



INTRODUCING GAAP 2001

A Survey of National Accounting Rules
Benchmarked against
International Accounting Standards

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Introducing GAAP 2001 – now available at www.ifad.net

GAAP 2001 and GAAP 2000 provide summaries of areas in which national accounting standards require different accounting and reporting treatments from International Accounting Standards (IAS).

Both GAAP 2001 and GAAP 2000 are available at www.ifad.net. In addition to the country summaries, the web site includes an analysis of new national requirements that affect the differences reported in GAAP 2000. It also includes a similar analysis of national requirements (or proposals for national requirements) which may further reduce differences from IAS when they come into effect in the future. GAAP 2001 and GAAP 2000 are designed to increase the awareness of users of financial statements that, although financial reports from different countries appear to be similar, significant differences in national requirements and the resulting financial statements still exist.

Following is a sample country summary from GAAP 2001:

Within each country summary are additional links to the GAAP 2000 summary, differences from GAAP 2000 and future national requirements.

IFAD GAAP 2001	
ABC Country	
This country summary should be read in conjunction with the information in the Introduction , Survey Methodology and Questionnaire	
<ul style="list-style-type: none"> Home Preface/Countries Introduction Survey Methodology Questionnaire GAAP 2000 Differences from GAAP 2000 Future National Requirements 	<p>ABC Country requirements are based on the Corporate Law No.xxxxxx, regulations of the National Securities Commission and the Superintendency of Corporations, and approved standards, of the Professional Council.</p> <p>ABC accounting may differ from that required by IAS because of the absence of specific ABC rules in the following areas:</p> <ul style="list-style-type: none"> - the classification of business combinations as acquisitions or unities of interest IAS 22 - provisions in the context of acquisitions IAS 22.31 - capitalization of leases IAS 17.12/28 - discounting of provisions IAS 37.45 - employee benefit obligations IAS 19 - deferred tax accounting IAS 12.15 - government grants IAS 20 - construction contracts. IAS 11 <p>There are no specific rules requiring disclosures of:</p> <ul style="list-style-type: none"> - a primary statement of changes in equity IAS 1.7 - discontinuing operations IAS 35 - segment reporting IAS 14 <p>There are inconsistencies between ABC and IAS rules that could lead to differences for many enterprises in certain areas. Under ABC rules:</p> <ul style="list-style-type: none"> - any revaluation of tangible fixed assets does not need to be kept up-to-date IAS 16.29 - impairment tests are based on the existence of permanent diminution in value IAS 36.58 - provisions in the context of business combinations accounted for as acquisitions may be created more widely IAS 22.31 <p>In certain enterprises, these other issues could lead to differences from IAS:</p> <ul style="list-style-type: none"> - inventories can be valued at fair value or under the base stock system IAS 2.6 - exclusion of certain subsidiaries with dissimilar activities from consolidation IAS 27.13/14 - the lack of splitting of compound instruments into equity and liability components IAS 32.23 - research costs and some other internally generated intangibles can be capitalized under certain conditions IAS 38.42/51 - tangible fixed assets can be held at an out-of-date fair value, and gains and losses on their sale can be calculated by reference to an amount other than carrying value IAS 16.29.56 - the capitalization of finance leases is not required IAS 17.12 - on disposal of a foreign entity, the cumulative amount of deferred exchange differences in equity need not be recognized in income. IAS 21.37
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“The rapid development of global financial markets has greatly reinforced the desirability of—indeed now demands—international consistency in accounting standards and auditing approaches.”

Paul Volcker, Chairman of the Trustees of the IASC Foundation, June 2001



What progress is being made towards the convergence of accounting standards?

Two years of GAAP comparison information shows that, while progress has been made in many countries, much work remains to be done. Convergence will require a joint effort of governments, stock market regulators, standards setters, preparers, users and the accounting profession.

Overview

Background

Harmonization of the financial accounting and reporting standards on which financial statements are based is a necessity to respond to today's global capital markets. The world's economies are facing a future in which cash flows across borders will grow. Accounting and financial reporting is an important element of this evolving market and can support or undermine the efficiency of markets. Reporting financial information on the internet is fast becoming common, giving investors from any country ready access to the financial information of companies, regardless of their country of domicile.

This globalization of capital markets and the developments in telecommunications and the internet bring a new significance to the need for comparable and transparent financial reporting, and require new thinking by companies, investors, creditors and auditors about what financial information companies should publish and how best to communicate it.

