

EU IFRS Survey

ICAEW on behalf of European Commission

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EU IFRS Survey: Objective

- Provide the European Commission with an assessment of:
 - the first year of application of IFRS in accordance with the *IAS Regulation*
 - the effects of the *IAS Regulation*
 - the application of fair value accounting for financial instruments in accordance with the *Fair Value Directive*

EU IFRS Survey: Methodology

- Review of IFRS financial statements for 2005:
 - IFRS consolidated financial statements of 200 publicly traded (listed) companies
 - IFRS consolidated financial statements of 18 other companies
 - IFRS legal entity financial statements of 50 companies

EU IFRS Survey: Methodology

- Review of IFRS financial statements for 2005:
 - consolidated financial statements of 200 publicly traded (listed) companies and 18 other companies
 - legal entity financial statements of 50 companies
- On-line survey of investors, preparers and auditors
- Other interviews, round tables, academic research etc.

Reviews of Financial Statements

- 151 out of sample of 200 publicly traded companies adopted IFRS for first time in response to *IAS Regulation*
- For first-time adopters, transition adjustments affected by:
 - recent convergence of national GAAP to IFRS
 - flexibility in previous national GAAP
 - choices made under IFRS

Compliance with IFRS

- 198 out of 200 publicly traded companies:
 - disclose *full compliance* with IFRS-EU and/or IFRS-IASB
 - have *unqualified* audit opinions with respect to compliance with IFRS-EU and/or IFRS-IASB
- Disclosed exceptions:
 - one company fails to restate the comparative period
 - one company fails to make some disclosures

Compliance with IFRS: EU Carve Out

- EU carve out on hedge accounting (IAS 39) used by:
 - 8 out of 30 banks
 - 0 out of 13 insurance companies
 - 0 out of 157 other companies

Compliance with IFRS

- Some compliance issues:
 - standard wording for accounting policies
 - income statement presentation (including EPS)
 - implementation of amendment of IAS 19 (SORIE)
 - *de facto* control
 - disclosures relating to business combinations, goodwill, impairment testing etc.
- No fair presentation overrides

Use of Fair Values: IFRS Practice

- Subsequent measurement:
 - property, plant and equipment – very rare
 - investment property – a few examples
 - intangible assets – non-existent

 - equity investments – fully (*unless not determinable*)
 - bonds, debt securities – fully if held for trading
 - derivatives - fully

IAS 39 Fair Value Option

- Fair value option for financial assets and financial liabilities used very selectively by:
 - 23 out of 30 banks
 - 6 out of 13 insurance companies
 - 3 out of 157 other companies
- Virtually all the financial assets and financial liabilities of banks are measured at amortised cost

EU IFRS Survey: Attitudes

- Seek views and experiences on use of IFRS from:
 - preparers
 - users
 - auditors
- On-line survey
- Round tables (five cities)
- Other interviews

EU IFRS Survey: Transition Costs

- Assess incremental costs of implementation of IFRS by companies using *EU Common Methodology*:
 - transition costs
 - ongoing costs (assuming stable IFRS)
- On-line survey of preparers and auditors

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