

A decade of lessons on IFRS reporting

Ten years after the adoption of IFRS by listed companies across the EU, **Nigel Sleigh-Johnson** and **Eddy James** ask what others can learn from the European experience

Believe it or not, it is now more than 10 years since listed companies across the European Union were required to wave farewell to their domestic accounting standards and switch to using IFRS when preparing their consolidated financial statements. This bold decision proved to be a catalyst for the spread of IFRS around the globe. Today, far more than 100 countries require the use of IFRS or standards based closely upon them in the consolidated financial statements of some or all companies.

However, a decade later, the adoption of IFRS in the EU remains controversial in some quarters, with some continuing - for a variety of reasons - to question whether the introduction of international standards has been beneficial, and sometimes calling for a return to what they see as the 'good old days' when most EU jurisdictions had their own domestic accounting standards.

EXAMINING THE EVIDENCE

Marking the 10th anniversary of the adoption of IFRS, the European Commission published a detailed questionnaire last year seeking views from stakeholders on the costs and benefits of applying IFRS. The great majority of the more than 200 responses they received concluded that the introduction

of IFRS has improved the quality and consistency of financial reporting in the EU.

This view was backed up by our analysis of the relevant empirical academic research on the effects of mandatory IFRS adoption in the EU which, above all else, showed that - despite some significant challenges - the move to high-quality global accounting standards has resulted in a number of important benefits.

A BROADER PERSPECTIVE

So, overall, the available evidence suggests that the EU's great IFRS experiment has been a success. But it certainly hasn't always been an easy ride. Important lessons can be learned from the experience of the UK and other EU member states.

With this in mind, the faculty has produced a report entitled *Moving to IFRS Reporting: Seven Lessons Learned from the European Experience*, which is designed to highlight these lessons and place them in a global context. It aims to provide - in a succinct and accessible way - some practical insights and recommendations for policy-makers, regulators, standard-setters and other interested parties in jurisdictions that have recently adopted IFRS or are considering introducing or extending the application of IFRS reporting.

LESSONS LEARNED

The report highlights seven key lessons that can be learned from the European experience. In short, these are:



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1 THE BENEFITS OF IFRS OUTWEIGH THE COSTS

The evidence indicates that, in a relatively short time, mandatory IFRS adoption in the EU has improved transparency, comparability, cost of capital, market liquidity, corporate investment efficiency and international capital flows. As might be expected, it suggests that these benefits were distributed unevenly between different companies and countries. But, overall, the evidence shows that the benefits of IFRS adoption significantly outweigh the related costs.

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2 COMPANIES LISTED ON REGULATED MARKETS SHOULD BE REQUIRED TO USE IFRS

IFRS are developed primarily with companies that raise funds from the capital markets in mind. Taking this into account, the EU's decision not to mandate IFRS reporting by private companies was a wise one. However, in hindsight, the decision not to extend the use of IFRS to listed entities that are not groups and other public interest entities is more questionable.

3 LOCAL VARIANTS OF IFRS SHOULD BE KEPT TO A MINIMUM

The full benefits of IFRS adoption can only be reaped if the standards are adopted in full. Local interpretations or quasi-interpretations should be avoided, unless local legal or cultural differences make them necessary. Moreover, formal carve-outs should be kept to a minimum and, wherever possible, should have a limited life. Despite the impression some may have, with few exceptions, this has been the approach taken by the EU.

4 COMPLEXITY IS SOMETIMES UNAVOIDABLE

The complexity of IFRS reporting requirements may discourage some countries from fully embracing international standards. However, we live in a world where complex business transactions will often necessitate complex accounting solutions. Simplicity is not desirable if it means investors are less well informed than they might otherwise be.

5 NATIONAL STANDARD-SETTERS AND REGIONAL GROUPINGS ARE IMPORTANT

In an era of global standards and markets, national standard-setters and regional groupings have a central role to play in undertaking co-ordinated research, field testing and outreach activities as full members of a unique global standard-setting partnership.

6 STRONG NATIONAL ENFORCEMENT IS CRITICAL

A strong national enforcement regime is an essential component of the institutional infrastructure required to realise the potential benefits of adopting global accounting standards. Experience in Europe has also demonstrated the vital importance of mechanisms for sharing and co-ordinating enforcement decisions as a means of complementing and reinforcing nationally-based enforcement arrangements.

7 ENDORSEMENT UNDERPINS LEGITIMACY

The EU's endorsement process has proved a critical means of establishing the political legitimacy of IFRS in Europe. Concerns have, however, been raised about the time and effort involved. Jurisdictions considering IFRS adoption should develop endorsement mechanisms with clearly-defined and manageable timetables.

A BALANCED ASSESSMENT

The report also looks back on our seminal report on *The Future of IFRS* and briefly assesses what has been achieved since its publication in 2012, including an update on our perspectives on the role of IFRS in the global financial crisis and the prospects of the adoption of IFRS by the United States.

We hope that this report provides a balanced assessment of what is needed to ensure the ongoing success of the IFRS project and that it can contribute to the global debate about the pros and cons of IFRS adoption. We would welcome any comments and insights on the issues it raises. ■

Copies of *Moving to IFRS Reporting: Seven Lessons Learned from the European Experience* can be downloaded from icaew.com/ifrslessonslearned



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