ACTA UNIVERSITATIS LODZIENSIS
FOLIA OECONOMICA 173, 2004

*Radoslaw Ignatowski**

EUROPE AT THE TIME OF IMPLEMENTATION OF INTERNATIONAL ACCOUNTING STANDARDS IN THE CONTEXT OF INTERNATIONAL ACCOUNTING HARMONISATION

Abstract. The article intends to explain the process of implementation of International Accounting Standards by the European Union. This process is presented in the context of international globalization of capital and goods markets. The author discusses the role of the European Union itself in the process of harmonization of accounting and the role of International Accounting Standards Board, whose accounting solutions have been implemented in the European market by the Regulation of UE on implementation of International Accounting Standards. The road to this Regulation is discussed later, presenting the efforts of the European Community to establish and enforce universal, comparative accounting regulations. The last chapter of the article presents the idea and details of this Regulation.

1. Challenges facing global accounting as a result of globalisation

As a result of the process of economic globalisation, accounting academics, regulators and practitioners are confronted with increasing pressure to develop and enforce a uniform set of generally (i.e. globally) accepted accounting standards[1]. This pressure has been created and voiced by the

* Department of Accounting, Faculty of Management, University of Łódź, Poland, wzrach@uni.lodz.pl

[1] The list of names and titles which speak to the importance and topicality of this issue, as well as its attractiveness, is very long. It could start with "a", e.g. Alexander David, Archer Simon and close with "z", e.g. Zeff Steven. Many Polish authors, too, are engaged in researching these problems, to quote prof. Alicja Jaruga, whose pioneer innovative activity in this area remains unparalleled and undisputedly of utmost value. It is also important to note the work of prof. Stanisława Surdykowska, who published a very interesting book *Rachunkowość międzynarodowa* (*International Accounting*) explaining the background and determinants of global harmonisation processes.

global market, or, strictly speaking, its active participants – mainly the users of information generated by accounting. These processes have gained pace recently and are increasingly oriented towards covering a widening range of aspects of accounting for business activity. They are aimed at developing universal solutions, which are commonly called accounting standards. However, it is interesting to note that in debates on accounting as well as in numerous national and supranational regulations the concept of standardisation of practices in increasingly understood as or replaced by the concept of unification.

Unification of accounting practices, as distinct from their standardisation, consists in seeking one universal solution, a method appropriate for identification, measurement and communication of all transactions relating to a particular economic event. An example of such a solution is the proposal to accept that all business combinations have the character of an aggressive acquisition. Adoption of this assumption may have further consequences for accounting for business combinations, as all aggressive acquisitions are accounted for – at least in countries with the most advanced capital markets – using the purchase method. Therefore the future of accounting standardisation, or rather unification, seems to be in the change of existing regulations, mainly through elimination of alternative practices – in the case of business combinations, through rejection of the method of uniting of interests and adoption of the purchase method as a universal solution, a generally accepted accounting practice[2]. Another example of attempts at accounting unification is in the area of accounting for leasing agreements. The accountancy regulatory bodies are moving in the direction of adopting the methods now used in financial leasing for all types of leasing agreements. Yet another example is seeking to abandon the method of proportional consolidation in accounting for interests in jointly controlled ventures in favour of the equity method. Also investment properties now generally valued using either of two alternative concepts – adjusted historical cost or current fair value – will most likely be required by most regulations to be accounted for at current fair value only. There are many more instances of this tendency.

What system of universal solutions will be adopted and how soon this will take place depends not so much on the accounting profession as on other factors, the power of capital being definitely the decisive element.

[2] This treatment, eliminating the option to use the uniting of interests method in favour of the purchase method, was adopted in US regulations in June 2001 in FASB Statement No 141 Business Combinations, supplemented by FASB Statement No 142, Goodwilland and Other Intangible Assets, which superseded former standards: ABP Opinion No. 16, Business Combinations, FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises and APB Opinion No. 17, Intangible Assets, which permitted (in exceptional situations) the uniting of interests method. Work on similar changes to IAS is currently in progress.

The possibility of free flow of capital, influencing and accelerating the processes of economic globalisation, calls for a quick shift in the accounting harmonisation process from the design to the implementation phase.

