

How IFRS Reporting by Listed Companies Differs by the Company's Country, Sector and Size

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Presenter:

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- He was a member of the Accounting Standards Committee of the UK and Ireland (1987-90) and of the Board of the International Accounting Standards Committee (1993-2001).
- He is the author of 14 books and former co-editor of *Accounting and Business Research*. He was the 2002 “Outstanding International Accounting Educator” of the American Accounting Association.

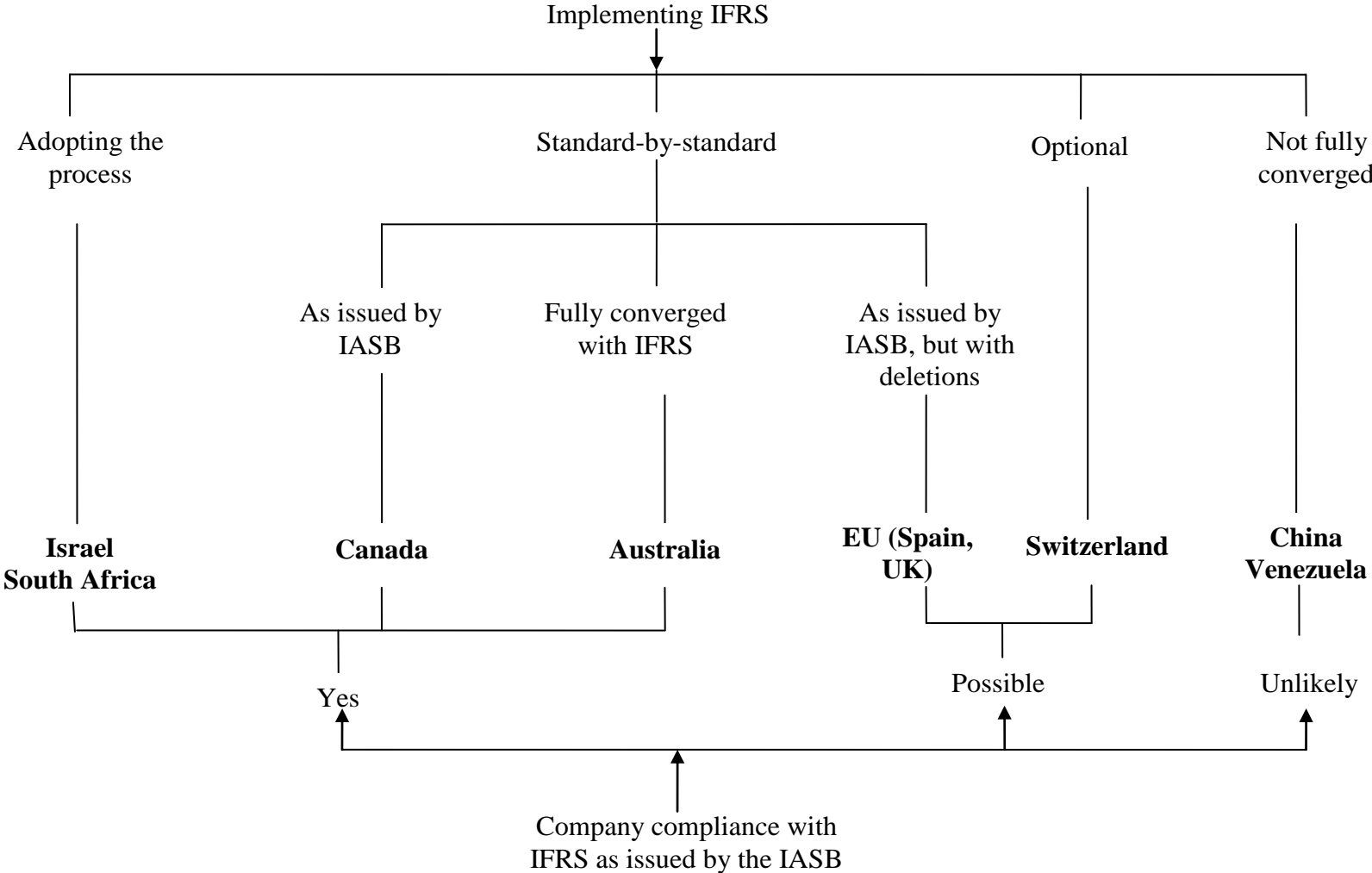
Tomorrow the world?