The present lack of common accounting requirements around the world serves as a significant impediment to the globalization of capital markets by restricting an investor's ability to make informed decisions about investment alternatives. For investors and other users to compare investment opportunities and, indeed, for a company to benchmark itself against its competitors, a common accounting and financial reporting framework is needed.

The work of the International Accounting Standards Committee (IASC) has had a significant impact on the development of accounting standards all over the globe. Countries increasingly look to International Accounting Standards (IAS) in the absence of domestic standards. Many others permit the use of IAS in cross-border filings, and some countries permit IAS in domestic filings.

Importantly, the constitution of the IASC was modified in 2000 to provide for standard-setting by an independent International Accounting Standards Board (IASB) of fourteen individuals, each chosen for his or her technical expertise. The fundamental objective of the IASC also has been refined—specifically, it seeks to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in financial statements.

The potential for IAS to provide the basis for comparable national and cross-border financial reporting is increasingly clear. Evidence includes the May 2000 recommendation by the International Organization of Securities

Lack of common accounting rules around the world serves as a significant impediment to the globalization of capital markets

Commissions that regulators should allow multi-national issuers to use IAS for cross-border offerings and listings, subject to the provision of supplemental data. In addition, in February 2001, the European Commission proposed a regulation that will require

the European Union's listed companies to prepare their consolidated financial statements in accordance with IAS from 2005 forward. Across the world from Asia to Latin America, national governments, regulators and accountancy professionals are actively considering how their national accounting rules differ from IAS and how to reduce those differences. This process will, in many countries, lead to a significant improvement in financial

reporting transparency and comparability. The process of reducing differences and improving financial statement transparency will take time, but the ultimate benefit will be worth the effort. Paul Volcker, Chairman of the Trustees of the IASC Foundation, voiced this view in June 2001, when he said, “the rapid development of global financial markets has greatly reinforced the desirability of—indeed now demands—international consistency in accounting standards and auditing approaches.” Strong support for high quality international standards has come from a number of other sources, including the European Commission’s Commissioner on Internal Markets, Frits Bolkestein, who, in commenting on the EC’s proposal for a Regulation on the application of IAS said, “The adoption of a common financial reporting language for listed companies throughout Europe will greatly benefit both companies and investors in bringing about more transparency and a higher degree of comparability.” And, one of the Commissioners of the United States Securities and Exchange Commission, Isaac Hunt, commented, “... I can think of no greater gift to the investing public than establishing a set of world wide accounting standards.”

High-quality global accounting standards are needed to improve the ability of investors to make informed financial decisions, thereby leading to a reduction in risk for

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investors and, ultimately, to a reduction in the cost of capital. Equally important, global standards can improve access to capital markets and reduce costs and the complexity for international companies by eliminating some of the multiple reporting obligations.

Companies will save both time and costs by being able to report all financial information under the same set of accounting and reporting requirements, irrespective of location. Together, these benefits of improved access to capital markets, reduced costs of capital and reduced internal costs will reward companies that improve their financial reporting by implementing global, high-quality accounting standards and will reward economies in general, delivering greater investment opportunities.

This Year’s Report

GAAP 2001 provides summaries of areas in which national standards require different accounting and reporting treatments from IAS. It is designed to increase the awareness of users of financial statements that, although financial reports from different countries may appear to be similar, significant differences in national requirements and the resulting financial statements still exist. Users of financial statements also are alerted to the potential for differences between requirements by the reference in audit reports to the national set of requirements adopted in the financial statements under review.

To obtain the data necessary to compile *GAAP 2001*, we asked partners in the large accountancy firms in more than 60 countries to benchmark their local written requirements against some 80 accounting measures, focusing on standards (both IAS and national) in force for the financial reporting period ending 31 December 2001. The resulting high level summaries were prepared by identifying, for the selected accounting measures, those instances in which a country would not allow (because of inconsistent requirements) or would not require (because of missing or permissive requirements) the

IAS treatment. To highlight progress that has been made in achieving convergence during the past year, we also have identified differences noted in *GAAP 2000* that were affected as a result of new national requirements that have come into force this year. Similarly, we have recorded changes in national requirements or proposals expected to come into force in the future, which will reduce further differences from IAS.