2. The role of the international accounting standards board in the process of accounting harmonisation

Today there are practically two accounting systems that could fulfil the role of international accounting regulations: the national, American system and the supranational system constructed consistently from 1973 by the International Accounting Standards Committee, established in that year and renamed as International Accounting Standards Board after a restructuring carried out in 2001. IASB is an organ of a private organisation called International Accounting Standards Committee Foundation based in London. This organisation has so far promulgated fourty-one International Accounting Standards, with thirty-three IAS currently in force. Seven standards have been replaced by new IAS. The standards that have been withdrawn include:

– IAS 3, Consolidated Financial Statements, superseded by IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries and IAS 28, Accounting for Investments in Associates;

– IAS 4, Depreciation Accounting, superseded by IAS 16, 22, 38;

– IAS 5, Information to be Disclosed in Financial Statements, superseded by reviesed IAS 1, Presentation of Financial Statements;

– IAS 6, Accounting Responses to Changing Prices, superseded by IAS 15, Information Reflecting the Effects of Changing Prices;

– IAS 9, Accounting for Research and Development Activities, superseded by IAS 38;

– IAS 13, Presentation of Current Assets and Current Liabilities, superseded by reviesed IAS1;

– IAS 25, Accounting for Investments, superseded by IAS 39, Financial Instruments: Recognition and Measurement and IAS 40, Investment Property.

Work is in progress on a number of new standards, which will now (subsequent to transformation of IASC into IASB) be called International Financial Reporting Standards (IFRS).

What is particularly important for proper understanding and application of prescribed accounting practices is development and consistent use of general assumptions adopted in a particular accounting system – a specific conceptual framework of IAS. It is all the more important in a situation where particular accounting solutions function in an economic and legislative void – they do not have, as a basis, any particular socio-economic system.

This led the IASC to follow US example and to prepare in 1989, that is 14 years after the issuance in 1975 of the first IAS, a set of accounting concepts essential as a basis for the elaboration of particular rules in the form of accounting standards. This document is called the Framework for the Preparation and Presentation of Financial Statements and forms together with the standards a whole, though not always consistent in logical or substantive terms.

An example of practical application of the provisions of the Framework is departure from valuation of financial instruments in accordance with rules set out in IAS 39, Financial Instruments: Recognition and Measurement, when the proportion of such financial assets in the group of long-term investments is so immaterial that any possible divergence in the price of purchasing such an instrument (which usually is subsequently recorded in account books) from properly, in accordance with IAS 39, applied rule for its measurement (e.g. at adjusted cost of purchase) does not affect the presentation of a true and fair view of an entity's financial position and performance. Another example of the application of the Conceptual Framework provisions is exclusion from consolidated financial statements of those subsidiaries whose financial data is of so little consequence that it will not affect compliance with the aforementioned overriding principle of preparation and presentation of information in financial statements. Materiality – a qualitative attribute of information disclosed in financial statements that is at issue in both the cases – is also, owing to its substantive character, an object of regulation in IAS 1, Presentation of Financial Statements[3].

Equally important in the application of IAS is Preface to International Accounting Standards. This document was referred to in the development of each successive standard and is invoked in the introduction to every IAS. It is subject to periodical revisions, which make its provision more consistent with changes in the IASC Constitution, recently updated and renamed as IASC Foundation Constitution. One of such important provisions of the Preface is in paragraph 12, regulating the application of solutions relating to material issues, contained in individual IAS, which may guide decisions on the application of certain complex, costly or labour – intensive solutions prescribed by IAS. It is not to be expected, then, that the provisions of IAS will cover all possible aspects of the issues addressed in them. Those who are familiar with the full text of IAS are well aware that standards do not include detailed descriptions of accounting procedures that should be followed in order to resolve a particular problem. Neither do

[3] The possibility of non-compliance with the provisions of specified standards in matters regarded as immaterial, while at the same time meeting the criteria of compliance with IAS, is addressed in paragraph 12 of the Preface to International Accounting Standards.

IAS deal with technical aspects of bookkeeping. It never was the intention of IASB to provide model charts of accounts to which a considerable part of accountants in Continental Europe accustomed. For this reason many Polish users may regard IAS as regulations devoid of bookkeeping foundation, and therefore representing a too high level of generality. One example of such generalisation is in IAS 40, Investment Property, in paragraph 22, which provides that: "Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property [...] All other subsequent expenditure should be recognised as an expense in the period in which it is incurred".

Subsequent paragraphs of this IAS do not specify which particular item of cost for the period in the profit and loss account is being referred to. There is no explanation of this issue in IAS 1, Presentation of Financial Statements, either.