- The IASC began work in 1973, but the important adoption of IFRS only started in 1994, with a few German companies
- “The global rollout of International Financial Reporting Standards is gaining momentum, with more than 100 countries now using IFRS and all of the world’s major countries anticipated to be on board within the next few years” (BDO, 2012)

Overview of this presentation

- Caution is needed about these wild claims of the spread of IFRS
- Even where IFRS is used, there is motivation and scope for different national versions of IFRS practice

Methods of implementing IFRS (consolidated statements of listed companies)



IFRS implementations for domestic companies, 31 Dec 2012 year ends							
1	2	3	4	5	6	7	8
Jurisdiction	IASB-IFRS required for all regulated reporting ?	IASB-IFRS required for cons'd reports of listed co.s (CSLC)?	Version of IFRS (intended to ensure compliance with IASB-IFRS) required for all reporting?	Version of IFRS (intended to ensure compliance with IASB-IFRS) required for CSLC?	Version of IFRS allowing compliance with IASB-IFRS required for all reporting?	Version of IFRS allowing compliance with IASB-IFRS required for CSLC?	Version of IFRS (allowing IASB-IFRS) required (or allowed=A) for unconsolidated reporting?
Australia	N	N	N	Y (2005)	N	←Y	N (A)
Canada	N	N	N	N	N	N	N (A)
China	N	N	N	N	N	N	N
France	N	N	N	N	N	Y (2005)	N
Germany	N	N	N	N	N	Y (2005)	N
Hong Kong	N	N	N	N	N	N	N
India	N	N	N	N ⁵	N	N	N
Japan	N	N	N	N	N	N	N
Russia	N	Y (2012)	N	←Y	N	←Y	N
South Africa	N	Y (2005)	N	←Y	N	←Y	N (A)
South Korea	N	N	N	Y (2011)	N	←Y	N (A)
Spain	N	N	N	N	N	Y (2005)	N
Switzerland	N	N	N	N	N	N	N
UK	N	N	N	N	N	Y (2005)	N (A)

Conclusion so far

- Research needs a good institutional setting
- But, for example, Francis *et al.* (2008 in *European Accounting Review*) say that most *unlisted* companies in most of 56 countries (e.g. Spain) had adopted IFRS in 1999/2000

**How IFRS practices can differ
from company to company
or from country to country**

Eight opportunities for differences in IFRS practices

1. Different versions of IFRS (see slide 5)
2. Enforcement, compliance (still national)
3. Language
4. Gaps in IFRS
5. First-time adoption
6. Overt options
7. Covert options
8. Measurement estimations

3: Different translations

- IAS 7 (para. 7): An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months ... (Portuguese omits the ‘say’)
- IAS 19 (para. 78): discount rate for pension obligations is the interest rate on “commercial bonds” (German, until 2013, said *Industrieanleihen*)
- IAS 41 (para. 34): account for a government grant when it is “receivable” (Norwegian, until 2012, said “received”)

4 and 5: Gaps and first-time adoption

- Gaps: e.g. IFRSs 4 and 6; and accounting for artworks (see Dubai law case in 2012: <http://www.dfsa.ae/WhatsNew/DispForm.aspx?ID=227>)
- First-time adoption: e.g. survival of large differences in opening goodwill amounts

Eight opportunities for differences in IFRS practices

1. Different versions of IFRS
2. Enforcement, compliance
3. Language
4. Gaps in IFRS
5. First-time adoption
6. Overt options
7. Covert options
8. Measurement estimations

6: Overt options

- List of overt options has been used by several researchers

Examples of 2005/6 choices (% of companies)