Convergence is a moving target. Changes in both international and national standards will require extra effort to achieve convergence

In carrying out the study and preparation of the country summaries, there necessarily were a number of limitations on scope and methodology. These limitations are discussed in more detail in the following section, and should be referred to when reviewing any country summary.

Key Observations

The availability of two years of information—with last year's *GAAP 2000* as a point of comparison—allows some analysis of the current progress toward convergence. We summarize here some themes emerging from the data with respect to three issues: national efforts, overall increase in differences and major topics of difference.

National efforts

Approximately twenty countries are responding to the challenge of convergence with an active agenda and proposed changes to national requirements. These countries can be identified by the number of entries at the end of its summary. Other countries have only a limited number of differences, and convergence for them is

a less difficult process. However, a year ago when *GAAP 2000* was published, a number of countries exhibited many and major differences from IAS, and these differences continue to exist. *GAAP 2001* shows that there are approximately thirty countries with major differences but with no indication of proposed changes. Generally, more effort needs to be made in these countries to identify differences from international standards and to plan for their removal over a period of time. For many, the process has commenced, but it may take some years for actual results to materialize because the strategy for convergence varies widely. Of course, for a few countries, convergence of their standards is not an issue because they simply require the use of IAS.

Increase in differences

IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 40 (Investment Property) came into force during 2001. As a result, most countries have added these to their lists of differences from IAS. Also, in a few countries, new national requirements have increased divergence from IAS. Thus, convergence is a moving target. Changes in both international and national standards will require extra effort to achieve convergence.

Major topics of difference

Lack of convergence is particularly obvious for certain accounting and financial reporting issues, such as:

- the recognition and measurement of
 - financial assets and derivative financial instruments,
 - impairment losses,
 - provisions,
 - employee benefit liabilities,
 - income taxes;
- accounting for business combinations; and
- disclosure of
 - related party transactions,
 - segment information.

The Way Forward

As a result of the reorganization of the IASC/IASB, few new international accounting standards were issued in the last 12 months. This may mean that fewer new national differences from IAS will emerge in 2002 than in 2001. However, the IASB has given priority to certain improvements that will lead to the removal of options in a number of standards, and therefore, the differences between IAS and some sets of national requirements will increase significantly. Other major changes to IAS are also on their way. As a result, national standard setters will have to redouble their efforts in the coming years to keep pace with the changes in IAS and to ensure that the gap between national and international standards narrows rather than dramatically increases.

One national response to this potential for wider differences between national and IAS requirements would be to abandon domestic requirements and adopt IAS fully. This response might be effective if applied to a limited group of companies (for example, only to listed companies in a country with a manageable level of such companies) and in the context of a highly trained accounting profession. However, this “big bang” approach to convergence poses a much greater threat to short term quality of the application of new standards when compared with managing change over a period. Thus, when practical, staged implementation may be more appealing to national regulators. This “evolutionary approach” would enable proper development of educational, professional and regulatory infrastructures; necessary financial accounting and reporting information systems modification; translation from English into local language; and so on. An evolutionary approach involving gradual changes to national rules could perhaps start by focusing on those areas — or groups of related areas — of greatest difference from IAS.

Another version of an evolutionary approach is the European Commission’s announcement of its proposed 2005 Regulation, which has provided several years of advance warning before IAS becomes compulsory for listed European Union companies. This will allow time for

the management and finance functions of affected companies to develop a well-considered, orderly transition to IAS.

As a first step in achieving full convergence, we encourage companies to begin to identify and quantify differences between their current accounting practices and IAS requirements. Companies need to prepare early for change.

It is clear that the most significant actions must be undertaken at the country level, where plans for convergence of high quality accounting standards need to be developed and implemented

Quantification of the impact should be an urgent priority, even if only for a company’s internal management purposes. And, in time, a requirement to present a numerical reconciliation to IAS could help to prepare the users of financial statements for the forthcoming change and could help to satisfy market expectations.

The quantity and significance of the differences in the GAAP 2001 country summaries makes it clear that, for many countries, convergence with IAS will be a major task and will require a joint effort in each country by the government, stock market regulators, financial statement preparers, users, standard setters and the accounting

profession. Changing the requirements will be difficult enough, but it will be more difficult still to ensure a high quality of implementation. Accountants and auditors must be trained, enforcement mechanisms must be improved, and users must be informed. Although some efforts may be initiated internationally, it is clear that the most significant actions must be undertaken at the country level, where plans for convergence of high quality accounting standards need to be developed and implemented.