Another significant provision of the Preface to International Accounting Standards is in paragraph 18, dealing with the language of IAS and other official IASB publications. Under this provision, officially endorsed documents of the IASB are published in English, but it is possible to publish approved official translations, as was the case in Poland. Hence the second revised edition of IAS, Międzynarodowe Standardy Rachunkowości 2001, IASB, SKwP, Warszawa 2002, bear the IASB logo. This does not mean, however, that the Polish version of IAS is regarded as on official document of the IASB – it is only a translation.

A good illustration of problems arising in consequence of using a translated version is the English term "equity" translated into Polish as "kapitał własny". When we speak of charging "kapitał własny" it is unclear which type of equity item is being referred to: performance-related or non performance-related. I think that the significance of this ambiguity is obvious to the readers. But in the English version there is no such problem or doubt – "equity" unequivocally means non performance-related items. So the situation may be such that in terms of IAS observance an entity may be regarded as complying with the requirements laid down by the IASB, whereas according to IAC it may not. It is therefore recommended to be very cautious when using a translated version of IAS and, when in doubt, to consult the source document in English.

Operational procedures of the IASC do not permit the IASB members to provide explanations or consultancy on the implementation of IAS and SIC provisions, so it often happens that the implementation of a particular IAS requirement is differently interpreted by the users of financial statements prepared under IAS. The significance of this problem is illustrated by the fact that Poland's Securities Commission has postponed until 2002 the requirement of obligatory accounting for differences between the items of financial statements prepared under the Act on Accounting or under the

IAS. The requirement applies to the annual accounts of specified publicly traded companies in Poland.

International Accounting Standards, initially criticised for their scant explanation of the prescribed accounting treatment, considering the complexity of the issues addressed, are supplemented by interpretative documents, issued by the Standing Interpretations Committee (SIC) formed in 1997.

SIC Interpretations constitute an important element of the IASB accounting system. To date, SIC, subsequently restructured and renamed as IFRIC (International Financial Reporting Interpretations Committee) has prepared 34 Interpretations, of which 31 Interpretations of International Accounting Statements numbered from 1 to 33 have been issued (except for SIC-4, dealing with certain aspects of accounting for financial instruments and SIC-26, relating to recognition of profit on occasional transactions in fixed assets, which have not been approved by the IASC). Also the latest Interpretation, SIC-34, relating to instruments or rights acquired by the owner of a financial instrument, has not been approved by the IASB because of current work on amendments to IAS 32 and IAS 39. Similarly to IAS, SIC Interpretations have to be preceded by the publication of their Exposure Drafts to invite comments throughout the world. The final decision on the approval of an Interpretation is taken by the IASB.

3. The role and position of the European Union in accounting harmonisation

There was a time when The European Economic Community, transformed under the Maastricht Treaty of 1992 into the European Union, played a leading role in global economic harmonisation. These activities, carried out in the interest of the European Communities, including EEC, and mainly aimed at economic development of countries belonging to these Communities, resulted in the adoption of EU Directives (former EEC Directives) with the objective of regulating accountancy. There are eight directives in total, of which two are only revised versions of earlier directives. The most important directives are: 4th Directive of 1978 on the annual accounts, 7th Directive of 1983 on consolidated accounts, 1986 Directive on the annual accounts and consolidated accounts of banks and other financial institutions, and 1989 Directive on the annual accounts and consolidated accounts of insurance companies[4]. Of considerable importance

[4] Full, official titles and text of the Directives can be found in the Official Journal of European Communities or on EU website: http://europa.eu.int

is also Directive 2001/65/EC of 2001, amending the 4th and 7th Directives, in respect of valuation principles used in the annual and consolidated accounts of certain types of companies, banks and other financial institutions. The impact of this Directive is significant in that its provisions changed Europe's conservative approach to the problem of valuation. They guarantee the possibility of applying – at first in specified areas of financial instruments – the valuation model based on fair values, which has for years been propagated through International Accounting Standards as the basic, target model of valuation for all accounting items.

As was mentioned earlier in this section, the initiatives of the European Union played a major role in the area of accounting harmonisation. Does that mean that the Union has currently ceased to play this role? It is true that in the 1990s it lost some of its prominence in this field, but in recent years the EU seems to have taken the lead in the movement towards international convergence of accounting standards. It should be noted that since the adoption in 1978 of the 4th Directive EEC the objective of accounting harmonisation has changed in scope to go beyond the limits of the European Union. 4th Directive represented original contribution to the creation of foundations for accounting harmonisation. The result was a hybrid of Continental and Anglo-Saxon solutions, although the impact of the Anglo-Saxon model is rather limited in 4th Directive due to the fact that Great Britain joined the European Communities only in 1973, when work on this directive was well underway. It is mainly visible in the general provision defining the aim and overriding principle of the presentation of financial statements – the true and fair view principle – which will result in the reorientation of the legal compliance approach prevalent in most national regulations of Continental Europe to the Anglo-Saxon (British and American) approach. This model also dominates in the regulations developed by the IASB.

