can become so much more efficient if there is a single version of IFRSs.' With the dropping of the reconciliation requirement between IFRS users and the US capital markets by the Securities and Exchange Commission (SEC), further benefits can be seen up ahead.

Economics of adoption

None of the changes has been without challenges. 'In Europe, for instance, we were coming from a position where French GAAP and German GAAP and UK GAAP were completely different and businesses were run on a different basis from country to country', said van Damme. 'But now we are starting to talk the same language.' The signs are that the world is moving purposefully towards a global accounting language on an IFRS platform. A danger could be that the European countries are still finding it difficult to extricate themselves from all

their past differences and face the world as one European global participant. As Van Damme put it: 'My fear', he said, 'is that we will have carve-outs, which I would hope would be temporary. The atmosphere in the European Parliament is that they can't let Europe surrender to the US. They still see the IASB as an Anglo-Saxon organisation.'

The other danger to the high hopes for global adoption is the problem of countries deciding that they will go for IFRSs but add on a few local quirks of their own, resulting in what has become known as 'IFRSs as adopted in…'. The SEC, in particular, has taken the view that IFRSs are IFRSs and tacking on some differences is not at all the same thing. ' "IFRSs as adopted in…" is a risk', said Ball. 'It is a responsibility for both the profession and governments. It would be unfortunate if we were to lose ground by countries adapting IFRSs. And it is unfortunate where it occurs. Countries that adapt get the worst of both worlds. They have the costs of adopting and the costs of adapting.' 'In Asia we are not there yet', he said. 'But we have seen some very significant moves. India is committed to full adoption and China has moved substantially in that direction.'

It is the international dimension that will bring the benefits and has the potential to create strong capital markets. 'The economics of adopting are very powerful', said Ball. 'It has been driven by economic imperatives rather than national imperatives but it can be very hard for people to move from a national to an international regime.'

This is the dilemma. 'I think what you see in Europe is the same as you see elsewhere', he said. 'It is an act of faith to sign up to standards when you are not totally in control of the standard-setting. But that applies to all jurisdictions. The same logic of the huge economic benefits works in Europe as it does in the rest of the world.'

Ken Wild thinks that this dilemma can be resolved. The economic benefits will drive the change. 'No jurisdiction can abandon its own laws. It will always check to see if IFRSs are fit for purpose. There will always be an endorsement procedure', he said. 'But the economic imperative will push towards there being no differences. The endorsement procedure will always have a vested interest in having no differences.'

As van Damme concluded: 'It is not so easy to come to one universal set of accounting standards.'

South Africa

A view on adoption

Ignatius Sehoole

By 2003 the South African Statements of Generally Accepted Accounting Practice (SA GAAP) were harmonised to International Accounting Standards (IASs) created by the IASB's predecessor body. Then in 2004, South Africa decided to adopt International Financial Reporting Standards (IFRSs). And this year it was the first country in the world to adopt the IASB's proposal for small and medium-sized companies (IFRS for SMEs).

Some people might be surprised about this very pragmatic approach. Ignatius Sehoole, the Executive President of the South African Institute of Chartered Accountants, provides some insight into the reasons.

On the recent adoption of the Exposure Draft of the IFRS for SMEs he said 'The standards will provide huge relief for SMEs in South Africa, compared with what they currently have to comply with.' Since the adoption of IFRSs every company has had to comply with the full standards. Not surprisingly, smaller companies have found those requirements burdensome and too complex for their needs. A recent change in South African company law finally made provision for differential reporting for 'limited interest companies' (SMEs) and opened the door for the IFRS for SMEs: 'The majority of companies in South Africa will use it. It is very welcome. The standard in its current form already offers SMEs real relief and when the final standard comes it will be even better.'

Initially there had been a debate about whether South Africa should draft its own version of the SME standard. In the end the Exposure Draft that was published by the IASB was seen as providing a much more useful international answer. An important factor was that by linking the SME standard in with international standards South Africa would provide greater security and comfort for foreign investors. 'This is a global world', Mr Sehoole said. 'It is how things work.'

Sehoole is an enthusiast generally for IFRSs and a critic of those who wish to adopt IFRSs piecemeal. 'Trying to have a parallel process with the IASB is not helpful', he said. 'The international world, particularly when dealing with a developing country, is not interested in trying to find out what your local GAAP is about. That is why we think IFRSs are the way to go. Without IFRSs we have an international free-for-all with a lack of comparability, especially in developing nations, which are often not the countries of choice for capital investment even at the best of times.'

For Sehoole the niceties of arguments about IFRSs are a waste of time. 'You work with the process, the global business reality dictates. You may not like it but you have to accept it. IFRSs are not geared to making you happy. They are geared to giving you access to global capital. If you want to play on the world stage you have to follow IFRSs.'

Certainly his experience and his enthusiasm are bearing this out in South Africa: 'Investors are much more relaxed and happier with IFRSs. This is not just theory to us. Preparers tell us they have experienced a lower cost of capital as a result. To us it is a reality.'