	Australia	UK	France	Spain	Germany
1a) income statement by function	59.3	47.2	54.8	4.0	76.5
1b) by nature	29.6	13.9	45.2	96.0	23.5
1c) neither	11.1	38.9	0.0	0.0	0.0
3a) equity acc profit in operating	63.2	24.5	6.9	0.0	18.8
3b) immediately below	15.8	34.0	3.4	8.3	62.5
3c) below finance	21.1	41.5	89.7	91.7	18.8
14a) FIFO only	27.3	57.1	11.5	5.9	0.0
14b) weighted average only	59.1	30.6	57.7	88.2	71.4
15a) actuarial gains/losses to OCI	72.7	84.4	20.0	12.5	47.6
15b) to income in full	18.2	3.3	5.7	37.5	0.0
15c) corridor	9.1	12.2	74.3	50.0	52.4

6: Overt options

- List of overt options has been used by several researchers
- A few options have since been removed by IASB (e.g. expensing of interest on construction, corridor method for actuarial gains/losses, proportional consolidation for joint ventures)

7, 8: Covert options and estimations

- Covert options include: recognising impairments and capitalising development costs
- Measurement estimations, e.g. FV of investment property, depreciable lives of various assets, impairments, pensions

Why would options/estimations be done differently by country?

- Tax? For example, tax-driven choices flowing through from unconsolidated statements (e.g. AVCO in Germany)
- Inertia, i.e. retaining pre-IFRS practices?
- Cost-saving; helping analysts?

Empirical Studies

Kvaal & Nobes in Accounting and Business Research, 2010

- Five largest IFRS-using stock markets: Australia, France, Germany, Spain, UK
- Index companies (e.g. FTSE 100, IBEX 35)
- 2005/6 statements
- 16 policy choices (e.g. FIFO or weighted average; proportional consolidation for JVs)

Hypotheses

- Null hypotheses of same practice in all countries
- H_3 : French and Spanish companies are more inclined than others to show equity-accounted profits after finance items
- H_{16} : The tendency to use proportional consolidation is found in the following countries in decreasing order: France, Spain, Germany, UK, Australia
- 84 tests: 69 reject null hypothesis at 1%; 7 at 5%; 8 not rejected

Policy choices (% of companies by country)

	Australia	UK	France	Spain	Germany
1a) income statement by function	59.3	47.2	54.8	4.0	76.5
1b) by nature	29.6	13.9	45.2	96.0	23.5
1c) neither	11.1	38.9	0.0	0.0	0.0
2a) inclusion of a line for EBIT or op profit	51.9	97.2	100.0	96.0	100.0
3a) equity acc included in operating	63.2	24.5	6.9	0.0	18.8
3b) immediately below	15.8	32.1	3.4	8.3	62.5
3c) below finance	21.1	43.4	89.7	91.7	18.8
4b) showing net assets	100.0	84.7	0.0	0.0	0.0
5b) liquidity increasing	0.0	100.0	100.0	96.3	85.0
6b) OCI only	65.9	83.7	5.7	25.0	21.7
7b) indirect cash flows	0.6	98.0	100.0	87.5	100.0
8a) dividends received as operating	87.5	36.7	92.9	50.0	66.7
9a) interest paid as operating	90.9	68.4	88.6	38.7	61.9
10b) some PPE at fair value	13.6	12.2	0.0	0.0	0.0
11b) investment property at fair value	42.9	73.1	0.0	0.0	0.0
12a) some fair value designation	29.6	12.5	32.3	12.0	5.9
13a) interest capitalization	75.8	47.5	40.0	94.4	22.2
14a) FIFO only	27.3	50.0	11.5	5.9	0.0
14b) weighted average only	59.1	29.2	57.7	88.2	71.4
15a) actuarial gains/losses to OCI	72.7	84.4	20.0	12.5	47.6
15b) to income in full	18.2	3.3	5.7	37.5	0.0
15c) corridor	9.1	12.2	74.3	50.0	52.4
16a) proportional consolidation of JVs	0.5	22.4	81.3	84.6	31.3

Examples of Spanish choices

- Why choose the 'by nature' income statement?
- Actuarial items are large, out-of-control and (usually) losses. Why would Spanish companies have chosen to include them in 'earnings'?
- Why did Spanish companies choose proportional consolidation? It makes sales and cash larger, but....?

Do policy choices change over time?