Because of the diversity of accounting systems applied in EU countries, the Directives are regarded as regulations providing the lowest common denominator for the requirements relating to the presentation of financial statements. Hence the multiplicity of acceptable alternative treatments in the form of options to be adopted by member states in their national regulations implementing the Directives' provisions (to quote A. Jaruga, there were 60 of them in 4th Directive and 49 in 7th Directive).

Karel von Hulle, who was mainly responsible for accounting regulations in the European Union, used to say that 'If we cannot adopt a uniform approach to a particular subject, we must at least guarantee such a level of information in financial statements which will enable comparisons to be made between companies'[5].

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[5] See K. van Hulle, *The EEC Experience of Harmonisation*, "Accountancy", September 1989, vol. 104.

The comparability was to be achieved through extensive notes to financial statements, to which international financial markets had a rather negative attitude. Such a situation stimulated EU to seek greater uniformity in financial reporting.

4. The European Union's road to international accounting standards

Disagreements within the EU regarding the shape of harmonised regulations – sort of confrontation between the Continental model and Anglo-Saxon model coupled with competition between the strongest UE member states for primacy in UE Structures – did not result in the development of universal, European Accounting Standards, although it was the Union's intention to establish the European Accounting Standard Setting Body, which was to develop European Accounting Standards. In 1990 was formed the Accounting Advisory Forum, composed of representatives of national accounting regulatory bodies and European professional organisations associating, among others, the users of financial statements. However, lack of legitimisation made its activity ineffective. In the early 1990s the European Commission developed and adopted a new approach to accounting harmonisation, called New Accounting Strategy. One of the reasons for its adoption was EU's attempt to enhance the competitiveness and facilitate expansion of European companies in international product and financial markets. In a document stating the goals of the new strategy, entitled *Accounting Harmonisation: A New Strategy Vis-a-vis International Harmonisation*, published in 1995, the European Commission stressed the urgent need to take action aimed at assuring the prepares and users of financial statements that companies operating in American and other world markets will be able to maintain compliance with accounting standards obligatory within the European Union. This action was also intended to convince public opinion worldwide that financial statements prepared by EU companies meet the criteria of usefulness, which exempts them from the obligation to follow in their financial reporting the regulations of each particular country in which they seek listing.

The Commission also stressed the need to intensify efforts and involvement of the Union in the process of international accounting standardisation, with the leading role of International Accounting Standards issued by the IASC.

The Commission's initiatives obviously had a longer-term objective, too – they were designed to convince the American business community, and in particular the Securities and Exchange Commission (SEC) to withdraw the requirement that foreign companies listed on American public markets have to prepare their financial statements in accordance with US Generally Accepted Accounting Principles, on a reciprocal basis, especially as European markets had for long accepted financial statements of American companies prepared according to US GAAP. This was the beginning of EU's re-orientation towards International Accounting Standards to be developed by the IASC with a view to achieving convergence of accounting rules and standards globally, that is reaching a single set of globally (hence also in US) accepted and observed standards which would also be conducive to EU's internal development.

Already at that time consolidated financial statements were considered a potential object of international harmonisation. The reason why emphasis was placed on these statements is quite obvious: first, only such statements are published on US public markets and second, it is through such statements that the problem of law and tax related divergences between national systems used in UE countries can be deferred until a later date.

A leading role in UE's move towards International Accounting Standards was to be played by the Contact Committee on the Accounting Directives, established by virtue of paragraph 52 of 4th Directive. The Contact Committee is composed, apart from the representatives of the European Commission, of experts from EU national accounting standard-setting bodies. The Contact Committee's first task under the adopted harmonisation strategy was examination of the conformity between the International Accounting Standards and the European Accounting Directives. In case of identification of significant divergences the Contact Committee was to exert pressure on the IASC to revise its standards or, in justified cases, to propose revisions of the Directives. In order to avoid such situations in the future, the Contact Committee was to ensure, in the preliminary phase of new IAS development, that they are in line with the Directives.