As a final comment, users of any particular financial information should take great care to understand which accounting principles (national or international) have been applied in preparing the relevant financial statements. Not only do alternative treatments exist in accounting requirements but also particular events and transactions in different companies can take on more or less significance. While *GAAP 2001* is not meant to provide a comprehensive analysis to facilitate the in-depth interpretation of financial statements of specific companies, it will alert users to the care needed in interpreting financial information from across the world. We particularly hope that this report on current differences will encourage regulators, users and others to continue to press for further convergence and improvements in standards.

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Survey Methodology & Limitations

The questionnaire used to generate the information for the country summaries is included in *GAAP 2001*. Our work did not aim to record all areas of difference that a more detailed study would disclose. It focused on some 80 accounting measures (including a few areas of disclosure), selected using our professional judgement, as key accounting areas for the majority of companies from the International Accounting Standards (IAS) in force for accounting periods ending on 31 December 2001. Other areas of accounting, which are not included within our scope, may be more significant for certain companies or in particular countries. Partners from the large accountancy firms across the world used these questions to benchmark their local written accounting rules and then reviewed the resulting country summaries.

It should be noted that the country summaries:

- focus on the rules for preparation of consolidated financial statements and, where there is more than one set of rules, on those for listed companies. Different or additional requirements may apply for example to banks, insurance companies or the financial statements of individual companies and non-listed groups;
- concentrate on the written word. The variation between national accounting rules and IAS may in practice be less or greater in any particular country from that reflected in *GAAP 2001*. In some countries, IAS often is looked to in the absence of local rules; in others, local accounting custom and practice have developed independently of the 'rule making' and may therefore diverge from the written word;

- do not record a difference when IAS permits alternative treatments and the national rules follow one of those treatments or are more detailed or more restrictive than IAS. For example, there is no difference recorded if a particular country does not permit an IAS benchmark treatment (such as that for accounting policy changes in IAS 8) or does not permit an IAS allowed alternative (such as LIFO in IAS 2);
- are based solely on standards in force for the financial reporting period ending 31 December 2001, except for India and Japan where March year ends are most common and where we have therefore applied a 31 March 2002 cut-off. We have only included those standards published as of 31 October 2001, therefore careful attention should be paid to areas where requirements may have been issued after this date but prior to 31 December 2001. In addition, we have excluded published standards (both IAS and national) that do not have mandatory effect at the cut-off date;
- use IAS as the benchmark. Consequently, when national rules are more detailed, or cover more topics than IAS, the relevant differences are not recorded here;
- do not, from the order of presentation of the differences, imply any particular emphasis or priority. The effect of differences between national rules and IAS could be very different for each reporting entity;
- include differences which range from the absence of an overall standard, for example “no requirement for segment reporting” to a detail of inconsistency, for example “no requirement for disclosure of segment liabilities”. The length of a country summary is not therefore, of itself, indicative of the extent of variation between national rules and IAS.

We should also emphasize that we have not generally included areas of difference between IAS and national rules which fall outside the “80 key measures” of the questionnaire. For example:

- when local rules specify rates of depreciation or amortization of tangible and intangible assets, we have not made judgements as to whether or not these might be considered to depart from the IAS prescription of “estimated useful life”; or
- when local rules and IAS are in line as of 31 December 2001 (or 31 March 2002, for India and Japan) we have not enquired as to the impact of transitional provisions. Different dates of first application of the standards may cause differences in practical accounting (for example for fixed asset revaluation, business combinations, goodwill, employee benefits and deferred taxation) for some years to come.

For those countries that were included in *GAAP 2000*, the summary of progress made in effecting convergence in the past year identifies differences noted in the *GAAP 2000* that were affected as a result of new national requirements that have come into force. In general, affected means that the differences have been removed, although in certain instances differences have not been completely removed, have changed in nature or additional differences have arisen due to the introduction of conflicting national requirements. Finally, the preparation of any survey like this requires considerable judgement to be exercised, primarily in each country and then in assembling material from across the world. Those who have compiled this survey have done their best to reflect a consistency of presentation across the 62 countries; nevertheless, it should be emphasized that the depth of explanation of differences for each country may not be comparable.

In completing this survey, we gratefully acknowledge the contribution of many hundreds of large-firm partners and managers across the world. Special thanks also goes to Hayley Mead for her significant contribution and enthusiasm in coordinating the *GAAP 2001* project.

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