- Kvaal & Nobes (*European Accounting Review*, 2012) look at all *changes* from 2005 to 2008
- H_1 : more change on transition than from 2005 to 2008 (not for France/Spain)
- H_2 : more continental change than Anglo change (yes)
- H_3 : variance greater for continentals (yes)
- No effect of IASB proposed changes

Some policy changes from 2005 to 2008

	Australia		UK		France		Spain		Germany	
	2005	2008	2005	2008	2005	2008	2005	2008	2005	2008
OCI presented	65.0	67.5	83.5	90.6	2.9	50.0	28.6	64.3	43.5	63.3
Indirect cash flows	0.0	8.3	100.0	100.0	100.0	100.0	90.5	100.0	100.0	100.0
Some investment property at fair value	38.5	39.3	72.0	70.8	0.0	14.3	0.0	13.3	5.9	5.3
Interest capitalization	81.3	84.4	50.0	57.7	46.2	44.4	94.1	100.0	22.2	41.7
AGL to OCI	73.3	86.7	82.9	86.4	20.6	50.0	14.3	63.2	45.5	63.3
AGL to corridor	10.0	6.7	13.4	9.9	76.5	47.1	50.0	10.5	54.5	33.3
Proportionate consolidation	3.8	11.5	20.0	23.3	80.6	75.8	87.0	91.3	31.3	15.8

Do small listed companies make different choices?

- Nobes & Perramon (*Australian Accounting Review*, 2013)
- Same five countries; 2008/9; compare to small listed companies to the large ones
- Small companies make different choices (and more homogeneous within country)

Policy choices (percentages of companies by country)

	AUS			UK			GER			FRA			SPA		
	Large	Small	Dif.	Large	Small	Dif.	Large	Small	Dif.	Large	Small	Dif.	Large	Small	Dif.
1 (a) income statement by function	58.3	35.3	-23.0	50.8	100.0	+49.2	82.6	36.0	-46.6	60.0	20.0	-40.0	4.8	4.0	-0.8
2 (a) line for operating profit	58.3	18.9	-39.4	98.4	100.0	+1.6	91.3	96.0	+4.7	96.7	100.0	+3.3	100.0	92.0	-8.0
3 (a) equity profit in 'operating'	64.7	16.7	-48.0	40.8	55.6	+14.7	22.7	15.4	-7.3	10.0	0.0	-10.0	0.0	0.0	0.0
4 (b) focussing on net assets	100.0	97.5	-2.5	85.2	45.0	-40.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 (b) liquidity increasing	0.0	0.0	0.0	100.0	100.0	0.0	69.6	92.0	+22.4	100.0	100.0	0.0	95.2	100.0	+4.8
6 (b) OCI only	70.8	12.5	-58.3	92.1	50.0	-42.1	43.5	8.0	-35.5	13.3	0.0	-13.3	42.9	8.0	-34.9
7 (b) indirect cash flows	8.3	0.0	-8.3	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	96.0	-4.0
8 (a) interest paid as 'operating' flow	87.5	91.2	+3.7	65.1	68.6	+3.5	68.2	76.0	+7.8	80.0	56.0	-24.0	47.6	58.3	+10.7
9(b) some PPE at fair value	0.0	13.2	+13.2	3.2	7.5	+4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10(b) investment property at fair value	0.0	100.0	+100.0	25.0	75.0	+50.0	0.0	0.0	0.0	0.0	25.0	+25.0	0.0	0.0	0.0
11(a) some fair value designation	25.0	63.0	+38.0	11.1	12.0	+0.9	17.4	28.6	+11.2	33.3	25.0	-8.3	19.0	42.9	+23.8
12(a) interest capitalisation	87.0	61.9	-25.1	54.3	37.5	-16.8	43.5	11.1	-32.4	40.0	16.7	-23.3	100.0	76.2	-23.8
13(b) weighted average only	52.9	30.8	-22.2	32.6	30.0	-2.6	75.0	68.4	-6.6	50.0	44.4	-5.6	88.2	77.3	-11.0
14(a) actuarial gains/losses to OCI	84.2	50.0	-34.2	88.3	92.3	+4.0	73.9	25.0	-48.9	53.3	15.0	-38.3	69.2	55.6	-13.7
15(a) proportional consolidation	18.8	33.3	+14.6	20.9	41.7	+20.7	18.8	42.9	+24.1	72.4	100.0	+27.6	93.8	83.3	-10.4