One of the first documents issued by the Contact Committee was entitled 'Accounting harmonisation in the European Communities: problems of applying the 4th Directive on the annual accounts of limited companies'[6], in which the Committee identified major options in the Directives and differences in their incorporation into national legislation of EU Member States. In 1996 the Committee published 'An examination of the conformity between the International Accounting Standards and the European Accounting Directives'[7], in which it carried out a comparative analysis of those IAS provisions which are also regulated by the Directives. For this reason seventeen IAS were not included in this analysis. They were the subject of

[6] Office for Official Publications of the European Communities, Luxembourg, 1990.

[7] Office for Official Publications of the European Communities, Luxembourg, 1996.

further comparative research carried out in 1999 together with an analysis of IAS interpretations. The 1996 documents addressed such issues as:

1) IAS requirements which cause problems in maintaining conformity with IAS,

2) Areas which may cause problems in maintaining consistency between IAS and options which Directives permit to be adopted by EU Member States,

3) Options permitted by the Directives for adoption by companies, but not acceptable under IAS,

4) Other areas of divergence which result from differences in terminology and hence are regarded as potential sources of consistency conflicts.

The first group of major problem areas identified includes:

– accounting treatment of negative goodwill,

– accounting treatment of exclusion of certain entities from consolidation, especially those which engage in a different type of activity.

The second group of divergences, not regarded as being in conflict with IAS, includes:

– capitalisation of the cost of research,

– charging certain differences to revaluation capital and accounting for positive translation differences on futures,

– conditions of the use of the uniting of interests method in accounting for business combinations,

– period of goodwill amortisation.

The third group of potential divergences includes:

– lack of directions in the Directives with regard capitalisation indirect manufacturing costs,

– possibility of assets revaluation in the case of expected changes in their value,

– possibility in inventories valuation at constant value, providing their amount, value and range do not undergo substantial changes,

– possibility to write off goodwill directly to reserve capital.

In subsequent documents the Contact Committee adopted a similar approach to existing differences, although gradually, as a result of changes to IAS, the areas of divergence are diminishing[8]. This does not mean, however, that IAS are approximating the Directives, which are rather outdated. It only means that a more general perspective is being applied to their provisions. The change in the approach to the Directives is also due to their revision in 2001, which sanctioned the use of the fair value valuation model for financial instruments. The latest comparative study of

[8] See e.g. *Examination of the Conformity between International Accounting Standards and the European Accounting Directives*, European Commission, Brussels 1999.

IAS and the Directives was carried out by the Contact Committee and submitted to the European Commission in April 2001[9].

The process of EU reorientation to international harmonisation, with the leading role of the IASB, took place in fairly favourable conditions, because at about the same time the International Organisation of Securities Commissions (IOSCO) entered into an agreement with the IASC on undertaking joint projects designed to develop in the nearest future a set of basic international accounting standards. These standards were to be applied to financial statements of companies listed on many capital markets. In 2000 IOSCO approved thirty of the fourty IAS issued to date and recommended their application in countries associated in this organisation.

An important event in EU's movement towards the adoption of International Accounting Standards was the publication of a document *The EU Financial Reporting Strategy: The Way Forward*, prepared by the European Commission in June 2000. It was done in response to the need voiced at the Lisbon Summit in March 2000 to speed up the process of EU internal financial market development and to complete it by 2005 as part of the Commissions Financial Services Action Plan: The Plan aims to achieve greater comparability of financial statements published by publicly listed companies.

This document, developed by the European Commission, was submitted to the European Council and Parliament for endorsement of its strategy of UE financial markets integration. It was a step forward and a consequence of the European Union's strategy adopted in 1995. It contains a declaration to prepare a formal proposal, subject to approval by the European Council and Parliament by the end of 2000, of a regulation requiring preparation of consolidated financial statements of all EU publicly traded companies in conformity with International Accounting Standards. It represents an attempt to address challenges posed by globalisation and development of information technology, in particular the need to secure economic growth and employment within the EU through acceleration of the development of an effective and transparent consolidated capital market in Europe[10]. This requirement should become mandatory in early 2005 at latest.

In accordance with the proposal, Member States will have an option to extend this requirement to non-consolidated financial statements and companies not listed on public markets. The proposal also included submission by the Commission of proposed changes to relevant Directives. The deadline for this work was set at the end of 2001. The Commission's document of June 2000 was approved in July of the same year by the

[9] See *Examination of the Conformity between IAS 1 to IAS 41 and the European Accounting Directives*, European Commission, Brussels 2001.

[10] This is a quotation from the Financial Services Action Plan, adopted at the EU Summit In Lisbon.

Economic and Financial Services Council (ECOFIN), the Union's internal body, which emphasised the importance of ensuring comparability of financial institutions and insurance companies for the integration of financial markets. ECOFIN encouraged in its opinion the Commission to develop a proposal for the introduction of new reporting requirements and to create an implementation mechanism to accept IAS as EU regulations.

As a result, the European Commission submitted to the European Parliament *Proposal for Regulation of the European Parliament and of the Council on the Application of International Accounting Standards*, in which it included the conclusions set out in its Communication of 2000, with account taken of ECOFIN's suggestion. The most significant resolution of this document is declaration to uphold the orientation of EU's legislative system towards acceptance of IAS as its element. It is important to note that the early version of the EU New Accounting Strategy did refer to international accounting standards but IAS were regarded only as one of possible sources of such standards. Documents issued by the Union after 2001 explicitly point to the IASB as the only source of international accounting standards.

The proposal for a regulation with respect to IAS implementation extends the option to apply them to individual statements of non-public companies. The decision is left to EU Member States, which means that these countries are free to accept IAS as the sole source of accounting regulations for all business entities, which is very likely to happen in key sectors of the economy, such as financial services (including banking and insurance) in the case of both publicly listed and not listed companies.

This document also sets out the principles of development and implementation of a mechanism for the introduction of IAS, which is quite understandable in view of unrestricted acceptance of IAS development directions – the project envisages the adoption of not only 40 IAS and 25 Interpretations already promulgated, but also those which are not yet effective. One of the elements of the implementation mechanism is supervision of the process of adoption of new IAS and related SIC-IFRIC Interpretations in the form of intervention at the IASB level in case they were found inappropriate for use or contrary to the specific requirements of the EU legal or economic environment. The main objective of this mechanism is to ensure that IAS provide adequate basis for financial reporting of EU publicly traded companies.

The IAS implementation mechanism will have a two-tier structure, combining the regulatory and the advisory elements. The Accounting Regulatory Committee (ARC) will act as the main regulatory body. It is composed of representatives of the Member States and will carry out its activities within an institutional framework prescribed by relevant EU regulations, which is designed to ensure full transparency of action and accountability to the European Parliament and Council. The regulatory level of the implementation mechanism is vested with the power to give opinion on the approval or rejection of a particular standard at the UE level and the date of its becoming effective as UE regulation.

At the advisory level the Accounting Technical Committee will provide support and expertise to the Commission in the assessment of international accounting standards. It also will help the IASB in its work, especially in the early phase, when all major provisions of future IAS are being developed. This is intended to ensure that IAS provide for such solutions that can be adopted throughout the European Union. Another task of ATC is advising the Commission on amending the Directives in a way consistent with the IAS orientation, because Directives will continue to be in force within the European Union, and all business entities to which they apply (mainly limited liability companies and joint stock companies), public or otherwise, have to meet the requirements of relevant Directives in the preparation and presentation of their financial statements. IAS provide only supplementary regulations for public companies.

In its task, the Commission is helped by the European Financial Reporting Advisory Group, (EFRAG), a group established in 2001 and composed of accounting experts from the private sector in several Members States. Its opinions are not binding on the Commission, but the Commission is obligated to submit full opinion of EFRAG to the Accounting Regulatory Committee.

As was the case with the previous document of the Commission of 2000, the *Proposal* of February 2001 got a positive opinion from the Economic and Social Committee (ESC) and thus the final legislative path was open for transforming the proposal into an official source of law within the European Union. In this opinion, the ESC stressed the role of the Union in the process of drawing up new IAS through participation of its representatives, which it considers essential for facilitating the IAS implementation process. Additionally, the Committee expressed its conviction that IAS will eventually get to be accepted globally, which implies that EU Member States are not going to adopt, in the long run, the US GAAP orientation, and in order to reconcile the interests of both parties (EU and USA) it is indispensable to seek convergence between American regulations embodied in US GAAP and the IASB solutions. For this reason the Committee proposed that the Commission should undertake steps intended to induce the IASB to embark on a dialogue targeted at development of a globally accepted conceptual framework of financial reporting. In its opinion the Committee also stressed the need to carry on work on the adaptation of accounting for small and medium entities with a view to future adoption of IAS provisions. The Commission resolved that the approved Regulation on the adoption of IAS should be evaluated by 1 July 2007, in particular with respect to the effectiveness of the implementation mechanism and the operation of IAS in the European context.