Significant differences, small/large

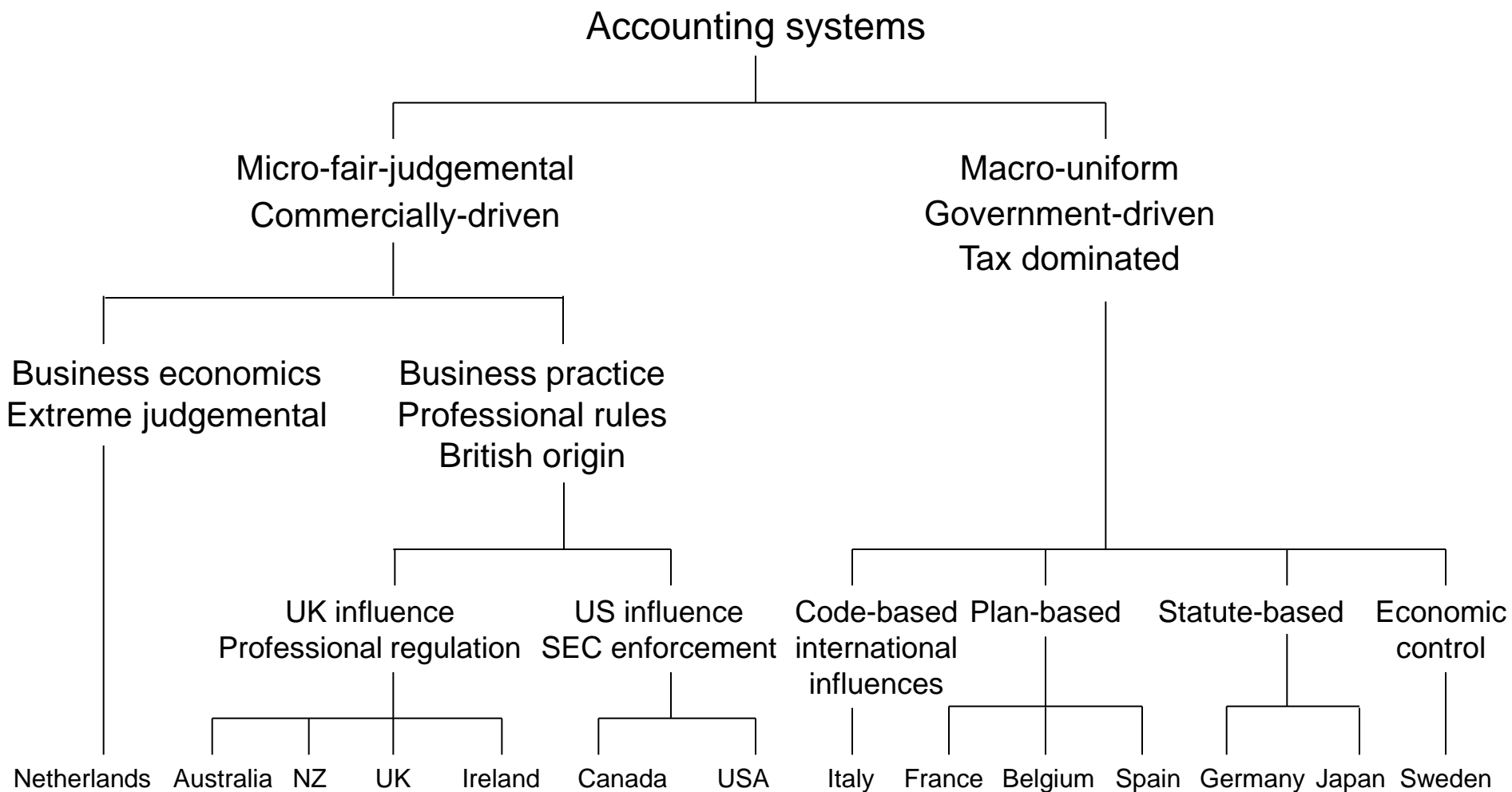
No.	Topic	1%	5%	10%
1	Use of by-nature income statement (more in Ger/Fra; less in Aus/UK)	UK, Ger, Fra	-	Aus
2	Less use of line for operating profit	Aus	-	-
4	Less focus on 'net assets' in balance sheet	UK	-	-
5	Less use of 'cash first' in balance sheet	-	Ger	-
6	Less use of OCI	Aus, UK, Ger, Spa	-	Fra
7	Less use of indirect cash flow method	-	-	Aus
8	Less showing of interest paid as operating	-	-	Fra
9	More use of fair value for PPE	-	-	Aus
10	More use of fair value for investment property	Aus	-	UK
11	More fair value designation	Aus	-	Spa
12	Less interest capitalisation	-	Ger, Spa	Aus
14	Less use of OCI for actuarial gains/losses	Ger, Fra	-	-