On behalf of the European Parliament, a body responsible for the preparation of a document necessary for the endorsement of the Regulations by the Parliament and Council was the Committee on the Legal Affairs and the Internal Markets (CLAIM) and – for the purpose of producing an opinion – the Committee on Economic and Monetary Affairs (CEMA). The proposal of a Regulation was the subject of eight CLAIM sessions and four CEMA sessions, which resulted in the Committee's report, submitted on 28 Feb. 2002 to competent parliamentary bodies[11].

On 7 June 2002 the Council of Ministers of the UE approved the Regulation proposed by the European Commission on the adoption of international accounting standards for the purpose of financial reporting for publicly traded companies, and on 19 July 2002 it was published as an official legal act of the European Union[12]. The regulation requires the use of IAS and IFRS by 1 January 2005 at the latest, by all companies listed on regulated capital markets within the EU, with a temporary exception for companies that are currently traded on other markets and use US GAAP, and for companies that have issued debt instruments but not equity instruments. Those companies will be required to comply with international accounting standards by 1 January 2007. Detailed information on this Regulation is provided in the following section of this article.

5. Regulation of the European Parliament and of the Council on the application of international accounting standards

1. The main objective of this Regulations is adoption and use of international accounting standards (IAS, IFRS and related SIC-IFRIC Interpretations) with a view to harmonising the financial information presented by publicly traded companies (i.e. companies whose securities, at the balance sheet date, are admitted to trading on a regulated market of any Member State) governed by the law of a Member State. This is intended to ensure a high level of transparency and comparability of

[11] See *Report on the proposal for the European Parliament and Council on the Application of International Accounting Standards*, Session document, European Parliament, Brussels 2002.

[12] See *Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the Application of International Accounting Standards*, Official Journal of the European Communities, L 243.

financial reporting and thus contribute to the efficient and effective functioning of the EU capital market and consolidation of its internal market (consumer, financial, etc.).

2. The Regulation gives the European Commission the right to make international accounting standards obligatory for use in the EU and sets the deadline of 31 December 2002 for the Commission to elaborate its position.

3. The Regulation prescribes obligatory application of existing, amended and future IAS for consolidated financial statements of publicly traded companies from the financial year starting on 1 January 2005 or later. Member states may defer this obligation until 1 January 2007 for those publicly traded companies whose debt securities only are admitted on a regulated market of any Member State or whose securities are admitted to public trading in a non-member state and which, for that purpose, have been using another set of internationally accepted standards since before the publication of this Regulation.

4. Member States may extend this Regulation to:

– individual accounts of publicly traded companies,

– consolidated and individual accounts of non publicly traded companies.

Member States are required to notify the European Commission and other Member States about the option decided upon.

5. International Accounting Standards can only be adopted for application within the UE if they meet the following conditions:

– they are not contrary to the basic requirement of the Directives to provide a true and fair view of the financial position and performance of an enterprise laid down in the 4th and 7th Directives and their counterparts for banks (1986) and insurance companies (1991),

– they are conducive to the European public good;

– they meet the criteria of understandability, relevance, reliability and comparability of financial information needed for decision making and assessment of the stewardship function.

6. Adopted International Accounting Standards have to be published in full in each of the official languages of the EU as a **Commission Regulation** in the Official Journal of the European Communities.

7. The Regulation requires that each standard or interpretation issued should be examined by experts in respect of its applicability by EU companies. This task was entrusted to EFRAG (the European Financial Advisory Group), a private organisation from outside the UE structures, formed in June 2001 and providing consultancy to the European Commission. It is one of the elements of the IAS endorsement mechanism.

8. Final decision on the adoption of IAS and related Interpretations belongs to the European Commission, following consultations with Member States through the **Accounting Regulatory Committee** composed of represen-

tatives of Member States and chaired by a member of the European Commission. The Commission is obligated to report to the Committee on the IASB activities and position taken by EFRAG, and if it intends not propose the adoption of a particular IAS. An important element of the enforcement system is cooperation of the European Commission with the Committee of European Securities Regulators (CESR).

9. The Commission is obligated to monitor the operation of the Regulation and provide a relevant report to the European Parliament and to the Council by 1 July 2007 at the latest.

It is interesting to note at this point that the application of IAS is already allowed in 7 EU countries (Austria, Belgium, Finland, France, Luxembourg, Germany and Italy) for public market purposes as an alternative for national regulations on consolidated financial statements. About 275 EU companies currently apply IAS.

A research carried out in 2000 by PriceWaterhouseCoopers and published in *International Accounting Standards in Europe – 2005 or now?* (over 700 companies surveyed) has shown that about 80% of Financial Directors are in favour in the Commission's proposal on obligatory application of IAS for publicly listed companies by 2005. According to estimates, the Regulation will concern about 7000 publicly traded EU companies plus an additional 1000 public companies upon joining the Union by East and Central European countries now awaiting accession.

It should be noted as well that in each of the accountancy regulatory bodies in G7 group of countries (Australia and New Zealand, France, Japan, Canada, Great Britain and USA) there is a member of IASB.

This cooperation is aimed, in accordance with the IASC Foundation Constitution, at developing of a consistent set of global standards. The step taken by the European Union is a milestone in the debate and movement towards global accounting harmonisation. It is also important in this context that US Congress promulgated on 29 July 2002 Public Company Accounting Reform and Investor Protection Act, which authorised SEC to recognise IAS as an acceptable source of regulation on the preparation of financial statements by companies listed on American markets, e.g. NYSE (New York Stock Exchange). Recent events that took place on American economic scene as well as the implementation of the EU New Accounting Strategy work towards a worldwide agreement to develop a single set of high quality, globally accepted accounting standards. A major step in the direction of achieving accounting standards convergence is recent intensification of contacts between the FASB and IASB.

It is worthwhile to quote at this points the words of David Tweedie, IASB Chairman, from his speech before the Senate Banking Committee in February 2002:

"No individual standard setter has a monopoly on the best solutions to accounting problems. Taken as a whole, US GAAP are the most detailed and comprehensive in the world. However, that does not mean that that every individual standard is the best. At the IASB, our goal is to identity the best in standards around the world and build a body of standards that constitute the »highest common denominator« of financial reporting. We call this goal convergence to the highest level".

What David Tweedie had in mind when talking about creating a body which would set accounting standards at the highest level was, obviously, winning the legitimisation and approval of the American market for the activity of the restructured IASB chaired by himself. Similarly, in talking about developing the highest quality standards he meant to draw attention to the process of amending the existing IAS as well as work on new standards and other activities carried out by the IASB.

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Radosław Ignatowski

EUROPA U PROGU ADAPTACJI MIĘDZYNARODOWYCH STANDARDÓW RACHUNKOWOŚCI A KONTEKST MIĘDZYNARODOWEJ HARMONIZACJI RACHUNKOWOŚCI

(Streszczenie)

Artykuł poświęcony jest prezentacji zagadnień dotyczących implementowania na gruncie Unii Europejskiej rozwiązań księgowych wyznaczanych przez Międzynarodowe Standardy Rachunkowości. W tym celu ukazano kontekst harmonizacji rachunkowości w Europie na tle procesów globalizacji gospodarki światowej i miejsca, jakie w tych procesach odegrała Unia Europejska oraz Komitet Międzynarodowych Standardów Rachunkowości. Zwieńczeniem wysiłków Unii Europejskiej w zakresie opracowania i stosowania uniwersalnych rozwiązań księgowych, obowiązujących we wszystkich krajach członkowskich, jest przyjęcie Regulacji Unii w zakresie stosowania Międzynarodowych Standardów Rachunkowości. Artykuł opisuje więc istotę i znaczenie tej Regulacji oraz przedstawia drogę, jaką przeszła Unia Europejska do przyjęcia tej Regulacji.

Radosław Ignatowski

TARPTAUTINIŲ APSKAITOS STANDARTŲ ĮGYVENDINIMAS EUROPOS KONTEKSTE HARMONIZUOJANT TARPTAUTINĘ APSKAITĄ

(Santrauka)

Straipsniu ketinama pristatyti Europos Sąjungos tarptautinių atskaitomybės standartų įgyvendinimo procesą. Straipsnis atskleidžia ši procesą turto ir prekių rinkos tarptautinio globalizavimo kontekste. Jis analizuoja Europos Sąjungos komisijos vaidmenį ir reikšmę, atskaitomybės ir tarptautinių atskaitomybės standadrtų harmonizacijos procese, kurios sprendimai dėl tarptautinių apskaitos standartų įgyvendinimo buvo įdiegti reguliuojant ES rinkas. Taip pat straipsnyje diskutuojamas kelias į šią reguliaciją, pristatant palyginimus ir pažangą Europos Bendruomenei, kad universalus atskaitomybės reguliavimas įtvirtintų ir būtų vykdomas. Paskutinis straipsnio skyrius pristato šio reguliavimo idėją ir detales.