Do other factors affect policy choice?

- Jaafar & McLeay (*Abacus*, 2007) find an influence of sector, but on pre-IFRS policies
- Stadler & Nobes (*Abacus*, 2014): country influence survives the inclusion of variables for sector, firm and topic; but extractive industry has idiosyncratic policies

Classification

Figure 1. A suggested classification of accounting 'systems' in some developed western countries in 1980

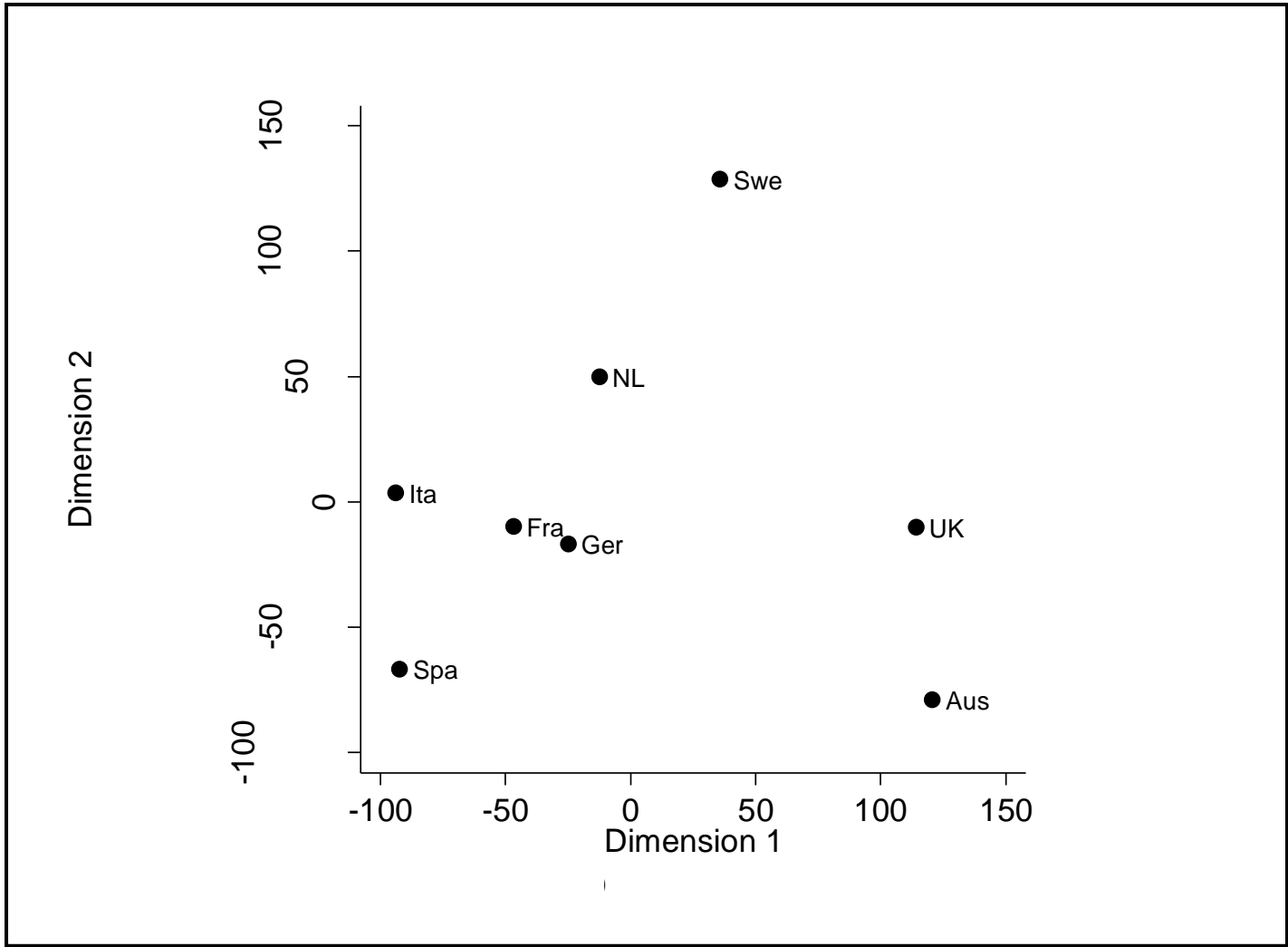


Classification of IFRS practices

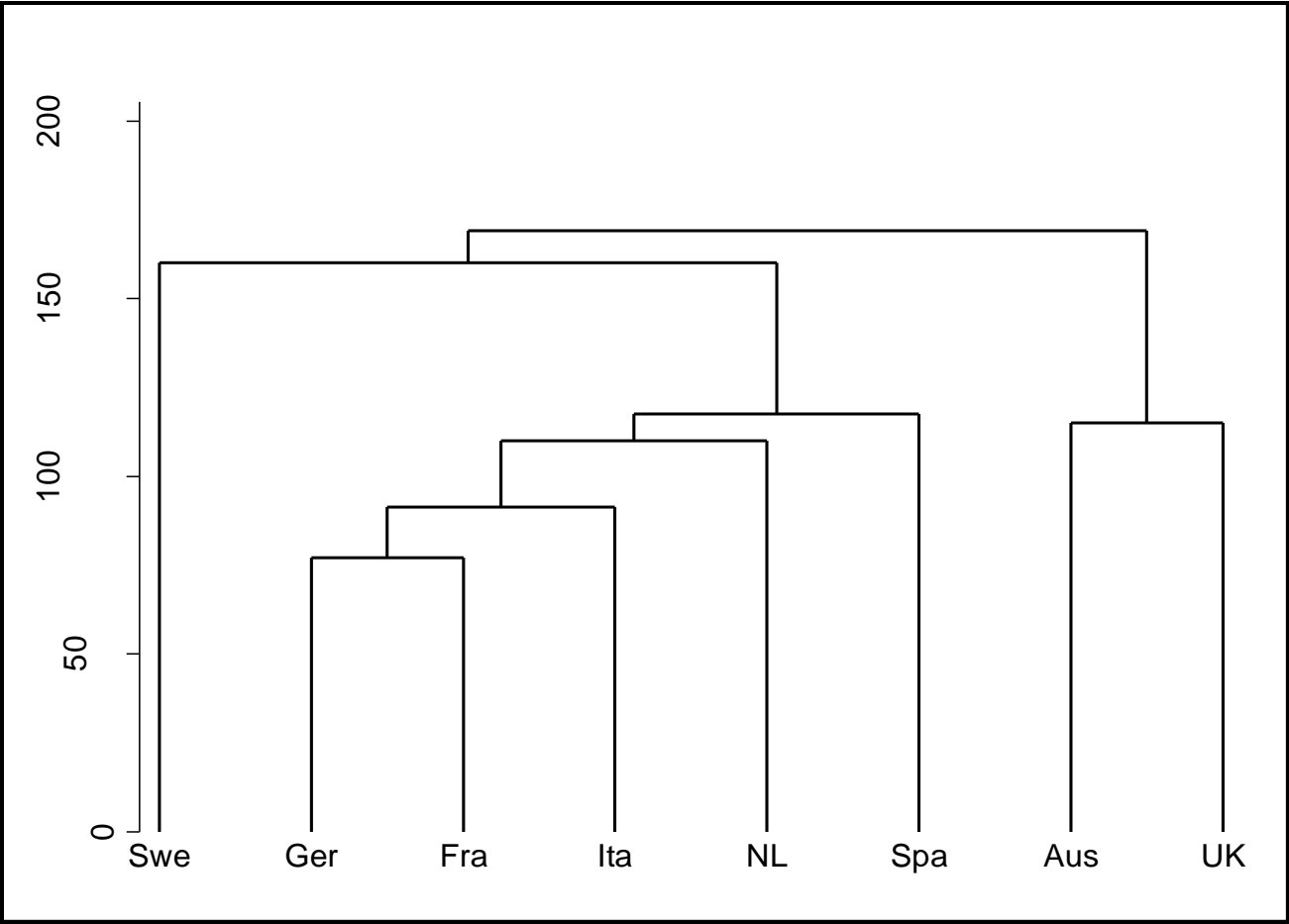
- Nobes (*Abacus*, 2011)
- Uses 2008/9 data from Kvaal & Nobes (2012), and adds 3 countries to include all groups of Figure 1

Policy choices (percentages of companies by country), 2008

		Aus	UK	Ger	Fra	Spa	NL	Ita	Swe
1 (b)	balance sheet focus on net assets	100.0	85.2	0.0	0.0	0.0	14.3	0.0	0.0
2 (a)	income statement by function	58.3	82.1	82.6	62.1	4.8	50.0	7.1	95.0
3 (a)	equity profit in 'operating'	68.8	42.6	22.7	10.0	0.0	0.0	0.0	93.3
4 (b)	OCI only	67.5	90.6	36.7	14.7	32.1	41.1	18.8	23.1
5 (b)	indirect cash flows	8.3	100.0	100.0	100.0	87.5	100.0	100.0	100.0
6 (a)	interest paid as 'operating' flow	81.5	65.1	68.2	80.0	47.6	78.5	92.9	90.0
7 (b)	some PPE at fair value	15.0	11.1	0.0	0.0	0.0	11.8	0.0	3.8
8 (b)	investment property at fair value	39.3	70.8	5.3	14.3	13.3	75.0	5.6	100.0
9 (a)	some fair value designation	25.0	11.1	17.4	33.3	19.0	75.0	12.5	52.6
10 (a)	interest capitalisation	84.4	57.7	41.7	44.4	100.0	66.6	27.8	33.3
11 (b)	weighted average only	52.9	30.0	75.0	50.0	88.2	41.7	78.6	10.0
12 (a)	actuarial gains/losses to OCI	86.7	86.4	63.3	50.0	63.2	31.3	20.8	20.0
13 (a)	proportional consolidation	11.5	23.3	15.8	75.8	91.3	46.0	39.1	33.3



Multidimensional scaling of two dimensions



Dendrogram of two-cluster solution

Classification of IFRS practices

- Nobes (*Abacus*, 2011)
- Uses 2008/9 data from Kvaal & Nobes, and adds 3 countries to 'cover' Figure 1
- After 30 years of EU and IASC/B harmonisation, the UK is still with Australia and not with Spain

Conclusions (I)

- **Versions** of IFRS (which **allow** compliance with IASB-IFRS) have been adopted in about 90 countries for listed/consolidated reporting
- The reasons for differences in pre-IFRS practices can still affect IFRS policy choice
- There are many opportunities for different versions of IFRS practice
- Pre-IFRS practice is a strong explanation of IFRS policy choice
- The IASB should remove the choices

Conclusions (II)

- Countries can be put into groups by pre-IFRS practices
- National patterns of IFRS practice existed in 2005/6 and continued into 2008/9
- On some topics, several Spanish companies changed in the period (and changed *more than* at transition)
- Even after this, the two-group classification has survived 30 years of harmonisation by the EU and the IASB
- Analysts need to be warned that IFRS practices vary, and they could use the profiles

Conclusions (III)

- Small listed firms choose different policies (more 'national') from large firms
- Therefore, national profiles are even clearer for small companies
- Work has begun on other issues, e.g. whether estimations are done differently by country

Conclusions (IV)

- This is not (largely) a criticism of IASC/B:
 - comparability of listed/consolidated has improved
 - enforcement is not within IASB's control
 - alternatives to IFRS would have similar problems (except that US GAAP has fewer options)